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Collection Name DRIGGS, MICHAEL: FILES

Withdrawer

DLB 11/25/2022

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SHIPPING ISSUES

FOIA

S17-8440

Box Number

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ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
248792	MEMO	MICHAEL DRIGGS TO JOHN SVAHN, RE: THE U.SICELAND SHIPPING ISSUE	2	6/17/1985	B1
248793	LETTER	CAP WEINBERGER TO ELIZABETH DOLE, WITH 1 P. ANNEX	3	6/6/1985	B1
248794	PAPER	DOD LANGUAGE FOR LEGISLATIVE PROPOSAL	1	ND	B1

Freedom of Information Act - [5 U.S.C. 552(b)]

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Congress of the United States

Washington, D.C. 20515

April 3, 1985

Honorable Harold E. Shear Administrator Maritime Administration Department of Transportation Washington, D.C. 20590

Dear Admiral:

We are writing to express our concern about allegations that the Maritime Administration and the Departments of State and Defense have acquiesced to pressures from the Government of Iceland concerning the carriage of U.S. military shipments to our base in Keflavik, Iceland.

Officials of the Rainbow Navigation Company and of the International Organization of Masters, Mates, and Pilots claim the Icelandic government has complained to the State Department that Rainbow's operations are adversely affecting Icelandic carriers and is threatening retaliatory action against our installation. Also, it has been alleged that the Maritime Administration may be directed to terminate the charter under which Rainbow obtained its vessel from the Reserve Fleet.

These allegations are clearly of a most serious nature and, if true, would indicate that the Executive Branch is acting contrary to the commercial interests of a United States company and violating the clear spirit of the 1904 Cargo Preference Act. These allegations are based on statements made to Rainbow by Icelandic officials and representatives of Icelandic carriers. They may be calculated to force Rainbow to voluntarily reduce or eliminate its service.

While you cannot control the actions of foreign officials and businessmen, it would seem appropriate that Rainbow be assured that its fears of U.S. Government agency involvement are unjustified. If Rainbow's accusations are in any way substantiated, we want to be certain we are dealing with the complete facts in deciding an appropriate next course of action. To follow-up on Committee staff discussions with you and other MARAD officials, we are seeking your explanation and clarification of the Maritime Administration's role in this situation.

COPY 1/0//00/115 220/800 The Honorable Harold E. Shear April 3, 1985 Page Two

We in Congress recognize your strong commitment to the U.S. merchant marine and vigilance in insuring conformance with the cargo preference laws. Be assured we are ready to assist you in any way possible. Your prompt attention to this inquiry will be greatly appreciated.

	Sincerely,
Walter B. Jones	Haus Leagy! Vario Biaggi
Norman F. Lent	Gene Snyder
Robert W. Davis	James J. Howard
Barbara A. Mikulski	Robert A. Borski
Barbara Boxer	Steny H Hoyer
fack Fields	

The Honorable Harold E. Shear April 3, 1985 Page Three

Thomas J. Manton	
Robin Tallon	
Helen Delich Bentley	
Douglas H. Bosco	
Robert G. Torricelli	
Roy Dypon	,
W.J. (Billy) Tauzin	

MARITIME CORRESPONDENCE CONTROL SHEET

Date Corres. 840324 Control No. 850408003

From: Rep. W.B. Jones & others

Date Recd. 850408 Suspense Date

850412

Subject: Carr. of Mil. Ship. to Iceland

ACTION REQUIRED: Approp Action

To Date

1. 230 850409

2. 3. 4. 5.

Information Distribution/cc: 110/100/115/220

Action Taken:

Action Necessary:

Date Acknowledged:

By

Date Answered:

By

Other: Coordinate response with MAR-220 per MAR-100

Please advise MAR-311.2 (472-3173) of action taken and return control sheet.

Honorable Walter S. Jones Chairman House Merchant Marine and Fisheries Committee House of Representatives Washington, D.C. 20515

Dear Mr. Chairman:

Thank you for your recent letter regarding the carriage of military shipments to Iceland. I appreciate your interest in this matter.

Last year the Government of Iceland expressed concern to the United States over the consequences for Icelandic steamship companies of the inauguration of U.S.-flag service between the U.S. and Iceland by Rainbow Mavigation. For approximately 15 years prior to Rainbow's entry into the U.S.-Iceland trade, service on the route had been provided exclusively by Icelandic lines. Pursuant to the Cargo Preference Act of 1904, the Department of Defense has utilized Rainbow in transporting military cargo for the NATO base at Keflavik since May 1984, to the extent the Rainbow vessel has been available. This has sharply reduced the transportation of military cargo on Icelandic shipping lines and created substantial economic hardship for the affected Icelandic carriers.

