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STATEMENT OF
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BEFORE THE
COMMITTEE ON MERCHANT MARINE AND FISHERIES
UNITED STATES HOUSE OF REPRESENTATIVES

Mr. Chairman and Members of the Committee:

(At your request,) we ^{are glad to} appear before you today to present the information that the General Accounting Office has developed concerning the use of vessels under time charters for the ocean movement of military cargo by the Department of Defense. Our work was directed primarily ^{which was in response to a request of the committee} to determining whether the Military Sealift Command was complying with the provisions of the Wilson-Weeks Agreement in its decisions to charter ships. We also inquired into the impact the Command's chartering practices had on the U.S. Merchant Marine. Our findings were reported to this Committee ^{D.G.} in ^M a letter dated January 22, 1971. ^{incorporate as part of the record}

THE WILSON-WEEKS AGREEMENT

The Wilson-Weeks Agreement of 1954 is an agreement between the Department of Commerce and the Department of Defense (DOD) to provide for the permanent or temporary transfer, allocation, and utilization of merchant-type ships by DOD. The agreement, which remains in effect, sets forth (1) the size and composition of the nucleus fleet, that is, the ships owned and operated by Military Sealift Command, (2) the procedures for augmenting the nucleus fleet under conditions of full mobilization, and (3) a priority formula for the acquisition of merchant shipping capability required by DOD. The priority formula provides that, "consistent with military requirements and prudent management," DOD requirements will be met by the use of the (1) nucleus fleet, (2) U.S. flag berth space, (3) time and voyage charters of privately owned U.S. flag merchant ships, (4)

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ships from the National Defense Reserve Fleet, and foreign flag ships, in that order of priority.

In essence, the agreement provides that the Government-owned shipping capability, except under conditions of full mobilization, will be kept relatively small and that the remainder of DOD's shipping needs will be satisfied through the use of the services of the U.S. Merchant Marine. Preference is to be given to U.S. flag berth service unless it is inconsistent with military requirements and prudent management. For example, the Military Sealift Command considers shipments of ammunition as a military requirement not requiring consideration of available berth service. The Command believes also that prudent management dictates that available space on ships already under charter be used prior to using berth service.

Compliance with the Wilson-Weeks Agreement in Chartering Ships

Our review indicated that the Military Sealift Command's procedures for procuring ocean transportation provide reasonable assurance that the terms of the Wilson-Weeks Agreement will be complied with.

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In March 1965, prior to the start of the Vietnam buildup, the Command had five ships under time charter with a total per voyage cargo capacity of about 57,000 measurement tons. During fiscal year 1965, the Command moved approximately 13.2 million measurement tons of cargo.

In planning for fiscal year 1966, the Military Sealift Command based its 13.5 million measurement ton required shipping capability on military cargo projections prepared by the military shipper services. However, as a result of the Vietnam buildup, the actual cargo the Command was required to move totaled 20.9 million measurement tons. This increase in cargo exceeded the capability of the Command's fleet, and the Command petitioned the industry to provide additional shipping capability.

There was insufficient berth service available on ships operating on routes from the United States to Vietnam to meet the increased cargo requirements. Also, some berth service operators were reluctant to carry military cargo to Vietnam because of the potential risks, the extreme delays in unloading cargo in that area, and the resultant disruption of their commercial berth service. Much of the additional cargo was ammunition which was more suitable for shipment on time charter ships than on berth service ships because of safety factors, loading and unloading priorities, and incompatibility with certain commercial cargo which created stowage and scheduling problems for berth service operators.

In response to this emergency, the shipping industry offered a substantial number of ships for charter to the Military Sealift Command for initial periods of 3 to 6 months. Many of the ships offered were available because of a strike on the east coast of the United States which prevented these ships from being used for shipment of commercial cargo.

In November 1965, the Command asked the industry to extend the charters on the ships initially offered and to make more ships available to meet the escalating cargo requirements. The industry responded in various ways, some ship operators agreeing to charter extensions, others offering additional ships for charter, and others recommending that the Command petition the Maritime Administration to activate ships from the Reserve Fleet citing the unavailability of additional ships. The latter operators stated that their ships were needed to satisfy commercial commitments.

Cargo requirements continued to escalate until a peak of 30.6 million measurement tons was reached in fiscal year 1969. The Military Sealift Command met these requirements by increased use of all types of shipping capability--nucleus, berth, charter, and Reserve Fleet ships. On January 1, 1969, the Command was operating 144 Reserve Fleet ships and had 130 break-bulk cargo ships under charter, the latter group representing an estimated 1.7 million measurement tons of cargo space, ~~per~~ ~~voyage~~.

