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**DISCRIMINATORY OCEAN FREIGHT RATES  
AND  
THE BALANCE OF PAYMENTS**

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**HEARINGS**  
BEFORE THE  
**JOINT ECONOMIC COMMITTEE**  
**CONGRESS OF THE UNITED STATES**  
EIGHTY-EIGHTH CONGRESS  
FIRST SESSION

—————  
OCTOBER 9 AND 10, 1963

—————  
**PART 2**  
—————

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# DISCRIMINATORY FREIGHT RATES AND THE BALANCE OF PAYMENTS

WEDNESDAY, OCTOBER 9, 1963

CONGRESS OF THE UNITED STATES,  
JOINT ECONOMIC COMMITTEE,  
*Washington, D.C.*

The joint committee met, pursuant to notice, at 10 a.m., in room AE-1, U.S. Capitol Building, Hon. Paul H. Douglas (chairman of the committee) presiding.

Present: Senators Douglas, Pell, and Jordan and Representative Curtis.

Also present: James W. Knowles, executive director; Thomas H. Boggs, Jr., and Donald A. Webster, economists, and Hamilton D. Gewehr, administrative clerk.

Senator DOUGLAS. The hour of 10 o'clock having arrived, the committee will come to order.

The purpose of these hearings is to determine the effect of ocean freight rates and other shipping practices on the U.S. balance of payments. Earlier hearings revealed that substantial disparities exist between export and import ocean freight rates. It costs 25 to 50 percent more to ship many American products to Europe or Japan than it costs to ship similar European or Japanese products to this country. Moreover, it costs more on a per-ton-mile basis to ship U.S. exports to South America, India, and Africa than it does to ship products from Europe or Japan to these same countries. Part I of the committee's hearings, "Discriminatory Ocean Freight Rates and the Balance of Payments," contains many examples of ocean freight rates which appear to discriminate against American producers of steel, electrical machinery, metalworking machinery, canned meats and juices, and many other American-made products.

Thus far, the committee has heard solely from Government witnesses. When the ocean freight disparities were brought to the committee's attention during its steel hearings early in May, we called upon the Federal Maritime Commission and upon the Maritime Administration—the Government agencies with jurisdiction in these matters—for an explanation.

Public hearings were held on June 20 and 21. Testimony was received from Thomas E. Stakem, Chairman of the Federal Maritime Commission, and James W. Gulick, Deputy Administrator of the Maritime Administration.

Prior to these hearings, it had been my belief that every arm of the Government was striving to redress our balance-of-payments deficit which was in excess of \$2 billion for the first three-quarters of this year. Much to my surprise, I discovered that the policies of

these two governmental agencies, vital to U.S. trade, have been in direct opposition to the Trade Expansion Act and other economic programs initiated to redress our payments deficit. This is the only conclusion that can be drawn from the June hearings. The Federal Maritime Commission testified on June 20 and 21 that—

(1) Freight rate differentials on heavily traded steel products and many other products exist and probably have a significant effect on our balance of payments.

(2) It had been aware of this problem for many years, but until recently had never called a formal hearing or taken formal action on such rate differentials.

(3) It has sufficient statutory authority to disapprove ocean freight rates set by steamship conferences, but has never exercised that authority.

(4) It has not initiated investigations of ocean freight rates or malpractices by steamship lines and conferences although another committee of the Congress (the Subcommittee on Antitrust and Monopoly of the House Judiciary Committee) specifically recommended such investigations over 16 months ago.

Testimony received from James W. Gulick, Deputy Maritime Administrator, indicated that it was the policy of the Maritime Administration to require an American steamship line to be a member of a shipping conference or agree to its rates, rules, and regulations in order to receive an operating subsidy.

The committee was most surprised to learn that the Maritime Administration required an American steamship line to be a member of a shipping conference or charge conference rates in view of the fact that these foreign-controlled conferences, by bloc voting, tend to discriminate against U.S. exporters. The effect of this policy on our balance of payments seemed obvious. It forced American steamship lines to charge rates detrimental to exports but beneficial to imports. Moreover, American taxpayers' money was used to force American ships to discriminate against American products.