The United States is working with Iceland to resolve this issue in a manner which addresses the Icelanders' concerns. We have been in regular contact with the Government of Iceland on this issue. We are fully mindful of the security importance to the United States and Iceland of the military facilities on Icelandic soil. At the same time, resolution of the issue must clearly be consistent with the Cargo Preference Act of 1904 and other U.S. laws. In response to your question concerning the charter party between Rainbow Navigation and the Maritime Administration which provides for the operation of the M/V Rainbow Hope, this agency has not been requested or directed to terminate the charter and we have no plan to do so.

We are working toward a solution which will be acceptable to all parties. I will be pleased to keep you informed of our progress.

Sincerely,

Sgd. H. E. Snear

Control No. 850408003

230-JATre1che1:abh:4/18/85:426-5772 H.E. SHEAR

cc: 100 110/115 ,220 230

Maritime Administrator

Identical ltrs to attached list of addressees

List of addressess receiving identical ltr to Cong. Jones re military shipments to Iceland--Control No. 850408003

Honorable Norman F. Lent House of Representatives Washington, S.C. 20618

Monorable Robert W. Davis Mouse of Representatives Mashington, D.C. 20815

Monorable Marbers A. Mikelski Mouse of Representatives Mashington, D.C. 20515

Honorable Barbare Boxer House of Representatives Mashington, D.C. 20515

Honorable Jack Fields House of Representatives Washington, B.C. 20515

Honorable Marie Biaggi House of Representatives Mashington, D.C. 20818

Honorable Gene Sayder House of Representatives Washington, D.C. 20515

Monorable James J. Moward House of Representatives Washington, D.C. 20018

Honorable Hobert A. Burski House of Representatives Washington, D.C. 20515

Monorable Steay H. Hoyer House of Representatives Washington, D.C. 20615

Honorable Thomas J. Manten House of Representatives Washington, D.C. 20515

Honorable Robert M. Tallon House of Representatives Washington, D.C. 20518

1

Honorable Helan Delick Bentley House of Representatives Washington, D.C. 20515

Honorable Douglas H. Bosco House of Representatives Washington, D.C. 20816

Honorable Robert S. Torricelli House of Representatives Washington, O.C. 20616

Honorable Roy P. Dyson House of Representatives Washington, D.C. 20515

Honorable W.J. Tauzin House of Representatives Hashington, D.C. 20515

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MEMORANDUM

SUBJECT: U.S.-Iceland Shipping Problem

Since May of 1984 in accordance with the Cargo Preference Act of 1904 (10 U.S.C. 2631) the U.S.-flag vessel, Rainbow Hope, has been carrying substantial amounts of cargo between the United States and the defense facilities on Iceland, cargo which had previously been exclusively carried by third-flag and Icelandic-flag vessels operated by Icelandic steamship companies. Commercial cargo and U.S. Government cargo moving under Public Law 664 (46 App. U.S.C. 1241(b)), however, continues to move almost entirely on vessels operated by Icelandic shipping lines.

The carriage by the <u>Rainbow Hope</u> of cargo which the Icelandic shipping lines had previously relied upon caused understandable concern on the Icelandic side. While a solution to the problem should not ignore the gain in security of supply made with the entry of Rainbow, it should also deal with the Icelanders' concerns in an equitable and mutually satisfactory manner, based on our partnership in NATO and our national interest in the Iceland defense facilities.

We have been forced to base our efforts at resolving this problem on the demands of the Icelandic Government, rather than on a negotiated solution. This is apparently because the Icelanders are prepared to restrict the use of the defense facilities on their soil unless the United States produces a solution which is <u>fully</u> satisfactory to them. Yet if the Icelandic Government is allowed to hold the base hostage to its wishes, then it is difficult to perceive what incentive it would have to accept any but the most one-sided solution.

It is important to understand the immediate effect as well as the broader implications of the Defense Department's proposed legislative solution in order to assess its likely reception by the shipping and defense communities and by the Congress. By authorizing the Defense Department to ship military cargo on vessels of any flag, the proposal would allow not only the use of foreign-flag vessels in the military trade; it would also encourage Rainbow or another U.S.-flag carrier to employ foreign-flag tonnage in order to underbid the Icelandic carriers' chartered ships for the carriage of the military cargo. The proposed legislation would thus achieve a distortion of the intent of the 1904 Act without necessarily satisfying the Icelandic carriers.

