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THE ROLE OF THE MERCHANT
MARINE IN PEACE AND WAR

by

Roy E. Buddhu

Commander, U.S. Navy

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Abstract of THE ROLE OF THE MERCHANT MARINE IN PEACE AND WAR

In its mission to perform its role in national defense the United States-flag merchant marine is deteriorating and becoming a less effective supporting force.

International water-borne commerce is increasing steadily each year and the major maritime nations of the world are continuing to expand their merchant fleets. However, active American-flag ships are decreasing in quantity, slightly increasing in tonnage, and carrying a smaller percentage of United States water-borne commerce.

The American-flag merchant marine is plagued with high operating costs which are supported primarily by the high cost of labor as opposed to low foreign labor. The high cost of shipbuilding in the United States versus the low costs in foreign shipyards has contributed to an inadequate replacement program for obsolete United States-flag vessels.

The "Flags-of-Convenience" have been able to expand steadily since World War II by the approval of transfer from the United States registry to a foreign registry. These registries must be amicable to the United States and under obligation to make these ships available when needed by the United States during a national emergency. These ships are under what is called "effective control;" however, this control leaves room for doubt as to its complete effectiveness.

The need for ships to meet military requirements has been portrayed in two successive military confrontations, Korea and

Vietnam. The reliability and capability of the National Defense Reserve Fleet was adequate to support the Korean War due to the World War II vintage of ships. The National Defense Reserve Fleet of today is obsolete and is of limited military value. The maritime legislation is inadequate to support our present merchant marine and its status in world trade places the percentage of trade carried today by the United States-flag vessels at less than 10 percent of our water-borne commerce, the same level as in 1929 and 1939.

The present United States-flag merchant marine is incapable of transporting the needed essential materials for defense, industry, and for the support of our armed forces overseas.

A strong United States-flag merchant marine is required to have an effective auxiliary to assist the United States Navy to support our armed forces overseas, to bolster the economy of our nation, and to guarantee the raw materials for industry and defense.

The assistance required to revitalize the United States-flag merchant marine should be in tax benefits rather than subsidies which have an undesirable connotation. The purpose of revitalizing and assisting the merchant marine is to make it a viable industry and an asset to the Department of Defense in times of necessity.

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INTRODUCTION

The American merchant marine has played an important role in the history and economy of our nation. It has proved to be a very essential element in the extension of our military capability and our international trade by maintaining the trade routes of the world which are so vital in cold, limited, and general wars. The increasing importance placed on the importation of strategic materials needed for defense, the demanding requirements of raw materials for industry and domestic consumption, and the growing market for manufactured goods in our foreign trade, emphasize more thoroughly the role of the American merchant marine in national defense and the economy of the United States.

The purpose of this paper is to determine if our merchant marine is adequate to transport the raw materials for industry and defense upon which we are so dependent, to control effectively the flags of convenience, and to support our armed forces overseas in one or more confrontations.

The paper includes a review of the history of the American merchant marine, its struggle through periods of feast and famine, its role in national defense, its ability to supply needed essential materials for defense and industry, and the maritime legislation which supports our merchant marine.

This subject is approached by evaluating the role of the United States merchant marine from the colonial times to the

present day, the maritime legislation which affected it, the requirement for United States-flag water-borne commerce in support of industry and defense, and the capability of our American-flag merchant marine to support our armed forces overseas.

THE ROLE OF THE MERCHANT
MARINE IN PEACE AND WAR

CHAPTER I

EARLY MARITIME HISTORY

Pre-Colonial Maritime Strength. This country was destined by virtue of its geographical location and its natural resources to be a maritime nation, and the heredity of its people lent itself to seafaring and shipbuilding professions.

Twelve of the thirteen colonies were manufacturing ships by the middle of the eighteenth century. In the year 1769, the total colonial output was 389 seagoing ships equaling a tonnage of 20,000 tons. (13:3) This was an outstanding showing for the birth of our merchant marine.

The early strength of our maritime industry can be attributed to the various nationalities which settled the coastal areas, such as the British, Dutch, Spanish, Irish, and Scandinavian. The skilled craftsmen who emigrated to the colonies formed the nucleus of talent required for the shipbuilding industry.

Another major contributing factor was the enormous resources of raw materials which were readily available and inexpensive. Ships built in New England cost from one-half to two-thirds the price of those produced in Great Britain

and on the European continent. Prior to 1775, a white oak vessel built in New England cost about \$24 a ton, and a live oak vessel about \$38 a ton. However, in Great Britain or in Europe, the cost usually exceeded \$50 a ton. (13:4) With this kind of economic advantage over European competition, a great quantity of colonial shipbuilding was produced for export. Also, the colonists sailed to all parts of the world in search of trade and were quite successful. The development of colonial trade was based upon the needs of the colonists and excesses of raw materials and resources within their own areas. The shipowners were basically merchants and some owned entire fleets; some owned and operated their own individual ships. No definite trade routes were established, however, and cargo was assigned to specific port or ports.

Because of the complexities of the British trade system and the establishment of fixed trade routes, shipping costs increased significantly which put the British at a disadvantage in meeting colonial competition. The European merchants wanted the "Damn Yankee" excluded from competitive world shipping trade and the European shipowners demanded legislation to protect their ships from Yankee competition. They received almost everything they asked for insofar as it was within the power of their governments to grant.

The British Parliament passed legislation that specified what colonial products could be lawfully exported on the ships from the Colonies. It later passed more damaging legislation

which forbade transporting any European product to the colonies for importation unless it was transported in British ships or reloaded in Great Britain into British ships. Furthermore, the British ships were required to be built in Great Britain and sailed with a British Master and three-fourths British crew.

This was a bitter pill for the colonies to swallow, but it was a lesson at an early age on the art of discrimination when attempting to control exports and imports. These practices had a definite effect on colonial trade until American independence. After our independence, Great Britain would not allow British subjects to purchase American built vessels and limited certain imports into Britain on American ships.

(13:9-10)

The New Country. With the winning of independence from the British by the American colonies, maritime strength began to flourish again. Between 1789 and 1815, the merchant marine attained its most rapid growth in spite of privateering and the Napoleonic War. In the year 1789, our seaborne commerce carried 23.6 percent of our combined imports and exports. This percentage continued to increase steadily with a few fluctuations until it reached the astonishing rate of 92 percent in 1807. (13:12)

The next venture to challenge the merchant marine was the development of the whaling industry. The art of whale hunting

was acquired from the Indians of the New England area. The Americans pursued this by studying the habits and exploring the feeding grounds of the whale. The Indians, being skilled hunters, went to sea on the whalers. This was the period which developed the double-ended whale boat which was much more seaworthy for this new industry. There was a tremendous market for whale oil in the United States and Europe, especially for sperm oil which was the most suitable for use in the cosmetics of the day. The feeding grounds along the coast diminished, and the whaling fleets traveled to the Arctic and Antarctic Oceans in search of large catches. In the year 1842, the world's total whaling fleet numbered 882 sailing vessels of which 652 or 73 percent sailed under the American flag. (1:14)

The Period of 1840-1870. The year of 1847 produced the first steam propulsion seagoing ships of the United States, called packets, as well as the famous clipper ships of world renown. The early steamships were not readily accepted, however, and the marine insurance companies, which were British controlled, refused to underwrite them in view of their vulnerability to fire. The packet ships, although not built for excessive speed, were quite suitable for the North Atlantic weather. For the first time, a regular scheduled passenger, mail, and package freight service was established between the United States and European ports. The accuracy of schedules

maintained by the packets was not approached or surpassed until many years later when steam vessels were well developed. (1:74)

The clipper ship, which was developed for fast, economical trade, was not adaptable to the North Atlantic for passenger service because of her low freeboard and wet decks. However, because of their speed and strength, they headed off the introduction of complete steam vessels in America. The clipper ship was prevalent in the long distance, deep water trade to the Orient in the tea trade. Also, it was extremely successful in the trade between the east and west coasts of the United States, especially during the Gold Rush era of 1849. The clipper helped expand our water-borne commerce to all corners of the world. (1:78)

The Cunard Steamship Line, a British company, competed with the American packet ship business until the year 1850 when the Collins Line emerged as the American answer to steamships which could maintain a regular schedule between the United States and Europe. The Collins Line ships were larger, faster, and more luxurious than the ships of the Cunard Line and, consequently, broke the previous ten year monopoly. At this time, a mail subsidy was introduced on American steam vessels; however, it was considerably less than the British paid to their passenger ships.

The merchant marine, at this time, had reached an all time high and the total ocean-going tonnage reached 2,496,894

tons. However, although our steam fleet closely approached the British in size, Great Britain greatly exceeded the American vessels in efficiency. (13:18)

Post Civil War Decline. The Civil War crucified our maritime industry. Ravaged by the Southern naval cruisers, many vessels were sold to foreign companies as the owners' investment was protected when sailing under a foreign flag. Many ships of the United States were lost and numerous companies went bankrupt. The American merchant marine emerged from the Civil War at approximately half the strength at which it entered the war.

