

New York May 24, 1977

FLEET REPLACEMENT PROGRAM
PHASE II -- TR 12-22
(Atlantic/Gulf/Far East)

John T. ...

1. As we approached the final deadline date of May 17, 1977 for ordering the 3 new Lash vessels from Avondale Shipyards, New Orleans, we were confronted with a number of problems.

(a) On March 7, 1977, Sea-Land Service filed a complaint against the Maritime Subsidy Board (MSB) in the District Court in Washington, D. C. seeking to set aside the award of our long-term Operating Differential Subsidy (ods) contract on TR 12-22.

(b) On April 22, 1977 Avondale Shipyards wrote a letter to us with a copy to Marad stating that in their opinion there is a design deficiency in the Lash vessel.

(c) On May 4, 1977 the Maritime Administration (Marad) staff estimated the foreign cost of the Lash vessel would be \$38,000,000., whereas our technical advisors, Messrs. J. J. Henry and Company had estimated the foreign cost to be \$31,000,000. This had the effect of increasing the estimated escalated cost of the new Lash vessel after allowance for engineering services and interest during construction to about \$41,000,000. compared to our projected \$29,000,000., 10 per cent more or less. This automatically increased the equity investment requirement to \$12,000,000. instead of \$9,000,000. and put the project in a gray area

as far as economic feasibility is concerned, reduced the estimated after-tax percentage of return on required equity from 9% to 3.35% and thus did not permit the expectation of a reasonable profit on the equity investment.

(d) Assistant Secretary of Commerce for Maritime Affairs Robert Blackwell took an adamant position that regardless of the problems, we would have to sign a construction contract for 3 new Lash vessels prior to midnight, May 17, 1977, or our ods contract covering TR 12-22 would be terminated at that time.

2. When Sea-Land filed its lawsuit against MSB, we requested a deferment of the date for ordering the new vessels because until the court case has been decided in favor of MSB the lawsuit clouds the question of whether the ships can on delivery from the shipyard enter upon subsidized operations and our financing arrangements are predicated on subsidized operation. Both our Washington attorneys, Messrs. Graham and James and our corporate attorneys, Messrs. White and Case are of the opinion that economic feasibility cannot be properly found while the lawsuit is pending, and that we have good grounds to recover in the Court of Claims any monetary losses we suffer due to termination of the ods contract without the deferment we requested.

3. On May 4, 1977, we met with Secretary Blackwell, the other members of MSB and the Marad senior technical staff representatives regarding Marad's foreign cost estimate. However, we did not succeed in our efforts to convince them that they should agree to the lower foreign cost figures submitted

on our behalf by J. J. Henry, nor would they agree to an alternative that would keep our cost in the range of our projected figure of \$29,000,000., 10 per cent more or less, such as to allow CDS on the lighters to make up for the short fall in CDS on the vessels.

4. After receiving Avondale's letter, we wrote Marad requesting a deferment of 90 days in placing the order for new vessels so that we could arrange for a qualified outside disinterested firm of naval architects to review the plans of the Lash vessel and advise us regarding the alleged "design deficiency", as we felt we could not order another Lash vessel in the face of such a statement from Avondale without obtaining further expert guidance. Secretary Blackwell would not agree to this, stating he would arrange for Avondale to withdraw their letter and write us a letter satisfactory to us, correcting their position to re-establish the previous position of all concerned regarding legal liability due to this question having been raised. This, however, as we pointed out, did not relieve us of the necessity to clear up the question before committing ourselves to ordering additional vessels. We have retained the services of J. J. Henry to make the design review without delay, which will probably take about 60 days to complete. It developed, incidentally, that Marad were unable to get Avondale to write the promised letter.

5. Secretary Blackwell made it quite clear that our cordial relationship with Marad would be over if we "let him down" by not ordering 3 new Lash vessels after he had reversed the adverse initial decision of the Administrative Law Judge after our public hearing under Section 605(c)

of the Merchant Marine Act and had approved continued payment of ods on our 8 Mariner vessels on TR 12-22 for the intervening period.

In an effort to meet Secretary Blackwell's wishes, we proposed the following solution to the problems at a meeting with him and the other members of MSB at 2:30 PM on May 17, 1977.

(a) We would order 3 new Lash vessels provided the question of design deficiency could be resolved satisfactorily after review of the plans, to be assigned at Waterman's option either to TR 18 or TR 12-22.