It is my belief that the testimony of June 20 and 21 revealed that the Federal Maritime Commission and the Maritime Administration have failed to enforce existing laws and to use their statutory authority to protect American exporters and to promote the foreign commerce of the United States. Moreover, they have failed to recognize the export promotion goals of the Trade Expansion Act. Finally, it is my belief that these two agencies, which are vital to U.S. trade, have failed to join the other departments and agencies of our Government in working toward a solution of our balance-of-payments problem.

I am happy to say that, since the committee's hearings in June, changes have begun to take place both in the public and private sectors involved.

First, the President, in his July 18 balance-of-payments message, stated that—

\* \* \* present ocean freight rates discourage our exports as compared to imports. The freight charges on Atlantic crossings are far higher for eastbound freight than for comparable items bound for our shores. A similar situation prevails on other trade routes. While these substantial differentials may have been acceptable in the immediate postwar period of the dollar shortage when Europe was struggling to get on its feet, the magnitude is clearly unjustified

today. Accordingly, I have directed the Secretary of Commerce to take corrective action through the Maritime Administration; and I am urging the Federal Maritime Commission in its role as an independent regulatory agency to question those specific export rates which appear unduly high. Should legislation prove necessary, it will be sought.

Second, on August 5, 1963, the Maritime Administration rescinded its policy which required American subsidized operators to be members of conferences or charge conference rates in order to receive an operating subsidy. Mr. James S. Dawson, Jr., Secretary of the Maritime Administration, stated that "the administration of the subsidy program should not be used as a tool for or against adherence to conference rates." I ask unanimous consent to insert in the record at this point my letter to Secretary Hodges, dated June 26, 1963, in which I urged the Secretary to review and update the Maritime Administration's policy. I also ask unanimous consent to insert in the record his reply indicating that this policy has been rescinded.

(The letters referred to follow:)

CONGRESS OF THE UNITED STATES,  
JOINT ECONOMIC COMMITTEE,  
June 26, 1963.

HON. LUTHER H. HODGES,  
Secretary of Commerce,  
Washington, D.C.

MY DEAR MR. SECRETARY: In view of your vigorous efforts to expand and promote the foreign commerce of the United States, I would like to call to your attention information received during recent hearings of the Joint Economic Committee dealing with discriminatory ocean freight rates.

Both material submitted (copies enclosed) and testimony received revealed that past and present policies of the Maritime Administration require an American steamship line to be a member of a foreign-controlled shipping conference or agree to its rates, rules, and regulations in order to receive an operating subsidy. The only exception to this Maritime Administration policy is set forth in the enclosed Circular Letter No. 3-62; that is, an American line can refuse to charge these conference-established rates only if it is willing to bear the burden and cost of proving that such rates are not in the interest of the American merchant marine.

Prior to the submission of this policy statement, testimony was received from the Maritime Commission which indicated that—

1. The Federal Maritime Commission is aware of the freight rate discrimination on heavily traded steel products, and many other American exports.

2. The Federal Maritime Commission agreed that this discrimination has significant effects on our balance of payments.

3. The Federal Maritime Commission—and its predecessor agencies—have been aware of this discrimination for many years but, until this month, have never held formal hearings or taken formal action to remedy this discrimination.

4. Shipping conferences which establish these discriminatory rates are predominantly controlled by foreign lines. Of the 435 steamship lines operating in U.S. foreign commerce, 400 are under foreign flags.

In light of these facts, it seems inconceivable to me that the Federal Maritime Administration would require an American steamship line, as a condition for obtaining an operating subsidy, be a member of a conference or agree to charge conference-established rates.

There is a considerable difference of opinion between the Federal Maritime Administration and the Federal Maritime Commission.

In response to my question, "(Do) you think this policy should be reversed?", Mr. Stakem, Chairman of the Maritime Commission, replied, "I certainly do." Mr. Stakem also stated with respect to the policy contained in the enclosed letter to Isbrandtsen Steamship Co., Inc., "That letter, I think, was a mistake. If I participated in the decision that led to that letter, I think that was a mistake."

On the other hand, in response to my question, "Do you still approve of the policy outlined in (Circular Letter) 3-62?", Mr. Gulick, Deputy Administrator of the Maritime Administration, stated, "Yes, sir, we do. We find it has worked very well."

It is strongly urged that this policy be reviewed and updated. After your review of this policy, I am sure you will conclude that subsidies should not be used to promote conferences or cartels which pursue policies contrary to the Trade Expansion Act, the balance-of-payments position of the United States, and your vigorous efforts for export promotion.