Moreover, while the legislative proposal is intended to apply only to Iceland, it would, when made public, encourage other base-hosting countries, in NATO, the Pacific and elsewhere, to seek similar treatment

of U.S.-military cargo moving in their territory. The U.S. in response would no doubt argue that Iceland represented a "special case" which required special treatment. However, when it becomes clear to others of our allies that we were essentially coerced by Iceland into changing our law, then the example will not be lost on them. We may then be compelled to replay the Icelandic dispute with other countries where the stakes in terms of defense implications and U.S.-flag carrier interest are even more pronounced than those involving Iceland. Justifying such a state of affairs to the Congress would be a very difficult task.

Other factors exist which call into question the wisdom of a legislative solution. While the Icelandic Government has made much of its need for a merchant marine for security reasons, its shipping policy is commercially oriented and its fleet heavily dependent upon chartered foreign vessels. In 1983, before Rainbow commenced operations, third-flag ships earned 61% of total freight revenue in the bilateral military trade, while ships flying Iceland's flag earned only 39%. Even last year, Icelandic-flag vessels earned only half as much (17%) as third-flag vessels (35%). Moreover, while it may be difficult enough to find an explanation as to why Iceland's concern for its security does not extend to the importation of petroleum products, which are exclusively carried by foreign-flag ships, it might be even more difficult to explain to the Congress why a significant share of these petroleum imports (55%) last year was reportedly carried by Soviet vessels. Furthermore, Icelandic-owned carriers, while reduced to carriage of about one-third of the military cargo, carry all of the PL 664 cargo and virtually all of the bilateral commercial cargo and, in addition, cross-trade actively between the United States and Europe. This commercial reality hardly argues that Icelandic vessel operators are being treated unfairly in the U.S.-Iceland bilateral trade.

It is clear that the DOD proposal will meet with strong opposition from the maritime industry and those in the Congress who are concerned with maritime matters. A sample of Congressional reaction already exists in the April 3 letter to several Departments from eighteen Members of Congress. (Copy Attached) In considering the DOD draft legislation, the Congress will find the following factors particularly alarming:

- -- that the proposal contemplates changing U.S. law solely to benefit foreign commercial interests;
- -- that it would not have been made but for Icelandic threats against base operations;
- -- that it explicitly contemplates foreign-flag carriage of military cargo and encourages U.S. carriers to employ foreign-flag vessels, both to the detriment of the U.S. merchant marine;
 - -- that it will prompt similar demands from other U.S. allies.

For the reasons detailed above, a legislative solution is bound to fail and may indeed be counterproductive. Any attempt to limit the scope of the

Cargo Preference Act of 1904, either directly or indirectly, would conflict with clearly stated Administration policy neither to expand nor contract our cargo preference laws.

One possible means of resolving this issue which should be more fully explored involves the simple compensation of Icelandic shipping interests for the losses which they sustain as a result of Rainbow's operations in the military trade, coupled with an Icelandic commitment ensuring the availability of standby shipping capacity necessary to carry future U.S. military cargo. Such a proposal might form the basis for a solution of the shipping problem.

Attachment:

Ltr from Secretary of State to Secretary
of Transportation
Ltr from Secretary of Defense to Secretary
of Transportation
Ltr from Rep. Walter Jones to Maritime Administrator
Maritime Administrator's reply to Rep. Jones

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248792 MEMO

2 6/17/1985

B1

MICHAEL DRIGGS TO JOHN SVAHN, RE: THE U.S.-ICELAND SHIPPING ISSUE

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CAP WEINBERGER TO ELIZABETH DOLE, WITH 1 P. ANNEX

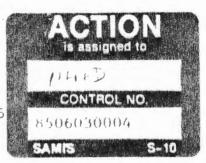
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THE SECRETARY OF STATE
WASHINGTON

May 30, 1985



Dear Elizabeth:

As you are probably aware, an inter-agency effort has been underway for more than a year to resolve a maritime shipping problem which has arisen in our relations with Iceland. A short summary of this problem is enclosed for your convenience. Foreign Minister Hallgrimsson has raised this issue with me on several occasions, the most recent being during my brief March 13 stop-over in Reykjavik en route home from Moscow. He has also raised it with Cap Weinberger.

The Icelandic Government has made it clear that the only solution it will accept is one that establishes as a matter of governmental policy that icelandic shipping interests will have the opportunity to compete equally in a free market situation for the transportation of DOD cargo to and from Reykjavik. A specific DOD legislative proposal in which we concur (copy enclosed) is under review by the Maritime Administration at this time and may be brought to your attention in the near future. I urge your agreement in this proposal. I am aware of the Maritime Administration's desire to resolve this issue through a commercial solution, and would support this course if I thought it would settle the problem.

