

**THE PAUL HALL MEMORIAL LECTURES**

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**Where There Is No Vision...**

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**Paul Hall Memorial Lecturer**

**PAUL HALL MEMORIAL LECTURES**

**A PROGRAM OF THE  
PAUL HALL MEMORIAL ENDOWMENT  
UNIVERSITY OF SOUTHERN CALIFORNIA**

**Where There Is  
No Vision...**

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**Presented**

**April 21, 1992  
Washington, D.C.**

**A University of Southern California  
Sea Grant Publication  
USCSG-LS-01-92**

This lecture series is produced with support from the National Oceanic and Atmospheric Administration's National Sea Grant College Program, Department of Commerce, under grant number NA-90-AA-D-SG525, and the Paul Hall Memorial Endowment, University of Southern California.

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## **PAUL HALL (1914 - 1980)**

Paul Hall was respected in all quarters of the marine transportation field. As President of the Seafarers International Union of North America, Senior Vice President of the AFL-CIO, and as head of that organization's Maritime Trades Department of 43 national unions whose memberships total eight million American workers, he was a unifying force in bringing together all elements of the maritime industry. His lifelong respect for, and interest in, education was reflected in the establishment of the unique and successful Seafarers Harry Lundeberg School of Seamanship at Piney Point, Maryland, a vital source of trained seagoing personnel.

Throughout his working career he sought to bring together the industry, to improve working conditions, to meet the challenge of foreign competition, and to advise government on how the U.S. Merchant Marine might be revitalized.

### **THE PAUL HALL ENDOWMENT**

The Paul Hall Memorial Endowment promotes marine transportation educational programs inside and outside the University of Southern California. The endowment was established at USC in 1981 through contributions from friends and associates in marine industry, organized labor and the private sector to honor Mr. Hall, who died in 1980. USC uses endowment income to support USC Sea Grant Program projects in marine transportation and port and harbor management. The Memorial Lecture Program was developed in 1987. It honors distinguished contributors to marine transportation, bringing to the public their thoughts in the form of an annual lecture series.



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## WHERE THERE IS NO VISION...

Andrew E. Gibson

It is a distinct pleasure for me to be here today for the purpose of honoring the memory of Paul Hall. In fact, since today's brief lecture will be devoted to discussing the future of the American Merchant Marine, recalling my past association with him may well be the most pleasurable thing about it.

The highest accolade that Paul Hall could bestow on anyone, and the one that I'm sure he would have chosen for himself was, that he was a "professional." Paul had been a professional boxer in his younger days. He well knew it is not the amateurs who win fights and go on to become champions. His ability to build and lead his union, the SIU, as well as to promote programs to enhance the welfare of the maritime industry made him truly outstanding.

In my four years in government, as well as the years following (until his untimely death), I spent considerable time in his company and never ceased to be impressed. I have been with him in the company of our Ambassador in Geneva, several Cabinet officers, as well as the President of the United States, and in every case he departed himself not only with great self assurance but with real style. He was indeed, a true "professional."

A year ago, there was an outpouring of patriotic fervor exceeding anything seen in this country since the end of the Second World War. For the first time in almost fifty years the merchant mariners who had manned much of the vital sealift in Desert Shield marched grandly down Pennsylvania Avenue alongside the combat veterans. It was a proud moment, but fleeting. As Charlie Hiltzheimer remarked at the AOTOS award dinner late last year, "The war did create heightened awareness [of the merchant marine] which unfortunately may be forgotten very quickly." How right he was!

In the aftermath of Desert Shield/Desert Storm, there is a pronounced tendency to focus on the good things that happened and to minimize or even ignore those things that only worked partially or not at all. Desert Shield confirmed what every study of a regional conflict in Southwest Asia had concluded, that the United States had insufficient sealift to deliver the required weapons, supporting equipment, and ammunition in an acceptable timeframe.

The Marine's Maritime Prepositioned Ships (MPS), the merchant ships stationed in Diego Garcia loaded with Army and Air Force equipment and ammunition, the Fast Sealift Ships (FSS) and forty-three of the ships in the Ready Reserve Force manned by merchant seamen generally performed their assigned tasks well. As Vice Admiral Donovan, Commander, Military Sealift Command (MSC) remarked, "...it had gone well - better than expected." In addition, during this first phase, seventy-three ships were chartered, with more than half of them flying foreign flags.