In the first half of our existence as a nation, shipbuilding and ocean commerce was our greatest, largest, and most important industry, but at the end of the Civil War our general maritime decline began. Our merchant marine was down to 1,486,749 tons of ocean-going shipping while England's had grown to 16,685,551 deadweight tons by 1870. (13:18) The causes for the decline can be summed up as follows:

1. Iron, as a shipbuilding material, was more economically produced in England.
2. England started earlier in designing and developing the steam propulsion engines for ships.
3. The Confederate cruisers destroyed many American ships and drove others to the protection of a foreign flag.

4. England's widely spread colonies provided her with superior, strategically located fueling stations all over the world.
5. Lloyd's, a British corporation, discriminated against American ships in registry and insurance.
6. American high wages ashore and afloat made competition with England in building and manning ships very difficult.
7. The subsidy system had never appealed to American law makers.
8. Probably the most significant of all was that, after the Civil War, the work of building and developing our great interior turned American enterprise away from the sea and then, with the new frontier, came the railroads. (1:1-4)

Early 20th Century Status. The nineteenth century, which had begun so well for the maritime industry of the United States, closed with our country occupying a distressingly low position within the maritime nations of the world. There were many countries much smaller in area and population which carried a larger percentage of world trade than the United States. Only 10 percent of our imports and exports were carried by American ships and yet, only a hundred years earlier, 90 percent of our foreign trade had been carried in American bottoms. In 1913, less than 10 percent of water-borne commerce was carried by the United States. (1:5)

The shipping on the Great Lakes had progressed quite successfully and coastwise shipping was showing signs of improvement after being aided by previous legislation and by denying foreign vessels participation in this trade which was regulated by the United States government. With the opening of the Panama Canal in 1914 which further bolstered inter-coastal trade, came the beginning of World War I in Europe. The neglect of our merchant marine over the past 50 years was to plague us during the ensuing period.

The United States economy had steadily grown and the exports of manufactured goods and agricultural products had increased into billions of dollars. With the advent of war in Europe, foreign maritime commerce was almost completely limited to coastal trade and the strategic needs of their own countries. This required travel to many areas of the world. The American exports were backlogged because of the shortage of American ships, and needed imports for the United States were not forthcoming; thus a critical shortage of essential materials was created. The people and the government of the United States finally realized the injustice which had been imposed upon the maritime industry. It became apparent to both of them that if you do not have control of the delivery wagon, you cannot make deliveries at critical times. (8:133)

To remedy the situation, as much tonnage as was suitable was diverted from coastal trade. However, it was not of sufficient scope to relieve this critical condition. After the

war in Europe had progressed for some months, a critical shortage of merchant bottoms was created, and inflation flourished in the maritime industry in the shipping rates and sale price of vessels. Ships which normally sold from \$60 to \$80 a ton before the war were selling from \$300 a ton. (1:338) It was not unusual in that era to purchase a ship's price after one round trip. This created such a demand for ships that private shipbuilding could not deliver sufficient tonnage to satisfy the maritime requirements.

This crucial maritime situation attracted the attention of Congress even before our entry into the war. However, with our entry, the creation of a merchant marine at any cost became imperative.

The Merchant Marine Act of 1916. In September 1916, the Shipping Board was created with authority "to encourage, develop and create a naval auxiliary and Naval Reserve, and a merchant marine to meet the requirements of the commerce of the United States with its territories and possessions and with foreign countries; to regulate carriers by water engaged in the foreign and interstate commerce of the United States." (28:261)

In April 1917 when the United States declared war, a subordinate corporation, the Emergency Fleet Corporation, was organized with a capital of \$50,000,000 to build ships and to cooperate with private yards in their construction. (28:262-267)

The members of the Shipping Board finally reached an agreement that the bulk of the ships to be built were to be made of steel. After a period of reevaluation, consideration was given to the early production of wooden vessels. At the end of 1917, nine months after the Emergency Fleet Corporation had been established, contracts had been awarded for 353 wooden and 58 composite vessels with an accumulative tonnage of 1,460,900 tons. (1:341)

The controversy among members of the Shipping Board analyzing the merits of wooden or steel ships and materials required to build them caused an undue delay in setting the board in motion and bringing about early production in the shipbuilding industry. The most important consideration at this time was the German submarine threat which was raising havoc with our shipping tonnage.

Later, in August 1917, the Shipping Board made public its emergency program and commandeered all vessels under construction in American shipyards, whether they were domestic or foreign owned. This supplemented the merchant marine with 1,500,000 gross tons of partially completed ships. Compensation to foreign owners would be negotiated after cessation of hostilities. The government was now in the shipbuilding business on a large scale. (1:343)

On 1 September 1919, the Shipping Board announced a program which provided for the construction of 2,249 ships of wood and steel, comprising a deadweight tonnage of 13,212,712

and 32 concrete ships totaling 301,500 tons. The ships which were requisitioned and already in process of construction in private yards numbered 402 with a gross tonnage of 2,790,000 tons. (1:343)

The International Corporation at Hog Island, Delaware, established the greatest shipyard the world had ever known and was an outstanding achievement. The shipyard consisted of many acres of land developed from a swamp, which grew to a city of 50,000 people with all of the normal supporting facilities. This was developed at a cost of over 10 billion dollars. It was established in the anticipation that the war would last for a longer period of time. When the war ended in November 1918, only one ship had been completed. The yard was so enormous it could meet a production schedule of two ships a week with the possibility of four, if needed.

With foreign ship construction contracts and the shipping contracted through the Emergency Fleet Corporation, the Shipping Board estimated the United States merchant marine at 10,000,000 deadweight tons of high-class, deep sea ships. The total number of ships under government contract at the end of the war was about 1200. The Emergency Fleet Corporation was responsible for 469 of these which totaled 2,500,000 deadweight tons of new shipping. (1:351) Competent authorities estimated the United States merchant marine in tonnage afloat and approaching completion in February 1919 at 11,500,000 tons. Great Britain, at the same time, was credited with 16,300,000 tons. (1:352)

The question before the American people was not to be first on the sea, but whether they were going ahead to build, man, and operate a merchant marine adequate for the needs of the United States in war and peace and capable of extending American trade and influence to all corners of the earth.

The Merchant Marine Act of 1920. The Merchant Marine Act of 1920 was approved on 5 June of that year and was "an act to provide for the formation and maintenance of the American merchant marine; to repeal certain emergency legislation and provide for the disposition, regulation and use of property acquired thereunder and for other purposes." (28:283)

This act was designed to promote the development of United States-flag services throughout the world and to assume the maintenance of a strong merchant marine for international trade and defense. The ships available from the World War I merchant fleet were to be sold to United States citizens, not as surplus, but rather to organize effective trade routes and to operate the essential foreign and coastal trade routes which service the needs of the United States. The Shipping Board, through its Emergency Fleet Corporation, was authorized, in the interim period, to operate ships on these trade routes until business was sufficiently developed and ships would be in demand by United States companies. (28:113-115) The United States shipping operators were reluctant to purchase ships and to enter into foreign water-borne commerce in view of very

little governmental support, world conditions in general, and world shipping in particular. As a result, the operation and maintenance of United States-flag services came principally from the United States government-operated fleet.

The Merchant Marine Act of 1920 was deficient in that it lacked a proviso within the act for the replacement of obsolete government ships; however, it did provide a construction loan fund by setting aside, from Shipping Board revenue, an amount not to exceed \$25 million annually during the five years from the signing of the act. This produced approximately 70 ships by 1929. (28:118) Another inducement of the act was a tax advantage proviso to encourage private business to compete in foreign water-borne commerce. However, this was unsuccessful.

After the passage of the Merchant Marine Act of 1920, the executive and legislative branches of government were more alert to the United States maritime problems; however, there was considerable division of opinion as to the type and desirability of assistance that should be rendered. In realizing the United States maritime industry was falling behind in world trade in relation to other national industries, Congress, in an effort to assist the industry, passed the Jones-White Act on 22 May 1928.

The Merchant Marine Act of 1928. The Merchant Marine Act of 1928 was "an act to further develop an American merchant marine, to assure its permanence in the transportation of the

foreign trade of the United States, and for other purposes." (28:311) This act confirmed the policy of the Merchant Marine Act of 1920, again recognizing the necessity for a strong merchant marine in support of national defense and the foreign and domestic commerce of the United States.

The improvements of this act were planned to correct the weaknesses of the Act of 1920. First, in Section 11(a) of the Act of 1928, the construction loan fund was increased to \$125 million; second, amortization of ship construction costs had increased from 15 to 20 years; third, interest was charged on construction loans at $3\frac{1}{2}$ percent when the ships were predominantly used in foreign trade and $5\frac{1}{4}$ percent when used in coastwise trade. (28:312) Approximately 58 vessels were constructed as a result of this legislation.

The Merchant Marine Act of 1928 introduced an improved system of ocean mail contracts which were established to aid American-flag vessels in competition with foreign vessels in international water-borne commerce. The compensation provided was of a varying degree, based on fixed mileage, size, and speed of the ship. (28:312) This legislation was designed as a constructive-differential subsidy to support the size, spread, and operating costs. It was hoped this would be a sufficient subsidy to make the United States merchant shipping competitive in international water-borne commerce.

In spite of the millions of dollars invested in the American merchant marine during this period, including \$250 million

in mail and other subsidies, the effort to establish a strong merchant marine was a failure; this produced the Merchant Marine Act of 1936.

CHAPTER II

THE MERCHANT MARINE ACT OF 1936

Significance of the Act. Congressional recognition of the dangerous inadequacy of the American merchant marine and Congressional concern over the revealed abuses of the ocean mail contract payments, which were a form of indirect aid, reached a climax in 1936 and resulted in the passage of the Merchant Marine Act of 1936 and the creation of the United States Maritime Commission.

In this act, Congress established the fact that the administrative organization and authority, when supplemented by necessary appropriations, were designed to assure the construction and continued maintenance of an adequate and well-balanced American-flag merchant marine to promote the commerce and the national defense of the United States. The express aim and purpose of the Merchant Marine Act of 1936 is set forth in the Declaration of Policy, Section 101, of the act which reads as follows:

It is necessary for the national defense and development of its foreign and domestic commerce that the United States shall have a Merchant Marine (a) sufficient to carry its domestic waterborne commerce and a substantial portion of the waterborne import and export foreign commerce of the United States and to provide shipping service on all routes essential for maintaining the flow of such domestic and waterborne commerce at all times, (b) capable of serving as a naval and military auxiliary in time of war or national emergency, (c) owned and operated under the United States flag by citizens of the United States

insofar as may be practicable and, (d) composed of the best equipped, safest and most suitable types of vessels constructed in the United States and manned with a trained and efficient citizen personnel. It is hereby declared to be the policy of the United States to hasten the development and encourage the maintenance of such a merchant marine. (28:1)

Some of the modernizing the 1936 act incorporated was as follows:

1. A federal regulatory board called the Maritime Commission was established.
2. An outright grant of construction-differential subsidies for vessels built in United States shipyards (this was to offset the competition of foreign shipbuilding costs) was given.
3. Grants of operational-differential subsidies to meet foreign labor competition were authorized.
4. Low interest and long term loans for ship construction were made possible.
5. Liberal trade-in allowances for a ship replacement program were established.
6. Payment was made by the government for national defense features built into new ships.
7. Construction by the Maritime Commission of ships for charter to private companies was authorized.

The act was unique in that it provided for the training of personnel for service in the merchant marine. It further gave authority to requisition any United States-owned vessel when needed for national defense in a national emergency.

The United States was operating a third-rate merchant fleet and had been since the Civil War. The Merchant Marine Act of 1936 was the first step in salvaging the United States merchant marine and starting it on its way to recovery. This act provided for an orderly build-up of our merchant marine, based on legislation that was the first realistic approach to the American shipping industry's problems and the first attempt to avoid the chaotic conditions that existed in the industry during World War I.

The Condition of Our Merchant Marine. The condition of our maritime industry prior to World War II was one of inadequacy. In 1937, throughout the United States, there were only 26 shipyards with an accumulative 106 shipways capable of launching ocean-going, deep water vessels. (22:219) The American merchant marine had steadily declined from World War I to the present era. The cargo carried by our vessels in 1938 was estimated at only 462 million tons which was equal to our commerce in the year 1929. (32:V)

The movements of Hitler in Europe and Japan's encroachment on the mainland of Asia had the world in turmoil. When England declared war on Germany in 1939, our time for preparation was limited. The United States shipbuilding industry was among the first to be completely mobilized in readiness for war in September 1939, a considerable time before Pearl Harbor. The United States-flag ships were carrying less than

10 percent of United States trade and were incapable of supporting the needs of the United States and of being any assistance to England in her wartime struggle.

The American neutrality laws forbade the entry of United States vessels into British waters, although President Franklin D. Roosevelt and the United States government did everything possible to assist the British who, by 1940, were alone in the fight for Europe. By the time the war was a year old, German U-boats had taken a heavy toll of British and Allied shipping on the Atlantic lifelines which were so vital to Great Britain.

Great Britain requested ships be built for her because of the damage received in her shipyards from the aerial bombardment by the Germans. The Maritime Commission shipbuilding program and the increased United States naval construction had effectively utilized all United States shipyards. In 1940 and 1941, the United States undertook an immense expansion of its shipbuilding facilities and adopted a British design for a general purpose cargo ship, later named the "Liberty Ship" or EC-2, which became famous throughout the world. Shipbuilding facilities were established on the Atlantic and Pacific coasts as well as the Gulf of Mexico. This effort was forced upon us at an early pre-war time by the needs of Great Britain. Taking advantage of the 1939 to 1941 time span greatly contributed to our improved maritime position. The first Liberty Ship was launched on 31 December 1941, just 24 days after Pearl Harbor. (32:3)

CHAPTER III

THE MERCHANT MARINE OF WORLD WAR II

Built--Lost--Remaining. At the time of the attack on Pearl Harbor, the shipping industry was at least mobilized toward a united effort. America's first major step was to create the War Shipping Administration in February 1942. This was a part of the Executive Office of the President and, through this organization, the American merchant marine ceased to function as a commercial industry. The War Shipping Administration absorbed the Maritime Commission and was given command of all seaborne transportation. Every American merchant ship and all interned ships were placed in a shipping pool, and all neutral ports were immediately surveyed for available shipping. A major effort was made to replace as early as possible shipping tonnage lost because of the submarine action of the Axis.

The combined fleet was distributed among approximately 130 shipping companies known as general agents. They were controlled and compensated by the War Shipping Administration for the operation, preparation, and readiness of the ships, including repairs. A military liaison committee coordinated all rail and water cargo movements. (21:71)

The keel of the War Shipping Administration was the Maritime Commission which had been actively expanding since 1939. The drafting into use of existing water-borne commerce could

not dispel the loss of 20,000 tons a day. A heavy toll was taken of allied merchant ships on the Atlantic supply run to England and, in one month alone, 63 merchant ships, totaling 400,000 gross tons, were sunk by torpedo, and another 18 vessels, totaling over 100 thousand tons, were lost to enemy bombers while in port in Great Britain. (4:175) The answer was new ships, built as fast as and in as great a quantity as possible. The man chosen and responsible for the success of the new shipping organization was Rear Admiral Emery Scott Land, Jr., U.S. Navy (Ret.).

After the attack on Pearl Harbor, this country needed ships that had simple lines and were easily produced in mass quantity. Admiral Land was the person responsible for selecting the EC-2 or Liberty Ship for this mission. The Liberty Ship had been patterned after a British tramp of a 19th century vintage. The PATRICK HENRY was the first Liberty Ship to be launched, on 31 December 1941; her keel had been laid prior to Pearl Harbor and she was constructed in 244 days. (21:85) The most famous shipbuilder of World War II was Henry J. Kaiser, who became the master of the prefabrication of deep draft, seagoing vessels. By May 1942, his Portland, Oregon yard produced a Liberty Ship in 72 days. Not satisfied with this record, in August 1942, he reduced the time to 46 days. As a net result, during the remainder of the war, he steadily maintained an average of less than 44 days per ship. Henry J. Kaiser's shipyards contributed one-third of all

American ships built during World War II. The Liberty Ships numbered 2,710 before the end of the war and carried 75 percent of America's cargo overseas in support of our Armed Forces and allies on all fronts. (21:83)

The North Atlantic. The American merchant marine made a sizeable contribution to the lend-lease aid given to the U.S.S.R. The North Atlantic came to be known as a "nightmare at sea." The last half of 1942 was a life and death struggle for the merchant marine. Murmansk, the major port of the U.S.S.R., remained ice-free the year round because of the Gulf Stream, and it was through this port that the majority of Russia's supplies were carried as Hitler pushed the Russians farther back into the mainland. The intensified attacks by air, sea, and submarine in addition to weather more severe than in any other theater of the war took a heavy toll of the merchant ships and personnel. However, because of the stream of supplies poured through the port of Murmansk, the U.S.S.R. was able to defeat Germany on the eastern front. The monthly average of aid to Russia in 1942 was valued at more than 100 million dollars and was to triple by the end of the war, a total estimate of 11 billion dollars of cargo. (21:134)

The loss of shipping in convoys to Russia was the highest of any area of the war. It was not uncommon to arrive in Murmansk with less than 50 percent of the ships in the original

convoy. However, 16,529,791 tons of cargo were delivered to the U.S.S.R. and enabled them to stop the German invasion. (21:150)

Success by Assistance. The American merchant marine traveled to all corners of the world to support our forces overseas and to bring the needed strategic materials for the great industrial complex which supported our domestic and military needs. The record set by the maritime industry was history's greatest para-military effort. By the end of the war, the War Shipping Administration, under the able guidance of Rear Admiral Land, had built, launched, and operated 56 million tons of shipping and trained 250,000 seamen. The United States emerged owner of one-half of the world's tonnage. The American shipyards' combined efforts produced more than 5,500 merchant vessels, half of which were Liberty Ships, at a cost of \$22,500,000 for building and operating them. Up to the end of the war, the enemy sank 733 ships and numerous small craft. The loss of merchant seamen was estimated at 5,638 of whom 581 had been prisoners of war. (21:285)

At the end of the war, a large portion of the merchant marine was laid up as an emergency reserve fleet. A post-war merchant fleet of 16 million tons was estimated to be a satisfactory size to meet the requirements of the Merchant Marine Act of 1936 and effectively carry American foreign trade profitably without endangering the economies of Great Britain, France, Holland, and the Scandinavian countries. (22:227)

CHAPTER IV

OUR DEPENDENCE ON IMPORTS

The Water-borne Imports of Essential Materials. The United States has completed a transition from sufficiency in raw materials to a raw material deficit. What would the United States be like if it should be cut off from the world sources of raw material? The operations of basic industries would be sharply curtailed because of the lack of essential imported materials. This would reduce our capacity to produce the necessary equipment for national defense. It is a cold, hard fact that the United States is no longer self-sufficient. Nearly half of the mineral production of the Free World is consumed by the needs of our industrial complex. The world's dependency upon our export of manufactured goods makes us more responsible to its demands than ever before. The great trade routes of international commerce are essential to our security and to our very existence.

