RIPON FORUM

THE CARGOGATE CORRESPONDENCE

AUGUST 15, 1977 VOL. XIII No. 16 50 cents

Washington Window

COVERING UP CARGOGATE

The Cargogate coverup has begun. The actions taken by congressional Democrats would have done the Nixon Administration proud. Faced with Republican curiosity about the Carter Administration's decision to back cargo preference for foreign oil, House and Senate Democratic leaders have refused to call Administration witnesses to testify on the issue.

Leading the Republican push for congressional hearings on cargo preference (see July 15 FORUM) have been U.S.Rep. Paul N. McCloskey(R-Calif.) and Sen. Robert Griffin. Their treatment by U.S.Rep. John Murphy, chairman of the House Merchant Marine and Fisheries Committee, and Sen. Ernest Hollings, acting chairman of the Senate Commerce, lacks even the form of congressional courtesy...let alone congressional responsibility.

The Administration has used Murphy and Hollings, both strong maritime industry defenders, as the breakwaters for public controversy over cargo preference legislation. They have refused to send any administration official to testify on cargo preference. The sole exception to fog of silence they've lowered is Assistant Secretary of Commerce Robert J. Blackwell, who has been offered a $100,000-a-year job with an ocean liner association.

In House committee hearings, McCloskey questioned Blackwell about the potential conflict of interest between his testimony and his prospective job. Blackwell reacted angrily to McCloskey's questions about earlier testimony on operating subsidies for liner operators and the timing of his job offer. Blackwell d called a McCloskey proposal to require liner owner cooperation in a federal rebate investigation "outrageous." When McCloskey renewed his questioning of Blackwell's April testimony in late July, Blackwell replied:

> For you, sir, for you to suggest as you have on this record, because I had subsequent negotiations with a group of steamship companies who happen to be subsidized, that they in effect bought me and that I was---that I was in effect compromised I think is the dirtiest, lowest thing that has ever happened to me in 23 years of government service.

The double standard applied to Blackwell and former Army Secretary Howard "Bo" Callaway is obvious. Callaway was pilloried by a vicious Senate investigation in 1976 (see the June issue of Harper's magazine). Senate Democrats had little more than political expediency to fuel the investigation of Callaway's Colorado ski resort. But McCloskey's questioning of Blackwell goes to the heart of the maritime industry's pernicious influence over the executive and congressional branches of government.

It is an issue that ought to concern House Speaker Thomas P. O'Neill and other Democratic advocates of congressional reform. But it doesn't. As Dan Rather observed in a "60 Minutes" show on October 3, 1976:

> The Merchant Marine and Fisheries Committee is the obvious favorite here. According to the Federal Election Commission records, 30 out of 39 members of this committee, so key to maritime interests, have received contributions from the Marine Engineers, the National Maritime Union, the Seafarers, and the Masters Mates

and Pilots. And according to some members on that committee, those campaign dollars pay off.

As McCloskey told Rather on the program,"I think the majority on my committee...if they are not terrified of the anger of the maritime unions, are much more willing to cooperate with maritime labor chiefs than perhaps any other element in our society."

Former U.S.Rep. Edward A. Garmatz (D-Md.), who headed the House Merchant Marine and Fisheries Committee until his retirement in 1972, epitomized the close ties between the merchant marine interests and Congress. Known as "Mr. Merchant Marine," the Baltimore Democrat was a heavy recipient of campaign contributions from the maritime industry. "Who in hell did they expect me to get it from, the post office people, the bankers," responded Garmatz when questioned on the sources of his campaign funds. "You get it from the people you work with, who you helped some way or another. It's only natural." Since retirement, Garmatz has been a consultant for the Maritime Institute of Technical and Graduate Studies operated by the International Organization of Masters, Mates and Pilots. Though his duties as a consultant are unclear, Garmatz is apparently still being his helpful self. On August 1, 1977, he was indicted by the federal government on charges of accepting a $15,000 bribe from Moore-McCormack Lines, Inc. and United States Lines, Inc. in return for sponsoring special interest legislation worth $24 million back in 1972.