I intend to make a speech on the floor of the Senate in the near future, setting forth our findings during the hearings, and suggesting changes in maritime policies. I would greatly appreciate any views and comments you would care to offer. You have been making a most sincere and able effort to revamp the work of your Department and to improve its performance in promoting our export trade. I am confident, therefore, that you can and will find ways of altering the Department's maritime policy so that subsidy programs tend to promote the elimination of freight rate discriminations against American exporters rather than promote their continuance, as does the present policy.

Faithfully yours,

PAUL H. DOUGLAS, *Chairman.*

THE SECRETARY OF COMMERCE,  
Washington, D.C., July 12, 1963.

HON. PAUL H. DOUGLAS,  
*Chairman, Joint Economic Committee,  
Congress of the United States, Washington, D.C.*

DEAR MR. CHAIRMAN: This is in further reply to your letter of June 26, 1963, concerning certain information relating to policies of the Maritime Subsidy Board received by the Joint Economic Committee during the course of its recent hearings dealing with discriminatory ocean freight rates.

As you may know, the Commerce Department for some time has had underway a study of ocean freight rates and the balance of payments. This includes the testimony of Dr. Walther Lederer before the Joint Economic Committee in May relating to the effects of ocean freight rates on steel exports. The Department also provided much of the information on the basis of which your committee based its examination of Federal Maritime Commission officials in this matter last month. The Joint Economic Committee has been informed of some of our future plans in the same area.

Against this background, I have given careful study and consideration to the questions raised in your letter as they relate to present policy of the Board with respect to adherence of subsidized lines to conference-established steamship rates, and to the matter of conference rate policies and practices as they may adversely affect the development of our foreign trade generally. As a result, I have decided upon two immediate courses of action as initial steps looking toward an ultimate solution to the rate discrimination problem.

The first step: The Maritime Subsidy Board has been asked to undertake an immediate review of their policy (stated in Circular Letter No. 3-62 dated Feb. 2, 1962) which requires subsidized lines to adhere to conference rates. In this review, the Board has been asked to give careful consideration to whether this policy of the Subsidy Board should be rescinded. I anticipate that the Maritime Subsidy Board will make a decision within the near future.

The second step: I propose an investigation of international shipping conferences and the impact of their ratemaking policies and procedures upon the export and import commerce of the United States. In order to implement this action, I have requested the Federal Maritime Commission to initiate such an investigation. I am offering the full cooperation and assistance of this

Department to the Commission in undertaking this important task. In fact, we already have underway discussion with the Federal Maritime Commission on a number of questions relating to their projected studies of ocean freight rates. We are anxious to see this work go forward as rapidly as possible. We believe that phase of the inquiry should focus on the level and structure of export and import rates with the emphasis on their economic effects. In addition, however, we believe that the almost complete lack of reliable and detailed knowledge of the ratemaking activities of international shipping conferences requires a comprehensive investigation on the basis of which sound remedial action can be developed for overcoming any discriminatory ocean freight rates which may exist.

Your calling to my attention such information respecting Department of Commerce policies which may have a bearing on the question of discriminatory rates is appreciated. The seriousness of this problem which has been brought into focus by the work of your committee merits the full attention and cooperation of all interested parties in seeking an adequate and permanent solution.

Sincerely yours,

LUTHER H. HODGES,  
*Secretary of Commerce.*

Senator DOUGLAS. Third, on August 26, the President named Rear Adm. John Harllee, U.S. Navy (retired), Chairman of the Maritime Commission.

I am very happy to recognize the presence of Admiral Harllee in this room.

Admiral Harllee stated, upon his appointment, that "the Commission will work closely with the Commerce Department and with the committees of Congress in search of ways to change those situations in which ocean freight rates tend to discourage our exports compared with our imports." Since Admiral Harllee's appointment, intra-agency reorganization is being accomplished.