To sustain our national objectives in time of cold, limited, and general wars, and to support the American way of life in peacetime, the following assurances are required:

1. Our nation must be assured that it will always have supplies of essential raw materials in sufficient quantities to meet our needs.
2. Since raw materials are globally dispersed, they must be delivered to us by water-borne commerce.

The sea is without challenge in effective transportation of the bulk materials so essential to our economy.

3. The sea lanes must be kept open and secure for our commerce and denied to our enemies in time of war.

The following chart shows the essential materials needed for defense and for our commercial and industrial complex.

The extension of these essential materials shows the rate of increase to be expected by 1975. However, such materials as petroleum, nickel, and iron ore have already exceeded the 1975 estimate and bauxite will exceed the estimated growth by 1966 if it retains its present growth. Many essential materials that are obtained domestically are increasing at such a slow rate or are of such poor quality as to be ineffective. Columbite is in insufficient quantity throughout the world and a substitute will need to be found. A better and more efficient alternate to mica is, at present, being researched. In the report of the Senate Committee on Interior and Insular Affairs made by its Minerals, Materials, and Fuels Economic Subcommittee, it was stated:

It is from Asia, Africa, South America and other foreign areas that this nation has secured some 80.1 percent of its present stock-piled critical and strategic minerals and materials. If ever the United States is to be vigilant, now is the time. We must recognize our greatest weakness is the dependency on very distant countries across the major oceans for the needed raw materials, without which we cannot fight a war or live in peace. (25:13)

TABLE I
IMPORTS OF ESSENTIAL MATERIALS (WATER-BORNE ONLY)
AND PROJECTED CONSUMPTION

Material ^a	Water-Borne Imports Percent	Trend in Domestic Procurement	In Thousands of Short Tons		Projected % Inc. 1975 ^b
			1952	1958	
Antimony	75	Dec. ^e	9.49	8.64	81
Asbestos	100	-	18.32	16.99	50
Bauxite	86	Dec.	3875.00	8869.00	291
Beryl	91	Inc. ^e	5.98	4.60	22
Chromite	90	Inc.	1710.00	1264.00	100
Cobalt	75	Inc.	7.36	7.44	340
Columbite Tantalite	90	Inc.	1.10	1.80	1500 Ins. ^c
Copper	39	Inc.	525.00	403.00	43
Iron Ore	26	Dec.	9953.00	27,513.00	54
Lead (primary)	46	Dec.	297.82	384.75	53
Manganese (ore)	89	Inc.	2609.26	2531.28	50
Mica	98	Inc.	5.30	5.15	Sub. ^f
Nickel	23	Dec.	14.50	21.01	100
Petroleum (crude)	11	Dec.	208.47 ^d	317.58	110
Rubber (Natural)	100	-	901.42	531.34	89
Sugar	68	Inc.	5858.00	6158.00	-
Tin (primary)	100	-	119.97	52.10	17
Tungsten	68	Dec.	8.31	3.27	150
Veg. Oils	15	Unchanged	392.20	380.60	-
Zinc (primary)	26	Dec.	146.77	297.16	39
Zircon	41	Inc.	23.47	19.27	50

^a(38:4-26)

^b(39:111-130)

^cIns.--Insufficient quantity in existence.

^dMillions of barrels.

^eInc.--Increase

Dec.--Decrease

^fSub.--Substitute necessary.

The size of the United States merchant marine should be sufficient to carry a favorable percentage of all essential materials. The above quote of the Subcommittee made no recommendations as to the necessary shipping required to maintain a reserve and an essential supply of these materials. The control of merchant shipping is as essential as the essential materials themselves. The commercial air carriers of the present day are of a much greater capability than was anticipated; however, even the future C-5A's are not designed to or are capable of carrying bulk cargoes for which our requirement has steadily grown. (7:33)

A Trend. The remarkable growth of the seaborne commerce of the world and the ships that support it has expanded at an increasing rate since the end of World War II. The total tonnage of commodities and goods on ships engaged in global seaborne trade increased from an estimated 482 million long tons in 1948 to about 945 million in 1957. (32:v) This well reflects the world condition of maritime shipping during the fifties.

During the past twenty years, world seaborne trade has increased from all the major areas of the world, with the greatest rise being noted in the Asian Continent. The reason for this is to a large extent, the further discovery and increased production of oil in the Middle East and the worldwide requirements for this needed resource. The largest cargo

movements from the Middle East are to European countries where industrial growth and a higher standard of living have increased the requirements for petroleum products enormously since World War II.

TABLE II
THE WORLD TONNAGE OF OIL TANKERS
(Gross Tons)

<u>YEAR</u>	<u>TANKERS</u>	<u>ALL SHIPS</u>	<u>% OF TANKERS</u>
1929	7,071,015	66,407,393	10.6
1939	11,585,549	68,509,956	16.9
1949	16,101,720	82,570,915	19.5
1954 (10:557)	24,624,829	97,421,526	25.3

As derived from the chart above, the overall use of petroleum products has increased 150 percent in the 25 year period from 1929 to 1954 and, as shown in the essential commodities table on page 26, will increase another 110 percent over the 1954 figure by 1975. (39:111-130) United States-flag tankers carried only 19.5 percent of United States petroleum exports and 23.2 percent of petroleum imports in 1956. (10:559) During the period of 1962 and 1963, it further declined to 17 percent of the exports and one percent of the imports on all dry cargo and tanker vessels entering and leaving the United States ports under the United States flag. (40:691) Even the United States, which was a primary producer of crude petroleum, imported 20 million tons in 1958 from the Middle

East as compared with 3 million tons in 1948 and none in 1938. (32:v)

Although the quantity of world trade has increased steadily each year in the past 20 years as have the world's number and tonnage of ships, the demand and supply factors for shipping have been frequently unbalanced. Wars, limited wars, and police actions, for example, influence the demand on new shipping. Orders for more shipping tend to increase sharply during these situations; however, too often the causes for the expanding supply of ships does not exist at the time of ship deliveries. Consequently, this causes a "feast or famine" situation in world seaborne commerce. The United States-flag ships have been at the mercy of this situation and have never stabilized at a level of sufficient tonnage to support the needs of our country and to act as an auxiliary to our Navy.

The following chart depicts the trend of our United States-flag merchant marine.

TABLE III

UNITED STATES WATER-BORNE COMMERCE CARRIED ON
UNITED STATES-FLAG VESSELS (Cargoes in 100,000 lbs.)

<u>YEAR</u>	<u>Dry CARGO</u>	<u>EXPORTS</u>			<u>IMPORTS</u>			
		<u>%</u>	<u>TANKER</u>	<u>%</u>	<u>DRY CARGO</u>	<u>%</u>	<u>TANKER</u>	<u>%</u>
1946	143,474	60.9	30,360	39.9	50,703	56.3	47,679	75.8
1950	107,618	30.6	18,270	43.5	93,777	31.1	100,162	54.9
1956 (10:559)	258,403	18.7	33,153	19.5	159,843	26.4	162,707	23.2

Even though the water-borne commerce carried by United States-flag vessels is greater in quantity at this point than it was in 1946, the percentage of the total has been steadily declining. In 1936 when the Merchant Marine Act was passed, United States trade consisted primarily of general cargo. Today, the pattern of our trade is completely reversed. Eighty-five percent of our trade is dry and liquid bulk cargo and only 15 percent is general cargo. Our imports of strategic ores and petroleum products are steadily increasing as are exports of agricultural surpluses in bulk shipload lots.

(31:3)

The composition of the United States-flag merchant fleet was established by the trading patterns and needs during World War II and, therefore, 75 percent of our ships in foreign and domestic water-borne commerce are general cargo ships and only 25 percent are bulk carriers. Consequently, we must rely on foreign ships to carry the greatest portion of our trade. This is certainly not in the best interests of the United States.