During the first month, instead of having a heavy division and a significant part of its supporting equipment in place, there was only the Seventh Marine Brigade and the 82nd Airborne Division standing between a large, heavily armed Iraqi force and the Saudi Arabian oil fields. Much more emphasis might have

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been placed on the possible fate of those forces if the Iraqi Army had continued their southward invasion.

The rapidly declining American Merchant Marine was a major factor in the problem. While the Navy had spent well over seven billion dollars to increase sealift capacity during the 1980's, little or no support was provided to sustain a viable U.S. merchant fleet. The scarcity of trained seamen as the result of this decline, contributed to the problem of activating the laid-up ships in the RRF. Samuel Skinner, then Secretary of Transportation, noted during the activation period, "putting less than half of the emergency fleet [RRF] in service has nearly exhausted the nation's supply of merchant mariners."

Too often Desert Storm is being described as the "100 hour war." It was a seven month war requiring all of that time to position the forces and their equipment to insure ultimate victory. It took every bit of the time available to achieve the final result and there is no doubt that the sealift drove the timetable, as it usually does. If you think about it, the final offensive in both world wars was delayed until sufficient men and material could be transported overseas to defeat the enemy. Before the grand offensive started in February, the United States used virtually every available vessel in the world capable of moving heavy equipment, including more than one hundred foreign charters.

In testimony before the Senate Armed Services Committee, last year General Colin Powell said in response to a question from Senator McCain concerning Operation Desert Shield, "If there is one thing I would like to have had more of last Summer and early Fall, it would have been large capacity, roll-on/roll-off type ships." Continuing his testimony he urged the addition of large numbers of new C-17 transports to enhance the MAC fleet that had performed so well during the conflict. He might have added that following the initial surge with its requirement for vast amounts of heavy equipment, much of the supplies and material



required for sustainment and the build-up for the eventual invasion was transported by American ships, owned and normally operated in commercial trade by the U.S. liner companies. In fact, starting in October these ships eventually delivered over a million tons of essential military cargo. He went on to say that we should continue to seek opportunities for pre-positioning ammunition and equipment in distant parts of the world and although he didn't say so, much of this would inevitably be afloat. Nowhere can there be found in his remarks or in DOD planning documents, any support for a revitalized Merchant Marine.

The imminent demise of the American Merchant Marine is too important to be allowed to go unnoticed. It is an issue worthy of national debate. The whole question of the need or even the desirability of maintaining a national flag commercial fleet should be honestly and realistically addressed. When the question is raised in general terms it is almost always answered in the affirmative. Laudatory Maritime Day speeches from prominent members of the Administration and the Congress are a dime a dozen. It is only when the necessary legislative changes are proposed and meaningful programs are put forward that effective support is found wanting.

In the Fall there will be a Presidential election and it should be a time when the candidates for that office begin to state their positions on a variety of national issues. In the past the future of the American Merchant Marine was included. President Nixon laid out a detailed plan to revive U.S. maritime industries in a speech given in Seattle in the Fall of 1968. It is worth reading. The 1970 Merchant Marine Act was a direct result of that commitment which in turn resulted in the largest peacetime ship building program in U.S. history.

President Reagan made a similar, although not so detailed, commitment in 1980. His maritime program embraced not only the merchant marine but included a major expansion of

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the Navy. The \$100 billion naval building program that followed amply fulfilled that part of his pledge. However support for the merchant marine was virtually non-existent. President Reagan not only eliminated all subsidies for commercial shipbuilding, but by leaving in place the requirement for domestic building in order for the shipowner to qualify for government programs, he may have doomed the U.S. International fleet to eventual extinction.

The excuse offered for the failure to address the problem is, that lacking a clear consensus in the industry for the type of program to be developed, the Administration could not or would not do anything. One has to wonder how many government programs developed in the past 200 years, that directly affected a diverse interest group, ever had a similar requirement. For an industry in which both management and labor not only fight among themselves, but with each other, such a requirement makes fulfillment impossible and the imposed condition, a mockery.

President Bush came into office with no comparable commitment. He had stated his intention to establish "an executive branch maritime liaison" with the industry, other than the Secretary of Transportation. He intended the holder of that position to coordinate and advise him on commercial maritime issues. This position has never been filled. That may be the result of his considering, on reflection, that it would be more trouble than it was worth.

Recently, two of the premier U.S. liner shipping companies, American President Lines (APL) and Sea-Land, served notice on the government that they could no longer pay the price of flying our country's flag unless changes were made in our regulatory system and tax laws.

These companies and some others, have been trying in vain to have the future viability of the American Merchant Marine raised as a national issue. As John Lillie, the chairman

of APL said, "What we're trying to do is start a debate and get a decision." He added, "If we get to 1995 without the debate and these decisions, then time itself will make the decision."

The date is crucial for APL, for in 1997 their subsidy contract expires. The Administration has made it plain that they do not intend to renew APL's Operational Differential Subsidy Agreement. Obviously APL will not wait until the last minute to begin the necessary changes. Sea-Land does not receive ODS and probably won't wait that long. Lykes has already begun to charter foreign flag ships to service their trade routes as their over-age ships no longer qualify for subsidy.

When the 1936 Merchant Marine legislation was enacted, the American shipping companies unwisely allowed themselves to become characterized as the recipients of subsidies. They collected the subsidies for the shipbuilders, thus relieving the builders of that stigma and at the same time they became the government's agent to provide a supplemental payment to American seamen in order that they have a living wage. None of this money remained with the shipping companies, yet in the minds of the public and many in government, the shipowners are recipients of great largesse. Recently, a senior military officer wanted to know why the shipping companies attempted to make a profit on their carriage of military cargoes during Desert Shield since they already got so much money from the government! Unfortunately this is an opinion shared by many in the Department of Defense.

APL and Sea-Land have presented much of their appeal for support to DOD, pointing to what they consider the essential contribution made by the merchant marine to national defense. They can be proud of the role they played in Desert Storm and most in the military establishment appear to recognize their contribution. But, apart from providing a polite audience and maybe a little sympathy, I can find no evidence that DOD con-

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siders it to be their responsibility to come to the aid of this commercial industry.

There is an iron rule in international trade, that is to be successful, one has to be either very good or very cheap. Since Americans probably don't have the latter option, the American ship owner has to concentrate on providing excellent service at competitive rates. In the liner trades it is remarkable, given the obstacles that exist, that some American owners have done as well as they have. But to provide excellent service, the owner must have the best equipment and that means that the rapidly aging ships must be continually replaced by better ones. And, they must be replaced at prices comparable to the best that the competition can obtain. This leads to some important questions and these are the ones for which APL and Sealand are specifically trying to obtain answers.

Will the shipbuilders and their Congressional allies allow changes to existing law, permitting companies to acquire foreign built ships and still retain access to non-defense government cargoes? Will they allow these companies to still receive Operating Differential Subsidy for payment to their American crews? Will the same coalition allow the removal of the fifty percent *ad valorem* tax on foreign repairs in order that U.S. companies be placed on a par with their foreign competitors?

The wage differential for seamen sailing with the subsidized shipping companies, if compared to competent Korean, Taiwanese and Filipino crews is at least \$1.5 million per ship year. I used the word "competent" because many of these crew undoubtedly are. We should disabuse ourselves of the notion that just because they are foreign, they are automatically substandard. A foreign ship owner is no more willing than an American to entrust his \$50-100 million investment to incompetents.

So we must ask another question: Is there any way that companies like APL, Sea-Land and Lykes can absorb such a

differential and remain in business? A related question is, if the U.S. government doesn't think it is important to have a supply of continually trained American seamen available for emergencies (such as the recent war in the Gulf), why should the shipowner, even if he could afford to do so?

Let us consider an owner who wants to fly the U.S. flag on his ships and employ Americans to run them. Certainly some of the maritime unions in recent years have encouraged the non-subsidized operators to do so by making significant wage concessions. A major impediment to such an owner doing this is that under current U.S. law he is forced to employ far larger crews on his ships than do his competitors. In spite of attempts to obscure the question of crew size by raising safety issues, a recent study by the National Research Council finds no such linkage. Another question might be: How soon can U.S. laws related to crewing be amended so as to bring them into conformity with international standards? This is an effort that could be initiated immediately by the U.S. Coast Guard, under DOT direction. If the Administration is really concerned about the cost of subsidies, this is a good place to start. However, at least one of the labor unions has already indicated their opposition to any reduction. The question they should ask themselves is, who is going to pay for the extra manning? The American shipping companies are trying to tell them that they cannot, and the Administration has been saying that in the future, they will not.