Garmatz's successor as head of the merchant marine committee, Leonor Sullivan(D-Mo.),retired last year. She was replaced by John Murphy of Staten Island. Murphy received over $11,000 in campaign contributions in both 1974 and 1976 from maritime unions alone. That was about 10 percent of Murphy's campaign chest in 1976---when he spent considerable campaign time helping colleagues win reelection. Murphy's motives were not entirely altruistic. He wanted colleague support for the merchant marine chairmanship.

As chairman, Murphy is trying to keep critics of the maritime industry in line. When McCloskey requested witnesses from the Departments of State, Treasury and Defense to testify on cargo preference, Murphy referred the request to U.S.Rep. Philip E. Ruppe(R-Mich.). Later, the full committee voted by a narrow margin to deny McCloskey's request. By a 31-5 margin, it voted to approve legislation which would require that 9.5 percent of the nation's imported oil be carried on U.S.flag ships by the end of a five-year period.

The speed at which the same bill was being pushed through the Senate led Sen. Robert Griffin to brand its handling as "slipshod" in Senate Commerce Committee hearings. Apologizing to the administration's lone witness, Commerce's Blackwell, Sen. Ernest Hollings said,"Mr. Secretary, I'm sorry you have to put up with this nonsense. What's made this hearing slipshod is [Griffin's] attendance here this morning." When Griffin requested additional administration witnesses, Hollings refused. When Griffin said he was "shocked," Hollings said,"Stay shocked. I'm bored to death with this charade. It's time to get this country moving again and build up our merchant marine."

In a Senate speech the next day, Sen. Griffin reiterated his 1974 opposition to cargo preference as a consumer "ripoff." Attacking cargo preference as a stimulus for further American dependence on foreign oil imports, Griffin said:

...we face what President Carter describe as an energy crisis so grave that it requires wartime-type sacrifices. It totally escapes me how we would be resolving the energy crisis by investing in a billion dollars' worth of greater dependence on foreign oil.

And that is what it would be, Mr. President. This scaled-down cargo preference proposal we are asked to enact so swiftly would be but a beginning. None of us can have any doubt that in years to come, there would be increasing pressures to hike the preference percentage for American tankers.

And let there be no doubt, also, that if this bill is enacted there will be pressures to expand the program in the future to cargo preference for goods other than petroleum.

I submit that this is very risky business.

As one Senator, I do not believe our responsibility in this body is to help the President keep his campaign promises ---unless those promises are worthy of keeping. If cargo preference is in the national interest, the Administration should not hesitate to send the Secretaries of Defense, State and Treasury up to the Hill to testify. Furthermore, there should be no reluctance on the part of the majority party in this Senate to listen to the views of other interested persons.

The White House does not want the Senate to listen to other views, however. Asked why the Administration wouldn't provide additional witnesses on the cargo preference legislation, Carter Press Secretary Jody Powell said,"We don't make it a practice of sending up witnesses to oppose our proposals." Particularly not when the Administration's stance was opposed by the Departments of State, Defense and Treasury as well as the Council of Economic Advisors, the National Security Council, the Office of Management and Budget, and the special assistant to the President for energy. OMB, for example, opposed cargo preference "on the grounds that it would (a) invite retaliation; (b) be expensive; (c) be difficult to administer; and (d) would amount to protectionism for the U.S. merchant marine." (A summary of White House documents in the cargo preference decision can be found elsewhere in the FORUM.)

After reviewing the White House memoranda, syndicated columnists Jack W. Germond and Jules Witcover wrote:

What is most puzzling about the whole episode perhaps is just why Carter felt so rigidly committed to cargo preference when the things he said about the issue were at least ambiguous enough to given him an out.

In another case, on natural gas deregulation, candidate Carter made a specific commitment in writing that he has now chosen to interpret as not binding because he didn't specify just when he would want to deregulate.

One Carter political adviser insisted that the difference was that the President had learned in office that "national security" would be threatened by deregulation and thus was justified in backing away from the promise. But the skeptics, among the Republicans and elsewhere, are going to say that the difference was the money from the maritime industry.