The Decline of the Merchant Marine. The United States-flag merchant marine now consists of 1739 National Defense Reserve Fleet ships and 951 privately owned United States-flag ships. About 300 are owned by 15 shipping companies which have subsidy contracts with the government. (31:61-69) The total United States-flag tonnage actively engaged in water-borne commerce as of 30 June 1964 was 10,682,000 gross tons

which leaves the United States with a meager 13 percent of the world gross tonnage. This relegates the United States to fourth position, preceeded by the United Kingdom, Liberia, and Norway. (31:61) In the comparison of the number of vessels owned, the United States rates fifth in the world, preceeded by the United Kingdom, Norway, Japan, U.S.S.R., and Liberia. (31:61) In 1949, we had a total of 3,421 ships (32:13) and a National Defense Reserve Fleet of 1,934 ships (31:69) which was a net amount of 1,487 active United States-flag vessels. This is a strategically important factor in the deployment of vessels into different areas of the world and the availability of numbers when needed.

The Department of Defense now plans to augment existing M.S.T.S. landing craft capability in the Vietnam area to expedite cargo deliveries without holding up ocean-going vessels for this purpose. (12:58) Congestion at ports in Vietnam and in many areas of the world is to be expected. Long delays in the off-loading of vessels require more ships for the pipe line. In addition to the privately owned ships used in the Pacific trade to Vietnam, the Maritime Administration has been asked to supply 76 more vessels from the National Defense Reserve Fleet and reactivate them for service. (12:58) About 40,000 tons of military supplies, scheduled to move to Southeast Asia in December 1965, were backed-up for two weeks or more because of the lack of ships to cover the handling, according to Brigadier General Raymond C. Conroy,

USA, who is in charge of the Western Area Military Traffic Management and Terminal Service. (6:d28)

The United States shipping industry has declined as our industrial complex has steadily increased. This decline will continue until an interpretation or a revision is made of the Merchant Marine Act of 1936, which clearly states the intent of "sufficient to carry its domestic water-borne commerce and a substantial portion of the water-borne import and export foreign commerce of the United States." (28:1) The one bright spot is that ships are getting bigger. While the number of active United States-flag ships has diminished, gross tonnage has actually increased from 9.2 million gross tons to 10.2 million gross tons. (15:143)

The basis of economic merchant shipping is the ability to ship a ton of goods at the lowest rates. By increasing the size and speed of ships, this is being accomplished in many cases with a reduction in operating costs. However, the military necessity of a heavy lift capability and of sufficient ships must be ascertained and stabilized.

CHAPTER V

FLAGS OF CONVENIENCE

The Merchant Ships Sales Act of 1946. The Merchant Ships Sales Act of 1946 was a reiteration of the policy of the Merchant Marine Act of 1936 and an effort to prevent the mis-handling of those ships, now surplus, built and controlled under the jurisdiction of the Maritime Commission. Through this act was developed a good system of controlling the sale of ships to United States private citizens and foreign buyers. (28:107) This was a means of bolstering the economies of many foreign countries immediately after World War II. In addition to outright purchases of vessels, provisions were made for the charter of vessels by United States citizens from the Maritime Commission. When the sales authority under the Merchant Ship Sales Act of 1946 expired in 1951, 1,960 ships had been sold, 847 to Americans and 1,113 to foreign-flag operators at a return of nearly 2 billion dollars to the government. (17:116)

In connection with the growth of the world's water-borne commerce, it should be noted that a number of countries other than those of the traditional maritime nations have acquired merchant fleets of their own. Some of these countries did not exist as separate entities prior to World War II; others lost their identity; still others such as Panama, Liberia, and Honduras, because of favorable maritime laws and other advantages to ship owners, drew ships from other registries to

their own. These are known as "Flags of Convenience" or "Flags of Necessity" and comprise a sizeable amount of the world's water-borne commerce.

Flags of Convenience. The flag of convenience ships are those registered under the flag of a foreign country but owned by citizens of the United States. The countries which are most commonly known for their flag of convenience fleets are Panama, Liberia, and Honduras and are collectively called PanLibHon flags.

There are a number of conveniences which contribute to the registering of their ships under the PanLibHon flag by United States citizens. First, the country of registry allows ownership and control of its merchant vessels by non-citizens. Second, access to the registry is easy. A ship may usually be registered at a consul's office abroad. Equally important, transfer from the registry by the owner is not restricted. Third, taxes on income derived from the ship are low. A registry fee and an annual fee based on tonnage are normally the only charges made. Fourth, the country of registry is small with no national requirements under any foreseeable circumstances for the quantity of shipping registered. (9:77) As a result of the above advantages, flag of convenience ships owners realize several benefits not possible under United States-flag shipping. There are lower operating costs which are in direct relation to lower wages for their personnel,

exemption from United States labor unions' control, lower local and national taxes unless monetary gains are returned to the United States whereby they become taxable, and operational expenses in a foreign currency allow for more latitude.

History of the Flags of Convenience. The flags of convenience, even though not called this, started back as far as the Civil War. The Northern shipping companies transferred their ships to a foreign registry to continue their foreign trade and prevent attack by Southern raiders. Prior to World War I, some companies transferred their oil tankers to Panama and later developed a Panamanian tanker fleet. This served as a means of evading our own Neutrality Act in 1939 for the purpose of supplying our future allies. (9:78) The transfer of our ships during this period was encouraged and condoned by the United States government. After Pearl Harbor, the Panamanian-registered United States owned ships were integrated into the war effort under the Panamanian flag. Since this was accomplished so effectively between the United States and the flag of convenience governments during World War II, a precedent was established which led to the realization by the shipping companies of the United States and other countries of the advantages of this arrangement. Thus, the flag of convenience fleets were thoroughly launched.

The development of these fleets in postwar years was fostered by the United States maritime policies and by American

financing institutions. (9:78) The Merchant Ships Sales Act of 1946 strengthened not only the allied countries who had lost most of their ships, but greatly bolstered the flags of convenience.

The flags of convenience are not dominated by the United States owned vessels; two-thirds are foreign owned. After the recovery of Europe and Japan from World War II, new vessels were constructed in these countries by flags of convenience owners, usually tankers and ore carriers of increasing size. The essence of this operation was that the initial registry was within the flag of convenience country.

Upon the involvement of the United States in the Korean War, ships sold or transferred from a United States registry had to be available to the United States upon request in the same manner as were United States-flag ships. They were also prohibited from further change of registry without the consent of the Maritime Administration. (9:79) Later, policy changes allowed United States-flag, war-built tonnage to be transferred in exchange for building new United States-flag vessels.

A current problem which must be faced in the very near future is that a great majority of the United States-flag ships have reached the age where they should be replaced or transferred. A shortage of vessels within the United States fleet will exist if these vessels are allowed to be transferred before their replacements are built.

The Dependency on Flags of Convenience for Raw Materials.

The United States has become dependent upon and uses in great quantity such prime strategic raw materials as crude petroleum, iron ore, and bauxite. At the present time, over 90 percent of these vital bulk imports are carried in foreign flag shipping, partly in ships flying flags of convenience and the balance in foreign owned ships of various flags.

TABLE IV

PERCENTAGE OF COMMERCIAL TANKER IMPORTS INTO
THE UNITED STATES BY FLAG OF REGISTRY

	<u>U.S.</u>	<u>LIBERIA</u>	<u>PANAMA</u>	<u>NORWAY</u>	<u>UNITED KINGDOM</u>	<u>NETHER- LANDS</u>	<u>GREECE</u>
1960	3.4	45.0	16.1	16.5	5.3	2.4	3.2
1961	3.6	43.7	14.7	18.5	5.5	2.4	4.7
1962	5.0	43.0	13.7	16.9	7.0	3.5	5.1
1963	3.5	41.9	13.1	17.8	7.4	3.3	4.2

(2:51-52)

PERCENTAGE OF COMMERCIAL TANKER EXPORTS FROM
THE UNITED STATES BY FLAG OF REGISTRY

	<u>U.S.</u>	<u>LIBERIA</u>	<u>PANAMA</u>	<u>NORWAY</u>	<u>UNITED KINGDOM</u>	<u>GREECE</u>	<u>SWEDEN</u>
1960	18.6	27.0	8.3	23.7	6.6	3.8	1.3
1961	17.5	27.2	7.3	25.6	5.2	6.3	1.7
1962	20.4	22.7	3.1	30.0	5.9	6.4	2.3
1963	22.4	18.9	3.1	31.1	4.2	5.4	3.4

(2:51-52)

The above tables point up how our merchant marine compares in the field of tankers with the flags of convenience fleets and how much we rely on the foreign flag ships for their support. As of July 1959, there were approximately 25 million deadweight tons of merchant shipping registered under PanLibHon flags. United States citizens owned and controlled about 10 million deadweight tons of this total. It is important to note that tankers which are so vital to the success of any war effort represented about 7 million deadweight tons of the United States owned portion of this shipping.

We must recognize that a United States owned PanLibHon fleet is of limited usefulness as a strategic reserve of shipping. In the event of a declared national emergency by the President of the United States, this shipping must be used to augment our limited active United States-flag merchant fleet to buy time for the reactivation of our National Defense Reserve Fleet. The military value of the flags of convenience is lessened by the composition of its fleet, basically tankers and ore carriers.

Effective United States Control. During the postwar years, national security and defense considerations have led to the concept of effective United States control over flags of convenience shipping. (9:78) This control affects two groups: first, the United States built merchant ships which the shipping company has seen fit to transfer to a foreign registry amicable

to the United States and which is under contract to the United States government; second, ships owned by the United States or foreign affiliates of United States controlled companies or corporations which are not covered by specific controls. The Maritime Administration and the Navy Department have determined jointly that it will be practicable to bring a portion of the United States owned foreign flag shipping under direct control in the event of a national emergency. This effective United States control concept is a matter of expediency rather than choice and applies essentially to designated shipping under the flags of convenience. (19:57)

United States owners of vessels built in foreign shipyards in countries such as Japan, Norway, and West Germany may register their ships under any friendly flag. This is not limited to just the PanLibHon flags; they can be registered with any NATO country. In the case of foreign built PanLibHon-flag ships, the Maritime Administration normally negotiates agreements with the United States parent companies to provide for the availability of these ships to the United States in the event of a national emergency.

The country of registry, by reason of its size and location, is not able to protect its merchant fleet. Therefore, it is logical to assume that United States citizens owning foreign flag vessels would desire the protection of the United States during a national emergency to insure their investment against loss. The Merchant Marine Act of 1936, Section 902,

empowers the Federal Maritime Board to requisition or purchase any vessel owned by citizens of the United States. This is stipulated in all transfers to a PanLibHon flag by the Maritime Administration. (19:58) This contract prevents the owner from selling his ship or transferring its registry without Maritime Administration approval. Each contract comes with a surety bond of \$250,000. (9:80)

The primary instrument of control appears to be a commitment by the owners that while the Maritime Administration war risk insurance is in effect, the owner may demand or with the assistance of the Navy take possession and use of these ships. It is pointed out, however, that these ships, under international law, are considered the territory of the countries of registry and that our labor laws cannot be extended to a foreign territory. If this is true, nothing can legally prevent these countries from exercising the right of eminent domain over these ships in cases when the technical owners are not the parent American but local citizen subsidiaries which hold full title.

The American companies in World War II raised this very legal argument against requisition of their fleets and negotiations were necessary to accomplish control. It was not by right but by contract that the War Shipping Administration finally acquired these flags of convenience vessels.

The effectiveness of control seems to depend rather on a judgment of the probability that the owner will wish to serve the United States rather than on explicit and binding powers. (24:251)

Strength of the Flags of Necessity. The present foreign flag fleet considered to be under effective United States control totals 473 ships of 14,527,000 deadweight tons. (36:1) In the past ten years, the number of ships in this fleet has varied from 400 to 531 ships; however, the deadweight tonnage has steadily increased during this period to 8.4 million tons or a gain of 135 percent. The growth came about by retiring the old 10,000 ton Liberty Ships and the 16,000 ton T-2 tankers and replacing them with 30 to 60,000 ton bulk carriers and by tankers ranging up to 100,000 tons.

The flags of convenience have changed in composition in the last fifteen years. Between 1950 and 1957, there were 280 American World War II-age vessels transferred to PanLibHon flag. This was partially offset by the Maritime Administration's transfer and building program to upgrade the overall age of the United States-flag merchant marine. Between 1956 to 1965, there were 190 new vessels, mostly tankers, added to the PanLibHon fleet, this prompted by the Suez crisis. There was one unusual move of 132 World War II-age vessels from the PanLibHon to Greek registry in 1959 to 1962 for some extraordinary tax benefits. From 1957 to 1962, some 51 World War II vessels were transferred back to United States registry to be able to qualify for the 50-50 provisions of government sponsored cargoes. From 1963 to 1965, 63 Greek ships of World War II age were transferred back to the PanLibHon fleets. The ships'

operators are mainly concerned in registering their vessels where the advantages serve their vessels. (36:1)

Most of the foregoing changes have concerned ships of World War II type originally transferred from United States registry under contractual obligation of availability to the United States government. World War II ships now comprise 37½ percent of the ships and 15½ percent of the tonnage of the present "effective control" fleet. The balance, some 70 percent, is not under contractual obligation and represents ships owned by United States citizens which could possibly be made available in an emergency. This 70 percent is composed of bulk cargo carriers and super or jumbo-sized tankers which are not suitable as military auxiliaries, however, they are of strategic importance to industry in time of war or mobilization.

Although the present PanLibHon "effective control" fleet is devoid of the better World War II general cargo ships, the current United States flag fleet is becoming increasingly overburdened with C-2, C-3, and Victory cargo ships. An effort will be made to transfer them to PanLibHon flags. Steps must be taken to retain them until sufficient modern heavy-lift, broad-shouldered new general cargo ships are available in the United States-flag fleet.

The essence of the so-called foreign flag vessels under "effective control" is that these vessels could only come under control, in fact, in a national emergency. As Vietnam

illustrates, we can get fully committed militarily nowadays without going into a designated "National Emergency." The continual problem of getting an adequate supply of American-flag tonnage for general cargo operations is a serious one as American tonnage is barely adequate for our military emergency in Southeast Asia at this phase of the conflict and would be completely inadequate should it become necessary to support two overseas operations similar in size to Vietnam at the same time. As Captain John Lyscomb, SC, USN, who is the Commercial Water Traffic Director for MSTC in Washington, so aptly said, "The critical issue is not whether we need that strong American-flag fleet, but how to get it." (16:2)

CHAPTER VI

SUBSIDY, A TOOL OF MANAGEMENT

Indirect Subsidy. The United States government, like so many foreign countries, protects its coastwise trade both by law and by cargo preference. This maintains tramp vessels which otherwise would be out of business as they are unable to meet foreign competition. (30:12) The present law reserves the trade between ports of the United States, either directly or by way of a foreign port, to American built, owned, and documented government vessels. (3:90) This is also applied to foreign air lines whereby they are restricted from passenger or freight service between cities of the United States.

The policy of reserving United States domestic trade has been significant in the protection and maintenance of an American-flag tanker fleet and has been accomplished quite inexpensively. However, competition by other types of transportation has resulted in the decline of the coastal and intercoastal fleet. Although coastal carriers are not subsidized, an American-flag subsidized merchant vessel, engaged in international commerce, may add a coastal leg to his voyage and sacrifice a portion of his subsidy to meet foreign competition. (30:1171)

Cargo preference laws, another form of indirect subsidy, state that 50 percent of the gross tonnage of purchases made on the account of the United States government or as a loan

or gift to a foreign government must be carried in United States-flag vessels, if available, at fair and reasonable rates. (30:1241)

Similar to cargo preference laws is Public Resolution No. 17 which is a guide for administrative agencies engaged in making loans to finance the exports of agricultural products. The resolution states that it is the "sense" of Congress that 100 percent of such cargoes go in American-flag bottoms. (29:616a) This requirement assists in maintaining the United States-flag tramp fleets.

Direct Subsidy. Operating-differential subsidies are paid to the United States-flag vessels used in essential service in the foreign commerce of the United States which meets foreign competition and provides regular service. (30:1171-1175) If profits after taxes exceed 10 percent of an operator's capital per annum over a ten-year period, half of this is subject to recovery by the government up to the amount of the subsidy. (30:1176) The operator must meet the provisions of the Merchant Marine Act of 1936 in manning and building his vessel. (11:5) The operating subsidy is the differential between United States-flag and foreign flag vessels and applies to wages, subsistence, repairs, and insurance. Operating subsidies are not available to bulk carriers as they do not meet the requirements of the legislation. American bulk carriers are able to retain their trade by the assistance of cargo preference laws.

The construction-differential subsidy equalizes the cost between United States and foreign built vessels. The subsidy is available only to certain qualified American-flag ship-owners who build ships in United States yards for use in foreign trade and who document their ships for 25 years under the American flag. (30:1153) Theoretically, any vessel qualifying under the specifications of the Maritime Administration and the Navy Department could receive a construction subsidy; however, in practice, subsidies are normally limited to berth liners. By the provision of law, the federal government will pay the differential between foreign and American costs up to 55 percent. From 1950 through 1960, 44 vessels were subsidized at a cost of \$161,125,000. The construction subsidy for 1960-1962 was \$246,615,750 which subsidized 49.1 percent of 41 vessels. (35:42-61)

Tax Benefits. The Merchant Marine Act of 1936 gives unique and valuable tax benefits to vessels having operating subsidies contracts only. (34:1177) The owner deposits in a capital reserve fund an amount of gross earnings before taxes equal to the amount of annual depreciation value of the owner's vessels computed on a 25-year life expectancy and, with Maritime Administration approval, may deposit additional pretaxed earnings. In addition, the owner is required to deposit any proceeds from the sale of ships or claims from insurance. The ship reserve fund is for purchase of new vessels or to pay off a current mortgage. In compliance with the Merchant Marine

Act of 1936, the government is authorized to insure construction loans equal to 75 percent of construction or rebuild cost on all types of United States-flag vessels. (30:1274)

When a vessel is completed, the government may insure a mortgage not exceeding $87\frac{1}{2}$ percent of construction costs of a vessel over 3,500 gross tons and with a speed of 14 knots. To obtain this, the borrower must be a United States citizen. The annual cost of the insurance is one-fourth to one-half percent on construction loans and from one-half to one percent on mortgages. (30:1273)

Foreign Subsidies. Subsidies, direct and indirect, are used by foreign countries to assist in maintaining a merchant marine. The following is a compilation of the types and most common subsidies being applied to foreign merchant vessels by the parent country. These enable foreign flag vessels to operate more economically than United States-flag merchant vessels.