I am not unmindful of the domestic opposition which will be created by the specter of the potential loss of some shipping for US-flag vessels. However, this possibility must be balanced against the incalculable cost to the United States of the loss of the base itself, or the costs to the taxpayer and to our national defense should restrictions by Iceland preclude the efficient operation of the base. Accordingly, I would hope that we could reach an early consensus within the Administration on a proposal such as that made by DOD, thus improving prospects for positive action by the Congress.

I look forward to receiving your thoughts on this matter and to working closely with you as we seek to achieve a satisfactory resolution of this difficult problem.

Sincerely yours,

George P. Shultz

Enclosures:

Tab A. Summary of US-Iceland Shipping Problem

Tab B. DOD Legislative Proposal

The Honorable
Elizabeth H. Dole,
Secretary of Transportation.

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11/17/2022

US-1celand Shipping Problem

For more than 14 years, until May 1984, all Department of Defense cargo for our base in Iceland had been transported to and from Iceland by Icelandic carriers. The value of this transportation service had been approximately \$9-10 million per annum. In May 1984, Rainbow Navigation, a US carrier operating one vessel, entered the trade on the US-Iceland route. Under the 1904 Cargo Preference Act, military cargoes being transported to and from Iceland must be carried by the US flag carrier to the extent that US flag service is available at reasonable rates. Thus, the military cargo carried by the Icelandic lines has been reduced by roughly 70%. The Government of Iceland has expressed its serious concern about the effects of this situation, and considers the matter a major bilateral issue.

The present Government of Iceland reflects the most pro-US/pro-NATO stance we have seen in that country for many years. During the period it has been in office we have succeeded in agreeing on a number of projects to upgrade the Keflavik base, some of which had been under discussion for years. The Government of Iceland has argued that Icelandic shipping lines must have the opportunity to compete for transportation of military cargo on an equal basis with American carriers. The Foreign Minister insists that a healthy merchant marine is vital for the economic viability and security of a tiny island nation such as Iceland and that introduction of Rainbow's service is having negative economic consequences for the Icelandic shipping lines.

Absent a resolution of this issue satisfactory to Iceland, the Foreign Minister has stated that he would have to request negotiations for a revision of our 1951 bilateral Defense Agreement, or an agreement supplementing the 1951 Agreement which would provide for Icelandic participation in the movement of cargoes. Others in Iceland are urging that the Icelandic Parliament take unilateral, retaliatory action with respect to shipping. Some Icelandic officials have mentioned other types of retaliation which would have a negative impact on the cost and operation of our base at Keflavik.

An inter-agency group, including representatives of State, Defense and the Maritime Administration, has been examining both short and long-term solutions for this problem. Rainbow Navigation decided in August to suspend for a temporary period its service between Bayonne, New Jersey and Keflavik. This has had the effect of increasing the amount of cargo available to Icelandic vessels. The temporary suspension has given us more



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- 2 -

time to explore possibilities for the long-term resolution of this issue. In addition, by demonstrating that interested parties in the United States appreciate the seriousness of the problem from the Icelandic perspective, Rainbow's action has also constituted a significant gesture to the Government of Iceland.

Among the alternative long-term solutions considered by the inter-agency group, legislation appears to offer the only possibility of realizing an acceptable accommodation of both U.S. and Icelandic interests. This course of action may well face serious domestic opposition. Nonetheless, DOD and State are committed to making a good-faith effort in this regard, because of the vital importance of our Iceland base to our national security interests and to those of NATO as a whole. While the presence of the base enjoys widespread support among the Icelandic population, a vociferous minority regularly agitates for closing the base or placing restrictions on it which would severely restrict its ability to carry out established US and NATO defense operations. In our relations with Iceland it is therefore important to show that every effort possible has been made by the U.S. Executive to address Icelandic concerns and to reach a mutually satisfactory solution.

The Maritime Administration believes that this problem should be resolved through a commercial solution between Icelandic and U.S. shipping interests. However, the Icelandic Government has made it clear that the only solution it will accept is one that establishes as a matter of governmental policy that Icelandic shipping interests will have the opportunity to compete equally in a free market situation for the transportation of DOD cargo to and from Reykjavík. A delegation of U.S. experts, including representatives from the Maritime Administration, traveled to Iceland last July specifically to make Icelandic officials and shipping interests aware of the possibilities and benefits of commercial solutions. However, a commercial solution was roundly rejected by the Icelandic Government as not meeting its objective. Furthermore, recent efforts to formulate a commercial solution acceptable to all parties have not brought us any closer to resolving the issue, although we have continued to explore possible options.

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DOD LANGUAGE FOR LEGISLATIVE PROPOSAL

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