

Some implications of the Gulf re-flagging

by J. Scott Morrison

It is expected that during the week of July 20, the first of the Kuwaiti oil tankers in the Persian Gulf will be re-flagged to the United States. The strategic implications have been much debated, but there are others. U.S. corporate organizational requirements have been met, but because the vessels do not meet all of the safety and other standards of U.S. flag vessels, the Coast Guard has exempted the tankers from federal safety and operating standards on grounds of national defense. In addition, a new Delaware-based American-Kuwaiti firm plans to use all-foreign crews, mostly Arab and Filipino, under American captains. Such waivers have never before been granted for ships carrying non-military cargo. U.S. shipping, marine law, and seamen's representatives have all expressed concern. Despite congressional controversy over strategic policy in the Gulf, the background economic issues involved in re-flagging have not been raised. Here these factors are presented by J. Scott Morrison, who spent 25 years in world port, containerization, and military logistics development.

Navy for hire?

It is demonstrably in the interest of the United States and the Western alliance to keep oil flowing from Kuwait, and keep shipping lanes, and commerce open and free. However, as the re-flagging of Kuwaiti ships under the U.S. flag proceeds as presently indicated, it will render the United States a mercenary "navy-for-hire," except for the ironic technicality that the United States will be paid nothing, and, in fact, will have to pay to provide the service.

The United States is forced into this position by the immediate circumstances of needing to respond to the Soviet and Iranian threats in the Persian Gulf. Secretary of Defense Caspar Weinberger is required to react quickly to such a strategic threat. However, the full policy implications, and background of such re-flagging need to be made known; and the preferable alternative—to supply genuine American-flag vessels, or vessels of NATO member-nations or NATO-

supporting nations, should be implemented as rapidly as possible.

This is the proper counter-response to the dangers posed in the Gulf and elsewhere. In other words, instead of jumping in and re-flagging vessels that, in no stretch of the imagination, meet American standards, nor employ American seamen, nor function as part of U.S. territory, the counter-response to the Gulf crisis—and future situations—should be to rebuild and to genuinely re-flag, and in so doing, to strengthen all around the commerce, defense, and economies of the Western alliance. This is in the immediate interest of Kuwait.

First, consider what comes with a flag on a ship. If a ship has a Liberian, or an American, or a West German flag, what does it have? What does "flagging a ship" mean?

The first thing it means, is that the ship is an asset of the nation whose flag it carries—with all the implications this brings with it, such as:

First, it is citizen-manned. It is available in times of need for national defense; and the ship is protected from piracy and war (most recently, consider the *Mayaguez* incident, and the *Achille Lauro*).

Second, the flag of a ship brings with it the standards of the nation with respect to its construction and safety requirements. It is well known that American ships, and American flag ships, tend to be: a) much better constructed; b) longer-lasting; and c) safer.

There are about five ranks of safety standards, with the standard level demanded by the American Bureau of Shipping/U.S. Coast Guard being arguably the highest. Standards demanded by certain Western European and Asian nations—for example, Norway, West Germany, or Japan—rank in the second and third orders of safety. It is a matter only of differences in degree and detail.

However, the Liberian and Panamanian standards are very low in all categories. This permits two things. It makes the initial cost of building the ship substantially lower than otherwise—which has nothing to do with labor-cost differentials of shipyards—the point commonly made. At the lowest standard of tanker construction, for example, you don't need "double tanks"—protection of cargo holds. Double tanks place a double skin between the oil and the water.

Additionally, in the crew quarters, at the lowest level of safety and health standards, a crewman has only 24-30 square feet of minimum space, with no sanitary facilities in his space. An American ship requires about 80-100 square feet, including some sanitary facility.

In a single ship, there are literally thousands of differences in these orders of magnitude that affect the cost.

Typically, people choose flags-of-convenience vessels for reasons of commercial costs, with the assumption that, in time of war or world emergency, two things will happen: 1) The demand for vessels will increase and, therefore, prices

will increase because there will be a shortage of vessels; and 2) If the vessels have to go into a war zone, the assumption is that they will receive some military protection from one side or the other of the belligerents. In other words, if you are loading in Iran, then Iran protects you. If you are loading in Iraq, then Iraq will protect you.