(b) Upon Marad receiving a court decision in its favor on the Sea-Land court complaint, or at a suitable time to be agreed upon prior to delivery of the first vessel if the final court decision had not yet been received, Waterman to again review with Marad the economic feasibility and prospects of earning a reasonable profit on the vessels on TR 12-22 and decide at that time whether the vessels should be assigned to subsidized operation on TR 12-22 or to subsidized operation on TR 18 in fulfillment of our replacement obligations under our TR 18 ods contract.

(c) Release of escrow fund of \$6,300,000. established at time of leasing of 2 Lash vessels in 1974 and deposit of similar amount in capital construction fund to help to provide the increased equity due

to the high cost of the new vessels; deletion of restriction against dividends in our TR 18 ods contract and Marad's agreement that Waterman may pay dividends along the way up to 40% of each previous year's earnings.

We could not reach agreement on these conditions which we felt were reasonable and necessary to protect our position. We have since been notified that Marad consider our ods contract on TR 12-22 to have automatically terminated at midnight May 17, 1977.

6. We are now committed to order 1 modern vessel by November 1977 for TR 18 and 1 Lash vessel for TR 18 in 1984. We are now obtaining shipyard prices for 1 or 2 ro-ro or Lash vessels so that we will be in position to review these commitments prior to November 1977. The substantial earnings on TR 18 indicate no question about economic feasibility at today's high prices.

7. We still have pending with MSB an application for long-term ods contracts on TR 5 7 8⁴ 9 6 11 21 (Gulf/Atlantic/Europe). We received a favorable initial decision from the Administrative Law Judge after the public hearing, and if we receive a favorable final decision from the MSB, it would involve ordering 2 ro-ro vessels. A final decision on this application is anticipated during the second half of this year, when we would have to review the economic feasibility of ordering new vessels for these trade routes at today's high prices. Relatively more favorable tariff

rates for a shorter voyage indicate that economic feasibility is more likely on the European routes than on the Far East routes (TR 12-22).

WATERMAN STEAMSHIP CORPORATION

120 WALL STREET
NEW YORK, N. Y. 10005

CORNELIUS S. WALSH
CHAIRMAN

John T. ...

May 24, 1977

Dear Russ:

Fleet Replacement Program
Phase II -- TR 12-22
(Atlantic/Gulf/Far East)

A preliminary estimate in round numbers of the adverse monetary impact on us of terminating ods contract on TR 12-22 on May 17, 1977 is as follows:

(a) Loss of ods on voyages in progress on May 17, 1977	\$2,166,000.
(b) Idle status expense between 5/17/77 and, say, 8/15/77 while negotiating sale for use, turn-in, or sale for scrapping	\$1,639,000.
(c) Book loss at scrapping value basis today's market of about \$100 per lightweight ton in Taiwan	<u>\$ 241,000.</u>
TOTAL	\$4,046,000.

This is what I would regard as the "worst picture" as possible sale of the Mariner vessels for U. S. flag operation, or for foreign flag operation with transfer of flag or turn in against orders for new vessels for our other trade routes later this year would reduce these losses.

MAY 24 1977

We are now revising our projections for the second quarter and the second half of 1977 and expect to be in position to review the figures in detail with you within the next few weeks.

With kindest regards,

Sincerely yours,

Neil

Mr. G. Russell Moir
Chairman of the Board
Transway International Corporation
747 Third Avenue
New York, New York 10017

THEY MOVE IT...THEY SAVE IT

It is widely recognized that the railroads will play an important role as *movers* in any successful carrying out of the President's policy. What may be less widely known, at least in White House circles, is the role the railroads can, do, and will play as *conservers* of energy.

"Transportation consumes 26% of our energy, and as much as half of that is waste," the President stated, and he went on to propose a program that would impose stiff penalties on the owners of automobiles that are on a heavy gas habit.

He did not, however, mention the fact that some of the commercial transportation modes also have the habit in a bad way. It was an omission that Southern Railway President L. Stanley Crane took care of a few days later during a meeting with financial analysts and reporters in New York.

Crane displayed a chart, based on the findings of independent studies, showing the fuel efficiency, energy consumption, and intercity ton-mile share of four major freight-carrying modes. These were the figures:

	Railroads	Waterways	Trucks	Air Cargo
Btu's per freight ton-mile	670	680	2,800	42,000
Relative share of 1975 freight transportation energy used by selected U.S. transportation modes*	24.1%	11%	58.7%	6.2%
Relative share of 1975 U.S. intercity freight ton-miles*	49.1%	22.1%	28.6%	0.2%

* excluding pipelines

The next time President Carter and President Crane get together, we hope the subject comes up.

*John
L. Stanley
Crane*