Moreover, if conditions changed on gas deregulation, they also have changed in the shipping industry. Indeed, the beginning of the flow of oil from Alaska is being described as a bonanza for U.S.tanker fleets because the Jones Act requires that all all tonnage moved from one American port to another be carried in American flag vessels.

Whatever the motives involved, what is clear is that our notoriously nonpolitical President is quite capable of playing the game like any other politician.

In mid-July the Washington Post's Robert H. Williams wrote that Carter "told Cabinet members last week that he felt he'd acted hastily and implied that he'd been poorly briefed on the issue. Despite that, his decision remains final. 'He's too stubborn,' an administration official confided." Such obstinacy, it might be recalled, got two recent Presidents in trouble. Meanwhile, Carter campaign advertising adviser Gerald Rafshoon is following the smart money. Following the moral lead of pollster Pat Caddell, Rafshoon has got the account of the U.S.Committee to Turn the Tide, a maritime industry group pushing cargo preference.

In a joint statement, Republican National Committee Chairman Bill Brock, Senate Minority Leader Howard Baker, and House Minority Leader John Rhodes called Carter's endorsement of cargo preference a "blatant political payoff in violation of the national interest." Complained the GOP leaders:"We ask the American people to let their congressmen know and to give the word to these Democratic chairmen, Sen. Ernest Hollings and Congressman John Murphy, that they expect a full explanation in open committee hearings from responsible officials as to why the President feels it necessary to oppose the best judgment of high Cabinet officers on a program that will increase the cost of gasoline and oil to an already-overburdened American consumer."

They went on to note that "only a great public outcry" would jolt Congress into opposition to cargo preference and an investigation of Carter's actions. The Carter Administration has added its own twist to the concept of "public financing" of political campaigns. The maritime unions put down a downpayment last year and now the public is being asked by President Carter to pay the bill.

It is, of course, stupid politics. But so was Watergate. Carter has reneged on a series of campaign promises that have alienated blacks, farmers, labor officials, and representatives of oil-producing states. He has, however, kept his word to the maritime industry. It hardly seems fair that Carter should so deftly shaft the middle class Americans who have provided the bulk of his continuing public support. But then, cargo preference is only one of several Carter Administration's blows at the middle class. And besides, as President Carter says, life is not always fair. ■

The Cargogate Papers

YOU BE THE JUDGE

Cargo preference legislation is a "blatant political payoff," according to Senate Minority Leader Howard Baker, Jr., House Minority Leader John Rhodes, and GOP National Chairman Bill Brock. The White House disagrees and says such criticism is politically motivated.

Who's playing politics? Most newspaper reports only summarize the documents involved. The FORUM has departed from its usual aversion to reading other people's mail to publish the following correspondece. Cargogate is the new Carter Administration mystery game. Why did the butler...er, the President ...do it? You be the judge.

MEMORANDUM

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

Stu - see note J

ACTION

27 June 1977

TO: THE PRESIDENT

FROM: RICK HUTCHESON Rick

SUBJECT: Cargo Preference

Attachments:

1. Eizenstat summary of the options, with recommendations. (As. Stu as summarized Secretary Kreps' memo adequately, it is not attached.)

2. Strauss memo on political aspects of the decision.

3. EPG option paper from Secretary Blumenthal. (An appendix, spelling out the EPG pros and cons at greater length, was not attached.)

4. Carter campaign statements on cargo preference.

5. Eizenstat memo on the repatriation of American-owned foreign flag ships, as a possible alternate to cargo preference (at your request).

THE WHITE HOUSE

WASHINGTON

June 23, 1977

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT Stu
BILL JOHNSTON

SUBJECT: Cargo Preference

BACKGROUND

At your instruction we have consulted extensively with industry and Congressional leaders trying to develop a mutually satisfactory strategy for rebuilding the American merchant marine. Unfortunately, our efforts to to find generally acceptable compromise to cargo preference have not been successful.