In Kuwait, we have a case in which the Kuwaitis, although they are commercial friends of the United States, nevertheless, nationalized, with compensation, the Gulf Oil Co. and the American Independent Oil Co. concessions in Kuwait, following the 1974 price escalation. The Kuwaitis have taken control of the shipping of the oil. And they have taken over the refining and the marketing ("Q8" gas stations in Europe). In furtherance of the Kuwaiti policy of hiring the most convenient protector, the U.S. Navy, has been converted into a "reserve flag of convenience."

Over recent years, the oil cartel (the Seven Sisters), with their immense power, have seen to it that their tanker fleet was all flagged-for-convenience; and oil-exporting nations that have nationalized have followed suit. The grain cartel (Cargill, Continental, Bunge, André, Louis Dreyfus, and the others) have likewise flagged-for-convenience, affording them the benefit of anonymity-of-location of origin and destination of foodstuffs that "home ports"-of-convenience allow. The American unions deserve a little bit of the blame for this process, by not being more flexible in their manning standards.

Therefore, we are backed into limited policy options. The correct response to the situation would be to supply and protect some American vessels to move the cargo in the Gulf, and make the strategic point to all belligerents. But the United States does not have enough of the right vessels to do the job. The American merchant marine has been systematically destroyed since Henry Kissinger was Secretary of State and negotiated the Russian grain-shipment deal of 1972-73.

Since we do not have any American vessels, we should make use of the NATO shipping protocol. There may be vessels covered in that treaty commitment, that are under flags of the nations of the Western alliance, meet the proper standards, and serve the strategic purpose.

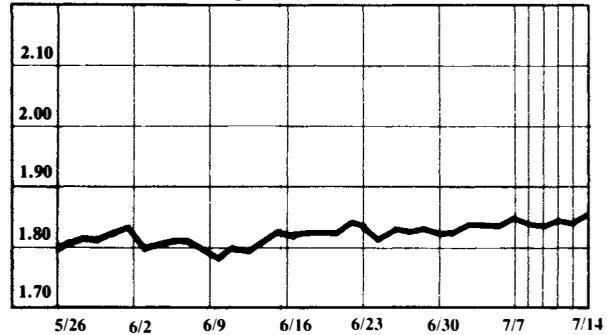
Another policy option, would be to have Kuwait, as a nation, join in the Western defense commitment. Because of the need for immediate defense, Kuwait could enjoy the benefits of putting money into Western defenses—enhancing the military-industrial resources of Western shipyards and defense industries, and reduce the current Kuwaiti involvement in New York and London real estate speculation, investment in U.S. farmland, and Carolina beach resort development. Both Western Europe and Kuwait would continue to enjoy the Q8 gas stations, and the principle of shared industrial development and defense would prevail among allies.

As part of this policy, we should not forget that the grain cartel companies should be similarly positively induced.

Currency Rates

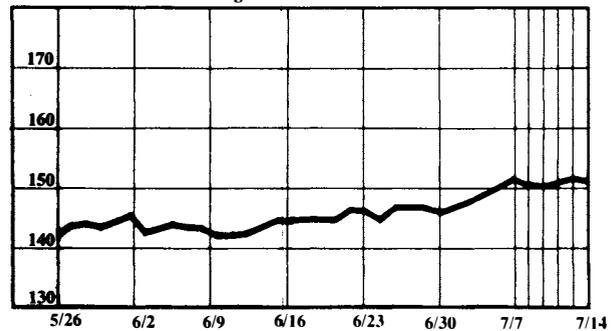
The dollar in deutschemarks

New York late afternoon fixing



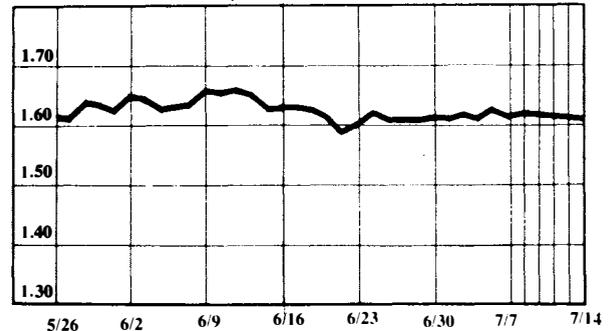
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing

