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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D C 20548

GENERAL GOVERNMENT
DIVISION

AUG 22 1972

Dear Mr. Blackwell

We have completed a review of selected aspects of the Maritime Administration's Operating Differential Subsidy (ODS) program. The review, which was conducted at Maritime headquarters in Washington, D.C., and Maritime's three regional offices located in New Orleans, Louisiana, San Francisco, California, and New York, New York, was concerned primarily with the determination of subsidy rates, the authorized manning levels of subsidized vessels, and Maritime's procedures for controlling the vessel operators subsidized costs. Our review did not include an evaluation of the effectiveness of the overall ODS program.

We reviewed the extension of 1965 subsidy rates to 1966, 1967, and 1968 to determine whether the extension of these rates was in the best interest of the government. Although data necessary to make a conclusive determination was not available, we found no indication that the extension of these rates was not in the best interest of the government.

During our review we noted that the Maritime-authorized manning levels of some vessels were not consistent with the manning levels of similar vessels operated by both subsidized and non-subsidized operators on the east, west, and gulf coasts. We also noted that since 1964 there has been a significant increase in subsidy payments for overtime paid to crew members. These areas are discussed further in the following paragraphs.

NEED FOR REVIEW OF MANNING
LEVELS OF CERTAIN VESSELS

We believe that the Maritime Administration should review the authorized manning level of the mariner-type vessels being operated in subsidized service by three west coast operators.

We reviewed the manning levels of all vessels in subsidized service as of January 1, 1971, and found that the Maritime Subsidy Board (MSB) in several separate actions has, effective June 16, 1972, reduced the subsidizable manning level for 51 of the 215 vessels in subsidized service as of January 1, 1971. The June 16, 1972, date was chosen because the then current collective bargaining agreements between the vessel operators and the unions expired on June 15, 1972.

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Prior to January 1, 1962, Maritime accepted for subsidy purposes the manning levels negotiated by the operators and the unions. For ships entering subsidized service thereafter, however, Maritime began reviewing the manning levels to determine whether the manning levels were fair and reasonable.

The 51 ships for which the MSB reduced the subsidizable manning levels effective June 16, 1972, had all entered subsidized service between January 1, 1962, and January 1, 1971. Thirty-three of these vessels were operated by west coast operators and 18 by east coast operators. In addition to the 33 vessels on which the MSB reduced the manning effective June 16, 1972, west coast operators were operating 23 other cargo vessels in subsidized service as of January 1, 1971. We found that the manning levels on these remaining 23 cargo vessels operated by the west coast operators were high compared to the manning levels of what Maritime has considered comparable vessels being operated in either subsidized or unsubsidized service on the west, gulf, and east coasts. We found no indications that the manning levels of the 51 cargo vessels on which the MSB specifically established fair and reasonable manning levels or those cargo vessels in subsidized service prior to January 1962 that were operated by gulf and east coast operators were not consistent with the manning levels of comparable vessels.

Of the 23 cargo vessels owned by west coast operators and in subsidized service prior to January 1962, two (C3-S-A2 design Sonoma and Ventura owned by Pacific Far East Lines) have been removed from subsidized service since January 1, 1971, because of their age and four (C3-S-A4 design President Harding, President Pierce, President Madison, and President Hoover) which were built in 1945 and 1946 are not expected to remain in subsidized service much longer. The remaining 17 vessels, however, are of the so-called standard and modified mariner type and were built during the period 1952 - 1955. These vessels and their subsidizable manning are

| <u>DESIGN</u> | <u>NAME</u> | <u>BUILT</u> | SUBSIDIZABLE | | <u>OPERATOR</u> |
|---------------|------------------------------|--------------|----------------|---------|-----------------|
| | | | <u>MANNING</u> | <u></u> | |
| C4-S-1a | California Bear | 1954 | 57 | | PFEL |
| | Oregon Bear | 1952 | 57 | | PFEL |
| | Hong Kong Bear ^a | 1952 | 57 | | PFEL |
| | Washington Bear ^a | 1952 | 57 | | PFEL |
| | Arizona | 1953 | 57 | | States |
| | Illinois | 1953 | 57 | | States |

^aThese vessels have since been chartered to Waterman Steamship Corporation which will operate the vessels in subsidized service on trade route 22 with a Maritime-approved manning of 45.

| <u>DESIGN</u> | <u>NAME</u> | <u>BUILT</u> | <u>SUBSIDIZABLE MANNING</u> | <u>OPERATOR</u> |
|---------------|---------------------------------|--------------|---------------------------------|-----------------|
| C4-S-1f | Samoa Bear (Ex-Golden Bear) | 1955 | 58 | PFEL |
| | America Bear (Ex-Japan Bear) | 1955 | 58 | PFEL |
| | Korea Bear | 1955 | 58 | PFEL |
| C4-S-1h | President Adams | 1953 | 58 | APL |
| | President Coolidge | 1954 | 58 | APL |
| | President Hayes | 1952 | 58 | APL |
| | President Jackson | 1953 | 58 | APL |
| C4-S-1p | President Arthur | 1952 | 58 | APL |
| | President Buchanan | 1953 | 58 | APL |
| | President Garfield | 1953 | 58 | APL |
| | President Taylor | 1954 | 58 | APL |

The difference in the manning of the C4-S-1a design and the C4-S-1f, C4-S-1h, and C4-S-1p designs is in the steward department. The C4-S-1a design is authorized by union contract and, tacitly, by Maritime an additional messman/utilityman but does not carry a night cook and baker or a 3rd pantryman as do the C4-S-1f, C4-S-1h, and C4-S-1p design vessels.

The MSB on February 5, 1970, found and determined that for all voyages commencing on or after June 16, 1972, the fair and reasonable manning of the 15 new C4 design vessels placed in subsidized service between 1961 and 1965 by the four west coast operators would be limited to 52. A crew complement of not to exceed 58 was allowed until that date.

The MSB, in discussing the appropriate manning of the new C-4s, stated in Docket No. A-32 regarding the similarity of the new C-4s and the earlier Mariner type that

"In reviewing the manning scales of the new conventional C4's, the Board took cognizance of the developments in the manning of these ships' predecessors. The first C4's, often referred to as Mariners, were built during the Korean War when it was found that additional ships were needed to support the war effort. The Maritime Administration, under Public Law 81-911, developed and built the Mariner C4's. By the time most of the vessels were completed, however, the war was over and the vessels were left without employment. The Maritime Administration then had the choice of either placing the new ships in mothballs or releasing them to private operators for their own use. The

vessels were ultimately purchased by both West and East Coast operators at comparatively low cost. As each operator placed its vessels into service, it negotiated the manning. The West Coast operators negotiated crews of 57/58 men and the only East Coast operator to purchase the Mariner class, established a crew of 55 men."

* * * * *

"The new C4 vessels, subject of this opinion, were placed into subsidized service in the early 1960's at the same time as other similar new vessels operated by East Coast companies. The results of negotiation on the West Coast were that the Operators settled for crews of 58 men on their new vessels. The Operators have proffered the argument in their petitions that the manning scales of the new C4's comport with those of the similarly designed Mariners and that there was no basis to negotiate something lower."

* * * * *

"The principal physical characteristics of the ships here under consideration bear a marked similarity to each other as well as to the earlier Mariners."

The west coast operators in appealing the actions of the MSB all agreed that the mariner-type vessels built in the 1950's were similar to the new conventional C4 vessels.

Since the completion of our review, Pacific Far East Lines has chartered two of the C4-S-1a vessels to Waterman Steamship Corporation to be operated in subsidized service on trade route 22. The MSB has approved a manning level of 45 for these vessels compared to a manning level of 57 when they were operated by Pacific Far East Lines.

We estimate that, assuming the MSB found a crew complement of 45 to be fair and reasonable, the subsidy for wages on the remaining 15 mariners would be reduced by at least \$3 1 million annually. If the MSB found a crew complement of 52 to be fair and reasonable, we estimate that the subsidy for wages would be reduced by at least \$1 4 million. Based on a 25-year life, the economic life of these vessels will expire between 1977 and 1980.

Recommendation

We recommend that Maritime review the manning levels of the 15 mariners owned and operated by Pacific Far East Lines, States Steamship Company, and American President Lines to determine whether the subsidized manning levels are fair and reasonable in view of the actions of the MSB on comparable C-4 type vessels and in approving the crew complements of the mariners chartered to Waterman Steamship Corporation.

| <u>Operator</u> | Trade route ^a | Percent of Overtime to Base Wages | |
|--------------------|-----------------------------|--------------------------------------|-----------------------------|
| | | 1964 ^b | Jan.-June 1970 ^c |
| Lykes | 13 | 42.2 | 59.3 |
| | 15-B | 43.7 | 58.3 |
| | 19 | 53.3 | 67.8 |
| | 21-B2 | 46.6 | 59.8 |
| | 22 | 38.7 | 52.4 |
| APL | 17 | 49.6 | 55.9 |
| | 29 | 51.1 | 50.8 |
| AML | 29 | <u>47.7</u> | <u>46.1</u> |
| Unweighted Average | | <u>47.9</u> | <u>61.7</u> |

As the above schedule shows, the percentage of overtime for five of the six operators and 15 of the 17 trade routes increased significantly between 1964 and 1970. The percentage of overtime to base wages for the six operators increased from an unweighted average of 47.9 percent to an unweighted average of 61.7 percent.

A Maritime-prepared analysis of overtime on all subsidized cargo vessels for the period January - June 1970 by vessel types showed that the percentage of overtime to base wages ranged from a low of 51.7 percent for old C4-type vessels to a high of 72.2 percent for new automated C3-type vessels.

Much of the overtime is "built-in" because of the requirement that crews work on Saturdays, Sundays, and holidays. The union agreements require that overtime rates be paid for all such work. For example, the previously mentioned Maritime analysis showed that the built-in overtime ranged from 26 to 46 percent of total overtime for the various vessel types during the period January - June 1970.

Other significant causes of overtime include all work over 8 hours a day and penalty pay, which is considered overtime. The rate for penalty pay, however, is generally less than the overtime rate. Penalty pay is generally paid for unpleasant tasks. It also can be paid even though no work is performed such as being restricted to the vessel when in port or when linen is not changed in accordance with the designated schedule.

For some types of tasks, overtime and penalty are both paid. For example, penalty pay is required for a man standing watch at sea on Saturdays, Sundays, and holidays when he is required to perform work other than for the safe navigation of the vessel. Overtime or penalty pay may also be paid during regular working hours such as for chipping and painting or cleaning bilges.

NEED FOR DETERMINATION OF FAIR
AND REASONABLE OVERTIME

Maritime procedures provide that overtime payments will be subsidized provided the overtime has been authorized and approved by company officials. Because of the significant increase in the percentage of overtime to base wages paid since 1964, we believe that the Maritime Administration should review the purposes and need for the overtime to determine whether it is fair and reasonable and should thus be subsidized. We estimate that Maritime paid over \$38 million subsidy for overtime paid to vessel crew members on cargo vessels in fiscal year 1972.

To determine the extent of overtime on subsidized cargo vessels, we selected at random two operators from each of the east, west, and gulf coasts and found that overtime in 1964 and the first six months of 1970, the most recent period for which complete information was available, was as follows

| <u>Operator</u> | <u>Trade route^a</u> | Percent of Overtime to Base Wages | |
|-----------------|--------------------------------|--------------------------------------|-----------------------------------|
| | | <u>1964^b</u> | <u>Jan.-June 1970^c</u> |
| AEIL | 5-7-8-9 | 50.3 | 65.3 |
| | 10 | 48.4 | 66.2 |
| | 18 | 48.4 | 60.4 |
| | 34 | 57.2 | 66.9 |
| Moore-McCormack | 1 | 44.7 | 58.4 |
| | 6 | 46.7 | 68.7 |
| | 15-A | 45.9 | 57.0 |
| Delta | 14 | 49.4 | 75.8 |
| | 20 | 50.0 | 80.4 |

(continued)

^aAll trade routes operated by these companies in both 1964 and 1970.

^bRepresents percentage of overtime to base wages used in determining subsidy rate for 1965 and thus is the overtime for predominant vessels only.

^cRepresents percentage of overtime for all subsidized vessels on the trade route.

Recommendation

Because of the significant increase in the percentage of overtime to base wages, we recommend that Maritime review the purposes of and amounts of overtime payments to determine the extent to which such overtime is fair and reasonable.

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We wish to acknowledge the courtesies and cooperation extended to our representatives during the review. We would appreciate your comments and advice as to any action planned or taken on the matters discussed in this letter.

Copies of this letter are being sent to the Acting Assistant Secretary for Administration, and the Director, Office of Audits, Department of Commerce, for their information.

Sincerely yours,

Donald C. Pullen
Donald C. Pullen
Assistant Director

The Honorable Robert J. Blackwell
Assistant Secretary for Maritime Affairs
Department of Commerce