Another question involves taxes. Under the 1986 Tax Reform Law, shipowners are no longer able to defer their tax burden. Until that law was passed, tax payments could be reserved to buy replacement tonnage in the future. This was only a partial recognition that many, if not most, of their foreign competitors pay no taxes at all. This new U.S. tax regulation in fact says that if by chance a U.S. owner does make a profit he will pay a significant tax penalty for choosing to fly his country's flag. One has to wonder, is there any real possibility that the Treasury

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Department and the committees in Congress having tax jurisdiction would allow significant change in the tax law in order to encourage continued vessel ownership by Americans?

President Bush reminded us in his Aspen speech given in August 1990, that in the future we will probably face different challenges than those for which we had been preparing. The President said:

"...in many of the conflicts we could face, we may not have the luxury of matching manpower with prepositioning material. We'll have to have air and sealift capacities to get our forces where they are needed, when they are needed."

In the new world order, if these issues are not faced and solutions found to the present problems, it is almost certain that there will not be an American Merchant Marine available to meet those future emergencies that the President foresaw.

There undoubtedly will be a greatly enlarged Ready Reserve Force and possibly a program can be developed to provide reserve manpower to activate the more modern, diesel powered portion of this fleet. However, there is little question that this will be more expensive than removing the myriad restrictions that unnecessarily add to today's costs as well as providing some form of wage differential for American crews to insure their ready availability in the future. Unfortunately, the more expensive option seems to be the one that DOD finds most attractive.

One last observation should be made and this leads to a final question. There is a growing realization among many of those who attempt to frame future defense strategies, that the United States has entered a phase where attrition warfare is neither probable nor of major concern. It is believed no credible war scenario envisions a prolonged non-nuclear war that involves major ship losses. As a result, some people are beginning to

question procurement policies that continually support defense industries based on the claim that this type of surge capacity is essential in a future global conflict.

It may be too much to hope that the debate on an issue involving millions of dollars and thousands of jobs can be carried out in a way that keeps the national interest uppermost. Politicians inevitably have been successful in side-stepping this kind of decision. This does not indicate a lack of integrity or even political courage on their part. It is more the result of the intense pulling and tugging of opposing political forces to which they are continually subjected. Often it arises from real differences in how best to resolve the problem. The result has been described as "political gridlock."

Until the Department of Defense is willing to clearly define the amount of shipbuilding capacity required to construct future U.S. naval vessels, the proponents of a shipbuilding mobilization base sufficient to sustain the merchant fleet in a sea war of attrition, may well prevail. The result will be, not any new ships, but the throttling of any serious consideration of removing or amending legislation that is a major cause of denying the American shipowner the ability to compete in the international market place.

Earlier, I indicated that President Nixon was the last President to present and carry out a meaningful maritime program. I recall Paul Hall telling him that he hadn't voted for him in the first election because he didn't believe that he would carry out the commitment made during the election campaign. But, since he had, he could be assured of his full support in the future. As the Nixon Administration went down, Paul continued his support to the last.

I believe President Nixon, despite the self-inflicted tragedy that befell him, may have demonstrated what has since been called "the vision-thing" to a greater extent than any who

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have followed. He constantly referred to the goal of America being Number One and this included its Merchant Marine. He said he knew we couldn't be Number One in everything, but we must try to be. If we once began to settle for being second best, then inevitably we would lose much that has made this country great.

For more than 200 years, the American Merchant Marine has played an important role in sustaining and supporting this country's greatness. While this role is changing, it certainly has not ceased. APL and Sea-Land have challenged the Administration to demonstrate the political will to bring about the necessary changes to allow them to continue flying the American flag and remain competitive. This may be the last opportunity, for as the Chairman of APL has said, a lack of decisive action is in itself a clear decision no matter how unwelcome.

For those who may be unfamiliar with the title of this address, let me complete the quotation for you. It is from the book of Proverbs and says, "Where there is no vision, the people perish."



## **ANDREW E. GIBSON**

Professor Gibson holds the Emory S. Land Chair of Maritime Affairs at the U.S. Naval War College. He was formerly President of Delta Steamship Lines, and for many years was a senior executive of the Grace Lines. He was Assistant Secretary of Commerce for Maritime Affairs from 1969-1972 and in that capacity developed the Administration's maritime program as well as the enabling legislation that became the Merchant Marine Act of 1970.