In fiscal year 1970, military cargo requirements decreased to 26.9 million measurement tons, and projections for fiscal year 1971 indicate a further decrease to 19.5 million measurement tons. As a result, the Command has removed all Reserve Fleet ships from operation, and as of December 1, 1970, it reduced the number of break-bulk cargo ships under time charter to 76 representing a total of about 1.1 million measurement tons of cargo capacity, ~~per voyage~~. By December 31, 1970, the number of time charter ships had been further reduced to 63. *I understand it has now been reduced to 50*

Tables showing the levels of cargo carried during fiscal years 1965 to 1971, and the number and type of ships under charter to the Command are included in the attachment to this statement.

The Military Sealift Command responded to the decline in military cargoes by deactivating the Reserve Fleet ships and by steadily reducing the number of ships under time charters. The pace of this reduction was based on the Command's periodic comparison of shipper-service requirements with sealift capability.

Each year in February the shipper services submit their annual estimates of military cargo in measurement tons per month by commodity, origin, and destination. On the basis of these submissions, the Command develops its Cargo Operating Force Plan which identifies its estimated capability to handle these projected cargo requirements by type, such as nucleus fleet, berth service, and time charters.

The plan is developed by first identifying that cargo which (1) will move between points for which no berth service is offered, and (2) is not suitable for berth service because of its nature and military requirements, such as ammunition, aircraft, and outsized cargo. This cargo is then allocated to the nucleus fleet. The remaining cargo of this type establishes the minimum time charter capability required.

All other cargo is then allocated to berth service; except, if there is a surplus time charter capability already under contract, it is first utilized. The allocation to berth service is then compared with the Command's estimate of berth space available.

This gives the Command an annual planning estimate of the capability necessary to meet shipper requirements and alerts it to any major changes that may be necessary. However, actual decisions on increasing or decreasing the number of ships under charter are made throughout the year on the basis of revised estimates of the shipper services and the actual cargo being presented for shipment. For example, at intervals of 105, 75, 45, and 15 days preceding each month the shipper services submit revised cargo estimates for the month and the Command makes decisions as to terminating or extending charter contracts based on these up-to-date revisions and current operational data.

As previously stated, we believe the Command's procedures as described above provide reasonable assurance that it generally will comply with the terms of the Wilson-Weeks Agreement in allocating cargo. We have found, however, one chartering practice of the Command that does not fit into the above decision-making process and would appear to militate against compliance with the Wilson-Weeks Agreement. This is the practice of entering into charter agreements beyond one year.

For example, in April 1970 the Command chartered three seatrain ships for a period of 3 to 5 years. Subsequently, in June 1970, 14 new C-4 type ships were chartered for a short term period, but with an option for an additional period of a minimum of three and a maximum of five years.

As stated earlier, the normal process for determining capability required is based on an annual forecast revised month by month throughout the year. If the Command continues to enter into long term charter agreements which have not been justified in this normal process, we believe compliance with the provisions of the Wilson-Weeks Agreement may be frustrated since one aspect of this process is to allocate cargo first to time charter capability already under contract before considering berth service.

Comparative cost of berth service and time charters.

At the specific request of the Committee's staff, we made a limited comparison of the cost of time charter service as opposed to that of berth service. We analyzed the voyages made by eight selected dry cargo C-4 type ships under charter to the Military Sealift Command during the period October 1966 through December 1969. We found that the 79 voyages

made by these ships during this period cost the Government approximately \$38 million, including per diem, escalation, fuel, and port charges. We estimated that if the cargo carried on these voyages had moved in berth service at the lowest applicable shipping agreement rates, including necessary demurrage charges, the cost would have been about \$33 million.

These are gross figures for all voyages. Cost differences for individual voyages varied depending on the tonnage carried and the route used. Of the 79 voyages, we found 22 voyages in which charter costs were lower than costs based on lowest berth rates, and 57 voyages on which the costs would have been lower based on berth rates. We did not examine into the reasons for tonnage variations on the chartered vessels or the economy and efficiency of the Command's routing of its chartered vessels.

We did find indications, however, that there was generally insufficient berth service available to meet the Command's cargo requirements during the period covered by our study. We have no evidence to the effect that the carriers offering the lowest berth service rates had equipment available or offered it to the Command at the times and places necessary to meet the military requirements. Also, we did not attempt to determine whether the carriers quoting the low rates would or could have maintained their rates at the quoted levels if they had been required to furnish the vessels necessary to handle the cargo moved during the period. Officials of the Military Sealift Command have stated they were using all berth service available to them during the shipping period covered by our review, and our study tends to support this.

We, therefore, emphasize that our finding that charter costs in most cases were higher than costs based on quoted berth rates should not be construed as a criticism of the Command's action in chartering these particular ships.

Impact of the charter practices on the continued
existence of a sound U. S. Merchant Marine

During the Vietnam buildup the entire merchant marine was being fully utilized, and the Command's chartering of vessels, in itself, was not opposed by the industry. Since July 1969, military tonnage has decreased. At the same time there has been an increased use of containerized berth service thereby resulting in less cargo being available to berth break-bulk carriers. Accordingly, some segments of the industry have expressed concern over the Command's chartering practices. The nature of this impact is not readily determinable and opinions differ depending on which segment of the industry is queried.

For example, berth line operators generally believe the Command could and should utilize fewer time charters and offer more cargo for berth service. Representatives of the subsidized operators stated that a strong U. S. Merchant Marine is dependent on U. S. operators offering sufficiently competitive service on enough trade routes to secure as much of the world's trade as possible. They point out that additional military cargo offered to berth service could be a determining factor in whether or not an operator can continue to offer service on a particular trade route.

Although, representatives of the non-subsidized berth line operators believed that more cargo offered for berth service would be desirable, they expressed concern that unless the additional military cargo offered exceeds the capability of the subsidized operators they could not

receive such additional cargo. They said that because of the operational subsidy, the subsidized operators are able to underbid them for military cargo. As a result they contend that they are unable to compete with the subsidized operators and their continued operation is threatened.

Tramp operators, as a group, favor the Command's use of time charters because it provides an important market for their ships. Because they do not offer regular scheduled service, tramp operators are ineligible to compete for military berth space cargo. They also have difficulty competing with foreign flag operators for commercial cargo. Without the Command's time charter market the tramp operators may possibly obtain an increased share of the commercial bulk cargo--such as rice and wheat--but, according to informed sources in the industry, they would probably sell many of their ships for scrap and sell or transfer others to foreign flag registry.

The Command's extensive use of time charters during the Vietnam buildup kept a large number of old and obsolete U. S. flag ships in service. The Command had to use all available shipping capability and as a result a large number of the World War II ships were chartered. The non-subsidized berth line and the tramp fleets are composed primarily of these obsolete World War II vintage ships, while the newer and more modern ships are almost exclusively in the subsidized berth line fleet. With the recent decreases in Vietnam cargo, the Command can be more selective in the types of ships it is chartering. This has resulted in the Command releasing from charter many of the obsolete ships while it seeks to retain the newer and more modern ships being offered by the industry.

Many of the obsolete U.S. flag ships are disappearing from the U.S. Merchant fleet because of the decrease in military cargoes and the chartering of more modern ships in lieu of the obsolete ships. This loss of U.S. flag ships is offset to an undetermined extent by the addition of modest numbers of larger, faster, and more modern ships in recent years and by the contemplated future construction of 300 new ships over a 10-year period as authorized by the Merchant Marine Act of 1970.

This change in the makeup of the merchant fleet has also given the Command cause for concern. The Command maintains that newer ships being added to the fleet are not designed, for the most part, to carry break-bulk type cargo. It, therefore, evisions a time when the merchant fleet will no longer have sufficient break-bulk capability to meet military contingency requirements, and it is concerned as to how this capability can be maintained.

Mr. Chairman, this completes my prepared statement. I will be happy to provide additional information as desired.

PART I
MILITARY DRY CARGO CARRIED
(IN MILLIONS OF MEASUREMENT TONS)

Fiscal year	Total cargo	Nucleus	Percent of total	Reserve Fleet	Percent of total	Charter ^{a/}	Percent of total	Berth	Percent of Total
1965	13.2	3.3	25	0.1	1	2.4	18	7.4	56
1966	20.9	3.3	16	2.4	12	6.1	29	9.0	43
1967	27.1	3.8	14	5.2	19	7.9	29	10.3	38
1968	28.7	4.3	15	5.5	19	8.9	31	10.0	35
1969	30.6	4.6	15	4.5	15	10.5	34	11.0	36
1970	26.9	4.1	15	1.2	5	11.4	42	10.2	38
1971(est.)	19.5	2.2	11	0.1	1	7.4	38	9.8	50

^{a/} Cargo moved by charter includes break-bulk, bulk, and reefer cargo.

TABLE II
DRY CARGO BREAK-BULK SHIP UNDER TIME CHARTER TO
THE MILITARY SEALIFT COMMAND

	Number of ships	Estimated total capability (Measurement tons)	Estimated average capability (Measurement tons)
March 31, 1965--Pre-Vietnam buildup	5	56,890	11,378
January 1, 1969--Peak-Vietnam	130	1,678,594	12,912
December 1, 1970	76	1,058,168	13,923
December 31, 1970	63	Not available	Not available

Note: In addition to the reduction in time charters, Reserve Fleet ships were reduced from 144 in January 1969, to 0 in November 1970.
Does not include Seatrain special cargo ships which are shown below.

TABLE III
TIME CHARTER SHIPS BY TYPE

Type of ship	March 31, 1965	January 1, 1969	December 1, 1970
C-4 (New)	--	15	20
C-4 (Modified)	--	9	9
C-4 (Heavy lift)	--	2	2
C-4 (Mariner)	--	2	--
C-4	--	4	4
C-3 (New)	--	12	2
C-3	--	14	14
C-2	1	47	19
AP-3	4	18	5
AP-2	--	7	1
Seatrain	--	12	7
Total	<u>5</u>	<u>142</u>	<u>83</u>