The countries of Denmark and the Netherlands allow limited depreciation allowances while France, Japan, and the United Kingdom permit generous depreciation allowances.

Denmark, France, Greece, Norway, Sweden, and West Germany are extremely diligent in the control of routing, cargo preference, and the protection of domestic trade routes.

France, Italy, and Japan permit a limited operating subsidy.

Interest free construction loans are granted by France, Italy, and Japan and limited or specific construction subsidies of 15 to 20 percent are allowed in France, Italy, Netherlands and West Germany.

Greece, Italy, Japan, Sweden and West Germany have various tax benefits which vary as follows:

1. Tax benefits to foreign owned vessels.
2. Tax and customs benefits on provisions.
3. Tax exemptions on export earnings.
4. Tax inducements on new construction.
5. Insured loans.
6. High tax benefits on profits earned and generous reinvestment allowances. (34:1-15)

The following comparative table illustrates that labor is the dominant factor in the operating expense of a merchant vessel.

TABLE V

LABOR COST OF MANNING A 47,000 TON TANKER

<u>Crew Nationality</u>	<u>Cost per Year</u>
American	\$555,025
British and Norwegian	214,725
Italian	165,975
Japanese	134,300
Greek	98,975

(27:31)

The above table points to our basic problem in operating expense--cost of labor.

France, Italy, and Japan have a limited operating subsidy for specialized types of ships which meet the requirement of being competitive; for example, passenger liners. The majority of these subsidies are in construction and in tax differentials which stimulate this type of trade.

CHAPTER VII

THE VALUE OF OUR MERCHANT MARINE

Obsolescence. One problem facing the American shipping industry is that of block obsolescence, a problem created by wartime production. At the end of both World Wars I and II, the United States government owned a large fleet of merchant ships. In 1921, the Emergency Fleet Corporation under the United States Shipping Board owned 1,792 ships totaling more than 11 million deadweight tons. At the close of World War II, there were over 4,000 warbuilt ships operated by or for the United States Maritime Administration. In 1949, there remained about 3,421 ships totaling over 36 million deadweight tons. (32:13) The mass production of ships during the two wars not only created an abundance but a disposal problem. Because of standardization of design of the ships, owners could not enter competitively in all trade routes.

The Merchant Marine Act of 1936 undertook to correct the obsolescence introduced by shipping produced during World War I. It introduced the construction-differential subsidy designed to provide a shipping operator with a ship built at approximately one-half its actual construction cost; however, this subsidy was limited in application to dry cargo vessels whose operators guaranteed their services on essential trade routes. Other United States-flag shipping operators, tanker operators,

and those in domestic trade were not granted this cost differential. With the advent of World War II, the program was temporarily suspended. (17:260-270)

The American shipping operators desiring to reestablish their shipping fleets in 1946 were able to buy surplus World War II built ships under the Merchant Ship Sales Act. They collectively purchased 847 of the most desirable of the war built fleet. Considering the time of launching of these ships, they are now all twenty years old. The age of the ships is of great concern to the maritime industry as they cannot enter competitively in world water-borne commerce. The cost of the construction of a suitable replacement was up approximately 400 percent in 1953 over its original wartime cost and has continued to remain 50 percent higher than foreign built vessels. (17:284)

In 1952, the Merchant Marine Act of 1936 was amended by the Long Range Shipping Act. Its purpose was to overcome the black obsolescence of the merchant fleet by encouraging new construction. This act extended construction differentials to all United States-flag ships operating in foreign trade. It also broadened the tax benefits to non-subsidized operators, limited the mortgage liability of purchasers of new passenger vessels, and reduced the age at which the ships could be traded in to the government. The principal feature of this act provided for the purchase of a ship when it became twelve years old by the Maritime Commission, if the ship was to be replaced

by a new one. This provided for an orderly progression of new vessels and thereby prevented the phasing out of all the ships at once. It also broadened reserve funds for use in construction and reconditioning of ships. (17:282-286)

The largest part of the United States-flag merchant fleet consists of 1,612 aged ships mothballed by the government and costing 6 million dollars a year. (15:143) The balance of the active United States-flag merchant vessels number 951. There are 311 subsidized freighters delivering manufactured goods on essential trade routes, 361 tramps which include 100 bulk carriers not on any specified routes, bulk carriers for coastal trade, plus 279 grain or liquid cargo tankers which are mostly engaged in coastal trade. (14:132)

During 1964, the 20 largest shipbuilding yards had 40 merchant vessels under construction while the Soviets were building 673 ships, totaling 6,450,000 tons. During the past 20 years, every major maritime nation has increased its merchant marine except the United States. Between 1955 and 1963, western nations' tonnage has increased from 72 to 96 million gross tons while the United States fleet was reduced from 25 to 22 million tons. The tanker fleets of the world have been expanding steadily since 1953. The Soviet increase has been averaging 29 percent during the last 20 years. The United States-flag tanker fleet is diminishing in size, and its ships are the oldest. (18:22)

The ships of the National Defense Reserve Fleet and most of the United States-flag bulk cargo and tanker fleets were built during or immediately after World War II and are about 20 years of age. The economic life of a ship is generally considered to be no longer than 25 years. The bulk of the fleet will become obsolete, in a block, in the next five years. To replace these vessels now becoming obsolete would cost \$536 million in United States shipyards and would produce ships at a rate of 50 per year for 5 years. If there is a desire to increase the United States trade carried in United States ships to 25 percent instead of the present 9 percent, it would cost an additional \$700 million over a five-year period and produce 325 new ships. (14:140)

This is not really a costly figure, as 70 percent of all net subsidies in 1965 went into agriculture and totaled 5.5 billion dollars. Transportation and mail received 1.4 billion dollars of which 35 percent was sea, 34 percent was air, 14 percent was mail, and others were 17 percent. The transportation, especially the Marine portion, is small by comparison. (20:6)

Military Sea Transportation Service in the Korean War.

The Military Sea Transportation Service is the agency within the Department of Defense assigned exclusive responsibility for the procurement of commercial carriers for the transportation by sea of supplies for the Army, Navy, Air Force, and Marine Corps. The following is a recapitulation of Military

Sea Transportation Service controlled vessels used in the support of military forces during the Korean War from 1950 through 1953.

On 25 June 1950 the Korean War started. The first charters to be acquired were time charters of United States-flag merchant vessels, which numbered 8 in July and reached a total of 61 by August 1950. This was continued throughout the Korean War until September 1953 when a peak was reached of 158 United States-flag merchant vessels under Military Sea Transportation Service time charters.

As an immediate measure to meet the military needs of the Korean War, foreign flag vessels were chartered, starting in August 1950. By September of that same year there were 61 foreign flag vessels under charter and, except for three months, foreign flag vessels were required throughout the war.

There was a group of National Defense Reserve Fleet ships activated by the Maritime Administration and operated by American shipping companies for the Military Sea Transportation Service. This removed the burden of manning and operating them from the Military Sea Transportation Service. The employment of these government ships under bareboat charters commenced in 1950 and concluded in 1952. At one time, there were 148 ships under bareboat charter.

In June 1951, the General Agency Agreement vessels of the National Defense Reserve Fleet were being chartered by the Military Sea Transportation Service for military cargo. These vessels reached 197 in June 1952. (33:28-31)

TABLE VI

USE OF AUGMENTATION SHIPPING DURING THE KOREAN WAR BY MSTs

	<u>Time Charters^a</u>	<u>Bareboat Charters^b</u>	<u>Foreign Charters^c</u>	<u>GAA^d</u>	<u>Total</u>
<u>1950</u>					
July	8	2	-	-	10
Aug.	61	26	36	-	123
Sept.	94	93	61	-	248
Oct.	96	126	32	-	254
Nov.	94	128	29	-	251
Dec.	93	125	29	-	247
<u>1951</u>					
Jan.	79	121	29	-	229
Feb.	73	117	10	-	200
Mar.	66	128	10	-	204
Apr.	50	140	9	-	199
May	45	141	-	-	186
June	47	147	-	1	195
July	56	147	1	9	213
Aug.	30	148	8	19	205
Sept.	28	147	6	4	185
Oct.	28	147	7	5	187
Nov.	27	138	6	10	181
Dec.	26	136	5	22	189
<u>1952</u>					
Jan.	28	128	7	22	185
Feb.	21	114	7	80	222
Mar.	19	89	8	134	250
Apr.	14	62	8	169	253
May	18	35	8	182	243
June	25	12	7	197	241
July	38	6	7	187	238
Aug.	57	5	6	173	241
Sept.	68	4	6	147	225
Oct.	73	3	6	130	212
Nov.	74	1	6	104	185
Dec.	87	-	6	106	199

TABLE VI (Cont'd)

	<u>Time Charters^a</u>	<u>Bareboat Charters^b</u>	<u>Foreign Charters^c</u>	<u>GAA^d</u>	<u>Total</u>
	<u>1953</u>				
Jan.	99	-	6	108	213
Feb.	105	-	6	109	220
Mar.	106	-	6	109	221
Apr.	108	-	6	111	225
May	119	-	6	138	263
June	138	-	6	141	285
July	157	-	6	140	303
Aug.	156	-	10	141	307
Sept.	158	-	10	134	302
Oct.	147	-	8	99	254
Nov.	134	-	8	67	209
Dec.	108	-	7	52	167

^aTime Charters--Privately owned American-flag commercial ships chartered by MSTs.