Fourth, on September 12, 1963, the 2 leading conferences covering the North Atlantic-continental European trade, eliminated ocean freight rate disparities on approximately 25 commodities. Pursuant to its investigation of ocean freight rates, the Joint Economic Committee submitted to the American Steamship Traffic Executives Committee numerous commodity lists indicating that outbound ocean freight rates in the European trade were approximately 50 percent higher than corresponding inbound rates. The lists were prepared by the Federal Maritime Commission and the Department of Commerce. Action was taken on the list involving transatlantic trade by the North Atlantic-Continental Steamship Conferences. I ask unanimous consent to insert in the record at this point a press release of the Joint Economic Committee dated September 12, 1963, which indicates the products involved and the action taken.



(The press release referred to follows:)

[For immediate release, Sept. 12, 1963]

CONGRESS OF THE UNITED STATES, JOINT ECONOMIC COMMITTEE

JOINT ECONOMIC COMMITTEE RELEASES OCEAN FREIGHT RATE SCHEDULES

Senator Paul H. Douglas, Democrat, of Illinois, chairman of the Joint Economic Committee, today commended the action taken toward the elimination of discriminatory ocean freight rates by the North Atlantic-Continental Steamship Conferences.

Pursuant to its investigation of ocean freight rates, the Joint Economic Committee submitted to the American Steamship Traffic Executives Committee numerous commodity lists which indicated that outbound ocean freight rates were approximately 50 percent higher than corresponding inbound freight rates. The lists were prepared by the Federal Maritime Commission and the Department of Commerce. Products were selected on the basis of those items which have export expansion potential.

Action was taken on the list involving transatlantic trade after discussions between American steamship lines and the Department of Commerce.

In releasing the new rate schedules on these commodities, Senator Douglas stated, "I believe that current ocean freight rate disparities have a bad effect on our balance of payments. These disparities give European and Japanese producers an undeserved competitive advantage over U.S. producers. The approximate equalization of rates on 25 commodities by the North Atlantic-Continental Steamship Conference—the ratesetting body—is only a first step. It is my hope that all conferences will equalize rates not only on these commodities but on all commodities in their tariffs. I do not believe that all rates should be identical, but I do believe that unjust disparities between outbound and inbound rates, which in many instances reach magnitudes of over 50 percent, should be promptly eliminated. While this is only a beginning, I hope it indicates a desire for further reform. If not, we shall have to stimulate such revisions. Let them not weary in their well-doing. They have only scratched the surface."

The Joint Economic Committee intends to hold further hearings on this topic commencing October 9.

The new and old rate schedules are attached.

*Comparison of outbound and inbound rates*

Trade area: North Atlantic-Continental Freight Conference (Hamburg-Bremen-Bremerhaven).

Outbound tariff: North Atlantic-Continental Freight Conference Freight Tariff No. 25.

Inbound tariff: Continental North Atlantic Westbound Freight Conference Tariff "G."

Rates effective: August 7–October 1963 rates tentative.

Rates to Belgium-Netherlands are approximately 10 percent less than the German rates listed below. However, rates in the westbound (inbound) direction are the same, whether from Germany or Benelux.

In order to compare eastbound and westbound rates, it must be remembered that weight rates eastbound are per ton of 2,240 pounds, while rates westbound (weight basis) are per ton 2,204 pounds (metric ton). Measurement rates eastbound are per ton of 40 cubic feet while homeward measurement rates are quoted on per cubic meter basis (35.314). If adjustments are made, inbound-outbound rates in most cases are identical. A few of these rates as indicated

are or appear to be higher eastbound than westbound. In these instances, see footnotes 1 through 8.