The maritime industry, and its many Congressional supporters, supported some of our alternative proposals. But every group we talked to felt that our proposals were not acceptable substitutes for cargo preference. They were willing to accept sharp cutbacks in percentages and timetables if we would agree to some form of cargo preference. But they rejected all other compromises citing their understanding of your campaign promise. Within the last week both Senator Long personally, and Congressman Murphy by letter, have emphatically restated this to me.

On the other side many members of our Administration, including Charlie Schultze, Mike Blumenthal and Dick Cooper, feel that no version of cargo preference is acceptable. They feel that the principles involved---our commitments to free trade and to the fight against inflation---cannot be breached. They argue that the economic costs of cargo preference outweigh its benefits. Moreover, they feel that even a modest cargo preference bill entails a dangerous precedent that may later be extended by Congress or imitated by other nations.

OPTIONS

The attached decision memos from Secretaries Blumenthal and Kreps lay out two views of the alternatives. The EPG paper concludes that the options are:

1) Cargo preference with the reserved share cut to 25% and with foreign built ships eligible for 2/5 of this share.

2) A larger operating subsidy program for which all kinds of ships would be eligible, and for which the eligibility rules would be significantly relaxed.

3) Extension of the Jones Act to the Virgin Islands for oil.

Option 2 was developed by CEA, EPG, Treasury and OMB staffs after an EPG discussion in which many EPG members expressed dissatisfaction with both cargo preference and other options.

Secretary Kreps feels that Option 2 should be rejected because it is unlikely to benefit the U.S. merchant marine and is certain to be offensive to most of the industry. She doubts that Option 3 is viable either, because it involves relatively few ships and is almost certain to be enacted with or without our support. She believes that the real choices are

1) Cargo preference as in 1 above.

2) A package of alternatives that would include:
a) The Jones Act extension as in Option 3.
b) Repeal of the U.S. income tax deferrals available to foreign subsidiaries of U.S. shipping companies. (Treasury opposes this)
c) A legislative initiative to expand our dry bulk fleet. (already drafted)
d) A commitment to seek additional

bilateral shipping agreements on a case by case basis.

ANALYSIS

We agree with Secretary Kreps that from a political standpoint, Option 2 in the Blumenthal memo does not merit serious consideration. The proposed subsidy is a potentially expensive on-budget item with uncertain benefits. And because the proposal would tend to benefit the large oil companies, the maritime community would view it as an insult rather than as a substitute. As Secretary Kreps observes, a simple rejection of cargo preference is politically preferable to Option 2.

In our view the options boil down to accepting or rejecting cargo preference. If you reject it, a package of alternatives should be offered, even though these will not be considered acceptable by cargo preference proponents.

Accordingly we would modify the two Kreps options as follows:

1) Cargo preference with severely reduced percentages: We feel that the percentage of oil imports reserved for our ships should be cut to 8-12%, with half of this available to foreign built ships reregistered under the American flag. This proposal would substantially increase the current proportion of oil moving on American ships and create some sea going and shipyard jobs, at a minimal cost to the public (estimated at $75-100 million). Both Congressman Murphy and Senator Long have indicated that a proposal along these lines would be satisfactory. It would, of course, still set the precedents considered to be undesirable. [Here, a handwritten note by the President says,"Less than 10% as Strauss indicates.]

Ambassador Strauss has worked closely with us in developing this alternative. At this instance we have met with a representative of the unions who has indicated that such a severely reduced percentage would be acceptable because it would, at least, recognize the concept of cargo preference. [This paragraph is marked by hand for emphasis---presumably by the President.]

Thus, we could accurately state that we have fulfilled our campaign commitment (see attached campaign statements) but at a reasonable cost.

As under the current version of H.R. 1037, our proposal for vastly reduced cargo preference percentages would not add to maritime subsidy costs, since preference ships would not be eligible for any subsidies.

2) A set of alternatives including a-d in the Kreps Option 2 above and:

e) Increased income taxes on both American and foreign owned foreign flag fleets. This would involve changing the definition of income sources so that half of the earnings from shipment into and out of the U.S. would be treated as U.S. earnings, (currently most of this income is treated as "earned on the high seas"). It would also involve ending the exemption from taxation that income earned by foreign flag shipping companies now enjoys. Recommendations along these lines have already been proposed by a Task Force of the House Ways and Means Committee.

RECOMMENDATION

While we feel that cargo preference is a flawed concept, it appears to be the only immediately available alternative that can significantly strengthen the maritime industry. In light of your commitment to the industry, and the likelihood that rejection of cargo preference will be seen as a broken promise, we support the limited cargo preference option outlined above.

OK - get
Strauss
minimum
J

THE RIPON SOCIETY, INC. is a Republican research and policy organization whose members are young business, academic and professional men and women. It has national headquarters in District of Columbia, chapters in fifteen cities, National Associate members throughout the fifty states, and several affiliated groups of subchapter status. The Society is supported by chapter dues, individual contributions and revenues from its publications and contract work.

THE RIPON FORUM is published semi-monthly by the Ripon Society, Inc., 800 18th St., N.W., Washington, D.C. 20006. Second class postage rates paid at Washington, D.C. and other mailing offices. Contents are copyrighted © 1976 by the Ripon Society, Inc. Correspondence addressed to the editor is welcomed. (Ripon FORUM, Box 226, Charlestown, Mass. 02129.)

In publishing this magazine the Ripon Society seeks to provide a forum for fresh ideas, well-researched proposals and for a spirit of criticism, innovation, and independent thinking within the Republican Party. Articles do not necessarily represent the opinion of the National Governing Board or the Editorial Board of the Ripon Society, unless they are explicitly so labelled.

SUBSCRIPTION RATES are $15 a year, $7.50 for students, servicemen, and for Peace Corps, Vista and other volunteers. Overseas air mail, $6 extra. Advertising rates on request. Please allow **five weeks for address changes.**

THE SPECIAL REPRESENTATIVE FOR
TRADE NEGOTIATIONS
WASHINGTON
20506

June 24, 1977

MEMORANDUM FOR THE PRESIDENT

From: Ambassador Robert S. Strauss RSS

Subject: Cargo Preference Legislation

Stu Eizenstat and I have met at length with Senator [Russell] Long on this issue. I have taken indirect soundings of the leadership of the unions, and talked with others on the Hill. [Assistant Secretary of Commerce Robert J.] Blackwell of the Maritime Administration believes our labor soundings are accurate.

Politically, something in the way of a Cargo Preference is going to be very hard to resist. Other options don't serve or satisfy the political need, and might even be counterproductive. The unions certainly feel that the Administration is committed to a Cargo Preference Policy.

The Maritime unions claim that a Cargo Preference Act is essential to the future of the U.S.Merchant Fleet and the security of the United States. Other remedies such as those proposed in the several option papers which have been circulated, in their view, do not suit this purpose and are seen either as entirely insufficient or a policy action contrary to their interests. They believe that the Cargo Preference policy will protect seafaring jobs for U.S. sailors and provide substantial on-shore employment in shipyards around America. (They point to the substantial numbers of minority employment in today's shipyards as evidence that the jobs created on-shore would go where the need is greatest.

What we have determined is that establishing the concept of Cargo Preferences is more important that the percentage. When Eizenstat and I met with Russell Long, we finally convinced him of this and left him in the political posture of "anything you fellows can satisfy Jesse Calhoun with, I will take and support." I believe we can successfully sell less than ten percent preferences stretched out over five or six years and try to get the Hill and the Union committed to this if you desire to go the Cargo Preference route. In short, what we have accomplished is determining that the concept is far more important than the percentage.

This memorandum is not an attempt to justify Cargo Preferences over other options. It is intended to provide you with with a least possible option at an initial, relatively modest cost. There are other memoranda presently before you relating to inflationary and trade aspects. I would be glad to discuss these options with you personally if you desire. It is my personal opinion that we have a day or two "bad story" situation following any available option.

June 17, 1977

MEMORANDUM FOR THE PRESIDENT
FROM: W. MICHAEL BLUMENTHAL
CHAIRMAN, ECONOMIC POLICY GROUP
SUBJECT: OIL CARGO PREFERENCE

In March the EPG unanimously recommneded that you oppose cargo preference legislation, and suggested we might explore alternative ways of assisting the maritime industry. You then directed Commerce and White House staff to consult further on the Hill and with industry groups.

