

STATEMENT OF ALAN S. BOYD, UNDER SECRETARY  
OF COMMERCE FOR TRANSPORTATION, ON 50%  
U. S. FLAG REQUIREMENT ON SHIPMENTS OF WHEAT  
TO SOVIET BLOC COUNTRIES, BEFORE SENATE  
FOREIGN RELATIONS COMMITTEE, SEPT. 17, 1965

Mr. Chairman and Members of the Committee:

We are glad to appear before this Committee today in response to your request to furnish the Committee information on the Administration's policy that export licenses for shipment of wheat and other grains to Soviet bloc countries are issued on the condition that 50% of such exports will be transported in U. S. flag ocean carriers.

As the Committee knows, this shipping requirement was adopted by the Government in October 1963, at the time that President Kennedy authorized issuance of licenses for the export of American wheat and other agricultural commodities to Soviet bloc countries.

You have already heard State Department witnesses on this subject, who testified concerning the international aspects of these transactions, but perhaps it would be helpful for me -- at the risk of some repetition of background -- to give a summary of the factual developments from the perspective of the Department of

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Commerce, and in the light of the Commerce Department's responsibilities in administering the Export Control Act. In this connection, my comments are, of course, directed to the shipping requirement which is the subject of Senate Resolution 144, the focus of this Committee's present concern.

In his letter to the President of the Senate and the Speaker of the House of Representatives, dated October 10, 1963, President Kennedy announced his decision "not to prohibit the sale" of American wheat and other agricultural commodities to the Soviet bloc countries. Regarding the use of American flag vessels, President Kennedy said in his letter, and I quote, "An added feature is the provision that the wheat we sell to the Soviet Union will be carried in available American ships, supplemented by the vessels of other countries as required."

In addition to the provision regarding use of U. S. flag vessels which the President announced, he also directed that such exports licensed by the Department of Commerce would have to be on a cash basis or "under normal commercial credit terms."

As this Committee of course knows, the Export Control Act was and still is administered by the Department of Commerce. Accordingly, it was necessary for the Department to amend its export regulations to provide that the Department would consider applications for export of wheat and other agricultural commodities to the Soviet bloc countries under the conditions prescribed by President Kennedy. As a part of the regulation issued in October 1963, which is still a part of the present regulations, the exporter was required to furnish the following quoted certification on his license application:

"I (We) certify that with respect to the commodities described on this application (1) the price will be on the basis of the prevailing world price at the time the contract is concluded; (2) the payment will be made in United States dollars or gold; (3) the terms of sale will be cash or normal commercial credit; (4) the exportation from the United States will not be financed under Public Law 480; (5) the sale does not involve (me) (us) in any barter arrangement; (6) the commodities were produced in the United States; (7) at least 50 percent of the commodities exported under any export license resulting from this application will be exported in United States flag ocean carriers; and (8) promptly upon entering into a charter or other shipping arrangement for each shipment of commodities to be exported under any export license resulting from this application, the U. S. Maritime Administration will be notified of the name of the ship, the name of the ship operator, the ship's flag of registration, the quantity of such shipment, and the export license number under which the shipment is made."

The resolution now pending before your Committee suggests there may be some question as to the legal authority, under the Export Control Act, to condition the approval of export licenses in these situations on the requirement that 50% of the shipments will be transported in U. S. flag vessels. The General Counsel of the Department is here with me today and he will have a separate statement of comment on the legal basis in the Export Control Act for the U. S. flag shipping requirement.

The President's letter of October 10, 1963, does not refer to any specific percentage use of American flag vessels but rather states that the wheat sold to the Soviet Union "will be carried in available American ships, supplemented by the vessels of other countries as required." That language, of course, indicated that all of the shipments would be on American vessels, if available. This language also suggested that less than 100% or even 50% of the shipments would go on American flag vessels, if American vessels were not in fact available.

You will recall that in October 1963, at the time of the President's announcement on the sale of wheat to the Soviet Union, there were reports in the trade to the effect that the Soviet Union

might purchase up to 4 million tons of wheat during the next several months. It very soon became evident that there was simply not sufficient American shipping capacity to handle 4 million tons of grain shipments to the Soviet bloc within the relatively short period of time anticipated for completion of those transactions. Nevertheless, because of the announced requirement that U. S. flag vessels would have to be used, if available, the grain exporters were in the position of having to quote a price, including shipping costs, sufficient to cover the higher costs of American flag vessels on the premise their total sale would have to be transported in American ships. This led to an impasse with the Soviet buying authorities for a period of several weeks. While the Soviet authorities emphasized that they would not object to 100% use of American flag vessels they equally emphasized that they would not include in their total purchase price transportation costs in excess of "going world shipping rates." Foreign flag shipping rates at that time averaged six to eight dollars per ton less than the rates quoted by American flag vessels.