^bBareboat Charters--Government owned ships reactivated from the Maritime Administration's National Defense Reserve Fleet and Bareboats chartered by Maritime Administration to private ship operators who subsequently time charter the ships to MSTs.

^cForeign Charters--Foreign flag, privately owned ships chartered to MSTs.

^dGAA--Government owned ships reactivated from the Maritime Administration's National Defense Reserve Fleet and assigned to private ship operators by MARAD under General Agency Agreements. These ships carried military cargo for MSTs. (37:28-31)

The ships reactivated from the National Defense Reserve Fleet were, at the most, ten years old and in most cases less, as they were constructed during the 1941-1945 period of World War II. The age of these vessels made the cost of activation quite moderate. The reliability of performance with a minimum amount of maintenance required to keep them steadily engaged in the transportation of needed material is a direct reflection of the condition and age of the vessels.

Shipping Requirements for Vietnam. The Defense Department's Christmas message to the shipping industry emphasized once again that there is a shortage of sufficient American-flag ships to handle the upsurge in cargoes moving to military zones throughout the world. (5:C7)

The Military Sea Transportation Service is making every effort possible to increase the sea lift capability for military cargo. They have requested firm offers from United States-flag companies as well as foreign flag operators, but it is very unlikely that American companies will offer any more vessels without an increase in charter rates. The Military Sea Transportation Service has been able to hold charter rates within a 10 to 15 percent increase up to the present time, to avoid inflationary rates.

The back log of material continues to accumulate in many of the major seaports of the United States while ships are being delayed from 30 to 70 days in the forward areas such as

Vietnam. The port congestion in Vietnam places an additional burden on the Military Sea Transportation Service for more charters to compensate for the poor turn-around times. There is only one developed port in South Vietnam, Saigon. This has limited facilities consisting of ten berths alongside wharves and three dolphin-type berths which require literage for movement of cargoes. Warehouse space is at a premium and practically nonexistent in other areas of Vietnam. Cam Ranh Bay is in the development stage; completion of the port facilities will ease the situation considerably. The other contributing factor to the port congestion is insufficient literage to expedite the off-loading of ships at anchor. There is a lack of warehouses to protect cargo from the weather and the roads from the ports to the point of consumption are not sufficiently secure. A shortage of stevedores to move cargo effectively from ships and lighters also exists. (37:25)

In addition to the 50 ships activated from the National Defense Reserve Fleet in July and August, another 25 are being prepared for a shuttle service from Okinawa and the Philippines to Vietnam. This will assist in easing the port congestion problem. (5:C7)

The condition of the ships being reactivated from the National Defense Reserve Fleet has not been satisfactory. The cost of reactivation is from \$300,000 to \$400,000 per ship. (12:58) Five ships of the 50 reactivated this summer got only as far as Hawaii and are now awaiting a decision as to their disposition.

The requirements of the Military Sea Transportation Service exceed by so much the 75 ships which have been or are in the process of reactivation that it is necessary to charter foreign vessels. The flags of convenience, which are supposedly under effective control are mainly bulk carriers and oil tankers which are of limited value in the transporting of military cargo to Vietnam. United States-flag shipping operators cannot completely remove their vessels from established, essential trade routes without the sacrificing of business which they may not be able to negotiate after the emergency. The outflow of gold, even though it may be minor, will increase with chartering of foreign flag vessels to meet our additional military lift requirements.

The United States sea power invested in the United States-flag merchant marine can best be depicted as uncertainty marked by obsolesence. When Robert S. McNamara, Secretary of Defense, testified before a House Committee that ships were becoming passe and that air transport was the answer, he established a trend which was refuted in 1965 when a limited, military conflict was supported in greatest quantity by merchant shipping.

As reported in the Baltimore Sun of 27 December 1965 by Helen Delich Bentley:

Two out of every three soldiers in that fighting have been moved by ship. Ninety-eight percent of the cargo and supplies to back the men has been transported by ship. With all of the build-up on air transport, when

the C-5A finally is completed in 1969-1970, one airplane will be able to transport 50 tons at a time, which means that 260 planes could lift as much as a single C-4 type ship of today. The cost aboard the C-5A, as estimated now, will be 4 cents a ton mile, versus $\frac{1}{2}$ cent a ton mile aboard ship. (5:C7)

CHAPTER VIII

CONCLUSIONS AND RECOMMENDATIONS

Today, the decline of the American Merchant Marine is a cause of grave concern. This decline commenced after the Civil War and has been a consistent story of feast or famine in our ability to carry water-borne commerce. The experience of this nation through two World Wars and many international incidents points up the necessity of a merchant marine which can be depended upon in times of peace, war, undeclared war, or at times when no national emergency exists such as Vietnam. The essentiality of the United States-flag merchant marine cannot be better depicted than by its inability to support the Vietnam situation without the assistance of obsolescent, unreliable, and inadequate World War II vessels from the National Defense Reserve Fleet and the foreign flag vessels chartered by the Military Sea Transportation Service.

If a military confrontation should develop on another front it would be catastrophic, as the water-borne commerce to support this effort is not within our present capability. The United States is the only nation to reach such world stature and yet not be willing to maintain a national-flag merchant marine of sufficient size to back up its military forces wherever they may be in conflict in the deterrence of communism. The dependence of this great nation on essential and critical materials is an increasing threat to our economy and our

security. Without the American-flag merchant vessels to deliver these materials, we are at the mercy of those who control the shipping.

The issue of our merchant marine has reached a height of controversy unprecedented in our history, and the American people and the Congress of the United States must decide once and for all the course of our water-borne commerce. Will we rise to the challenge? That is the question. With all the United States superiority in various technological fields, it seems incredible that the United States-flag merchant marine is not first on the oceans of the world.

It is my belief that it is necessary to establish a national objective whereby the percentage of international water-borne commerce will be defined for the purpose of establishing an American-flag merchant marine of sufficient capacity to accomplish this objective.

The increasing size of the flags of convenience fleets is a direct threat to the very existence of the United States-flag merchant marine. They do not serve the interests of the United States but they do basically serve the industrial complex of the United States. A program should be initiated whereby the necessity for flags of convenience would be completely eliminated by equal advantages within specified competitive areas with foreign flag vessels.

The present subsidy program for United States-flag merchant vessels is administered in the form of a quasi-public utility

which discriminates against certain types of vessels. This program requires an overhaul which would permit an equal subsidy to all types of vessels based on the volume of trade carried; as the volume increased the subsidy would decrease. The necessity of traveling on essential trade routes must be eliminated to permit free competition within the areas where the business is to be acquired. To stabilize wages and be more competitive with foreign flag merchant vessels, it is necessary to establish basic wages by category in the maritime industry and further to compensate the members of the crew by a share in the profits upon completion of the voyage or over a certain time period. This will stabilize crews, further develop the use of more efficient, smaller crews, create an interest in these crews for the maritime operation in which they are involved, and should steadily increase the size of our merchant marine.

To stop the decline of our merchant marine it is necessary to improve upon our construction-differential subsidy program. It is important to extend interest-free loans to the shipping operators on a one for one basis, with a tax exemption on the profits accrued in the first fifteen years of the ship's life and a half exemption for the next ten years. To increase the size of the merchant marine above the present strength, the program could be further extended to absorb 25 percent of the construction cost on all vessels which are over and above the one for one program and permit a 25-year tax free program up to 50 percent of a company's fleet.

The military requirements which are built into merchant vessels should be continued and expanded to include specially designed vessels which, by their configuration, are not the most desirable for merchant shipping. However, for their operation, the government should guarantee the shipping operator a fair margin of profit with the binding agreement that the vessels can be requisitioned at any time by the Department of Defense, as they will be second line of defense vessels.

The assistance required to revitalize the United States-flag merchant marine should be in tax benefits rather than in subsidies which have an undesirable connotation. The purpose of revitalizing and assisting the merchant marine is to make it a viable industry and an asset to the Department of Defense in times of necessity.

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