These consultations indicate that while the maritime interests would support a modified version of the cargo preference bill (H.R.1037), they consider alternative forms of assistance inadequate and would strongly oppose them as a substitute for cargo preference.

During the campaign you made several statements about the need for a viable U.S. maritime industry, which maritime interests understand as commitments to support cargo preference. It appears that your campaign commitment was to increase the number of seagoing jobs and not to assist the shipbuilding industry.

The House Subcommittee on Merchant Marine is pressing the Administration for a decision. There is also an intensive lobbying effort underway on behalf of cargo preference by a coalition of shipbuilders, ship operators and marine supportive industries.

The EPG has reviewed this issue again and presents three alternative proposals.

1. Support a modified form of cargo preference, with a reduced preference percentage, a stretched out implementation timetable, and provision for limited foreign-built tanker participation. (Commerce and Labor support.)
Pro: This is acceptable to maritime interests. Impact on national security cuts both ways: Commerce believes U.S.-flag ships would be more reliable in emergencies; State and DOD do not see that as a benefit since foreign ports might be closed to U.S.-flag ships. It would create 2100 to 4600 new seagoing jobs, a possible 13,500 transitional shipyard jobs after 1980, plus some near-term shipyard business for reconstruction of foreign-built tankers. The U.S. balance of payments could improve by $95-150 million. Might improve tanker safety and pollution avoidance. Age limit would prevent use of obsolescent tankers in preference trade.
Con: Annual cost through higher oil prices is estimated at $233-$844 million depending on level of oil imports in 1986 and final form of the wellhead tax. If the wellhead tax exempts cargo preference oil, the annual cost per job created ranges from $23,000 to $111,000. CEA estimates the net impact on the economy as a whole would be a decrease in total employment and GNP. Would be contrary to London Summit pledge to reject protectionism, would reverse U.S. policy favoring free competition, could trigger emulation by others, and would violate U.S. treaties with more than 30 countries.

2: Expanded use of operating subsidies. (Supported by State, CEA, NSC, DOD, DOT and the Special Assistant to the President for Energy; OMB supports without a cap on the subsidy. Treasury and FEA support option 2 or 3.)
Pro: By relaxing restrictions on eligibility for operating subsidies, and increasing operation subsidies from the current level of $400 million per year to $500 million per year, 5,000 additional seagoing jobs could be created at an annual cost per job of $20,000. Would not increase the cost of oil and, therefore, would not have the inflationary impact of cargo preference. Would not have the adverse foreign policy repercussions of cargo preference.
Con: It is strongly opposed by maritime interests as an alternative to cargo preference. They argue that independent operators will not be attracted and that the major oil companies with their company unions will be the primary beneficiaries. Shipbuilders oppose since no new shipconstruction would be generated. Further consultation and staffing are needed if you choose this approach since it would mean basic changes in long standing subsidy programs, including a budgetary ceiling for the first time. A recent OMB attempt to cap existing subsidies was strongly opposed.

3. Extend the Jones Act, which requires U.S. ships for domestic commerce, to the Virgin Islands for oil. (Treasury and FEA support option 2 or 3. State supports option 3 in conjunction with option 2 if needed.)
Pro: Could create 2,000 seagoing jobs with the cost likely to be absorbed by the refiner thereby avoiding the inflationary impact of cargo preference. After years of resisting, Amerada Hess, the only refinery in the Virgin Islands, is no longer opposing extension of the Jones Act since the oil import fee system will make it cheaper to use U.S.-flag ships.
Con: Maritime interests oppose this as a substitute for cargo preference because they belive the Congress will extend the Jones Act to their benefit in any event. There is also concern that it could serve as a precdent to complete extension of the Jones Act to the Virgin Islands which could impact negatively on tourism, the islands' major industry.

RIPON
FORUM
Published semi-monthly by the Ripon Society, 800 18th St., N.W., Washington, D.C. 20006. Second class postage paid at Washington, D.C. and other mailing offices.