In an effort to break the impasse that developed because of the shipping rate issue, the Under Secretary of Commerce met with representatives of American shipping associations and agreement

was reached that the American shipping requirement would be clarified and expressed as a fixed percentage. Thus that was the origin of the 50% requirement that we have today. It was understood at that meeting with the shipping industry representatives that 50% of the exports of wheat to the Soviet Union would go on American flag vessels only if available -- and, if not available, permission would be granted the exporters to ship on foreign flag vessels.

At the same time, with agreement of industry representatives, the conclusion was made that only American flag vessels over 15,500 tons size would be used to participate in the Soviet wheat shipments, because the larger American vessels could handle the shipments at a rate 20% lower than the guideline rates then established for small vessels under the P. L. 480 program. It was expected that with the substantial sales to the Soviet Union there would be more than enough business for all American flag vessels during the ensuing several months, for both small and large vessels. It was understood that the smaller vessels would in effect have first call on the P. L. 480 shipments, on which the 50% cargo preference applied, thus leaving the larger American vessels which could quote lower rates for the Soviet wheat transactions. As is apparent, this

would have brought American flag rates closer to those prevailing on the world shipping market, hopefully permitting the grain exporters to quote total sales prices to the Soviet bloc purchasing agents, which would not involve -- from the buyer's standpoint -- discriminatory shipping costs. It was on that basis that both the shipping industry representatives and the grain exporters expected the wheat sales to the Soviet bloc countries would be followed through successfully without further difficulty on the matter of shipping rates.

The first substantial sale of wheat under that program was announced in November 1963, a purchase of 100,000 tons by Hungary. On that transaction, American shipping was obtained for 50% of the amount involved. Thereafter, a second sale to Hungary was made for 100,000 tons but it was reported that American shipping was not available for the 50,000 tons required, at the published guideline rates, and a waiver on 40,000 tons was requested from the Maritime Administration. After canvassing the shipping market and the availability of American flag vessels at the published guideline rates, the Maritime Administration issued a waiver for the requested amount of 40,000 tons -- and thereafter the shipment was completed in that transaction.

During that period a number of applications for export licenses were received by the Department. Several of these applications were approved, subject to the various conditions I have previously mentioned, including the 50% shipping requirement. Naturally, many of the firms which received an export license did not make a sale and therefore shipments were never made under those export licenses. Only two substantial sales were finally made, one for approximately one million tons and another by a second company for approximately the same amount.

On one transaction of approximately one million tons, sold to the Soviet Union, application was made to the Maritime Administration for a waiver on approximately 281,000 tons, meaning that the seller had chartered American vessels for approximately 25% of the total shipments involved rather than 50% which was the required standard. However, the Maritime Administration did not grant a waiver on the amounts requested but, following a public hearing, a waiver was granted for approximately 150 thousand tons, which represented about 15% of the total sale of one million tons. This meant that approximately 70% of the portion designated for U. S. flag shipment, under the 50% requirement, was transported in American vessels.

When this waiver on the shipment was issued in February 1964, Government officials were under the impression at that time that the maritime industry and maritime labor understood that the waiver was properly issued and that it would not be further contested by the maritime interests. (Attached as an appendix to this statement is a copy of the announcement of that waiver, issued on February 12, 1964, which is made available for the record.)

However, a few days after announcement of this waiver, the longshoreman boycott on further loading of wheat shipments involved in the transactions with the Soviet Union was initiated and that boycott was in effect for several days. Ultimately the controversy was resolved and the shipments of wheat to the Soviet bloc countries on sales made during that period were completed.

I have referred to the longshoreman boycott that occurred in early 1964 not for the purpose of criticising any of the parties involved in that controversy, but solely to relate the practical difficulties which did confront the Administration at that time regarding the use of American flag vessels.

The policy adopted in the Fall of 1963 regarding the use of American flag vessels on shipments of grain and other agricultural commodities to the Soviet bloc countries has not been changed. It

is recognized, of course, that the shipping requirement has prevented, as a practical matter, any further significant sale of wheat to the Soviet bloc countries. To the extent this has been the case, the shipping requirement has, of course, been of no advantage to anyone. Farmers and grain dealers have not made sales that otherwise might have been made; longshoremen have not obtained work loading cargo that they otherwise might have had; seafaring employees on U. S. vessels have not been employed because no wheat sales have been made and no wheat has been transported on U. S. flag vessels; and, of course, the United States has lost an opportunity to improve its balance of payments position to the extent that substantial sales of wheat might have otherwise been made. All of these points are recognized, as stated, in a letter last month from Secretary Connor to Senator McGovern.

Also, as stated by Secretary Connor, the question of this special cargo preference provision has been and is under careful review within the Administration along with other problems involving our merchant marine. We have not reached any conclusions as to a solution to the difficulties involved.

This problem will continue to have our serious concern and consideration. I do not believe any useful purpose will be served

by enactment of legislation which would reduce the discretionary authority and administrative flexibility of the Executive Branch.

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