Commodity	August 1963 freight rates		Tentative October 1963 freight rates	
	Outbound	Inbound	Outbound	Inbound
Meat, canned <sup>1</sup> .....	\$37.25 W.....	\$21.50 W/M.....	\$34.50 W.....	\$28.50 W/M.....
Fruit Juice:				
Canned.....	\$38.00 W.....	\$18.50 W/M.....	\$25.25 W.....	\$24.75 W.....
Frozen, concentrated <sup>2</sup> .....	\$121.00 W/M.....	\$78.00 W.....	\$93.50 W.....	\$87.00 W.....
Radios and parts.....	\$39.00 W/M.....	\$18.50 W/M.....	\$27.50 W/M.....	\$24.50 M.....
Phonographs and parts.....	\$44.00 W/M.....	\$14.00 W/M.....	\$58.25 W/M.....	\$58.50 W/M.....
Textile machines.....	\$21.75 W/M.....	\$28.75.....	\$33.00 W/M.....	\$28.75 W/M.....
Plywood:				
Hardwood.....	\$47.00 W.....	\$22.00 W.....	\$25.25 W.....	\$25.50 W.....
Softwood.....	\$61.00 W.....	\$22.00 W.....	\$25.25 W.....	\$25.50 W.....
Electronics-electronic data processing: Computers				
Hi-fidelity equipment.....			\$63.75 W/M.....	\$74.50 W/M.....
TV broadcasting equipment.....				
Tools and basic hardware—Handtools. <sup>3</sup>	\$36.25 W/M.....	\$21.00 W/M.....	\$44.00 W/M.....	\$28.75-77.00 W/M.....
Glass, flat, window <sup>4</sup> .....	\$39.00 W.....	\$21.50 W.....	\$29.00 W.....	\$19.00-48.25 W.....
Frozen poultry.....	\$61.50 W.....	\$88.00 W/M.....	\$61.50 W.....	\$98.00 W.....
Hardwood lumber, walnut logs.....	\$35.25 W.....	\$33.00 W.....	\$23.50 W.....	\$33.50 W.....
Musical instruments (value from \$1,000 to \$1,500 per freight ton).	\$61.50 W/M.....	\$62.50 W/M.....	\$44.25 W/M.....	\$73.00 W/M.....
Iron and steel:				
Castings and forgings <sup>5</sup> .....	\$40.00 W/M.....	\$32.50 W/M.....	\$40.00 W.....	\$29.25-36.00 W.....
Pipe, 6 to 8 inches, 8 inches I.D. <sup>6</sup>	\$38.25 W.....	\$18.75 W.....	\$27.50 W.....	\$20.75 W.....
Steel plate.....	Open.....	\$20.00 W.....	\$13.25 W.....	\$19.75 W.....
Rolled and finished steel structurals. <sup>7</sup>	\$28.50 W.....	\$22.75 W.....	\$28.50 W.....	\$19.75 W.....
Stainless steel bars.....	\$16.25 W.....		\$25.00 W.....	\$29.25 W.....
Household appliances:				
Refrigerators and parts (open minimum), value over \$150 per c.b.m.	\$17.00 W/M.....	\$16.50 W/M.....	\$19.75 W/M.....	\$24.75 W/M.....
Vacuum cleaners and parts.....	\$30.00 W/M.....		\$30.00 W/M.....	\$74.50 W/M.....
Gas stoves and parts.....	\$24.00 W/M.....	\$24.00 W/M.....	\$36.25 W/M.....	\$36.00 W/M.....
Metalworking machinery:				
Lathes.....				
Drills.....	\$33.00 W/M.....	\$21.00 W/M.....	\$33.00 W/M.....	\$28.75 W/M.....
Grinders.....				
Jewelry, costume (value \$300 to \$350 per c.b.m.—inbound).	\$63.00 W/M.....	\$33.50 W/M.....	\$55.00 W/M.....	\$20.75-103.00 W/M.....
Tobacco, manufactured <sup>8</sup> .....	\$63.00 W/M.....	\$38.00 W/M.....	\$55.00 W/M.....	\$38.00 W/M.....
Copper:				
Sheets.....	\$44.00 W.....	\$22.00 W.....	\$28.50 W.....	\$26.25 W.....
Rods (wire rods in coils).....	\$17.00 W.....	\$26.25 W.....	\$17.75 W.....	\$29.25 W.....
Tubes.....	\$72.00 W.....	\$28.00 W.....	\$29.50 W.....	\$29.00 W.....
Shapes and bars.....	\$17.00 W.....	\$23.75 W.....	\$16.50 W.....	\$22.75 W.....
Scrap metal:				
Copper.....	\$22.25 W.....	\$26.75.....	\$24.75 W.....	\$26.75 W.....
Steel (open minimum).....	\$24.00 W.....	\$24.75 W.....	\$24.75 W.....	\$27.50 W.....
Lead.....	\$28.50 W.....	N.o.s.....	\$28.50 W.....	N.o.s.....
Ingots:				
Zinc, bars.....	\$22.50 W.....	\$15.75 W.....	\$17.50 W.....	\$17.25 W.....
Lead pigs.....	\$22.50 W.....	\$15.75 W.....	\$19.50 W.....	\$19.25 W.....
Electrical machinery: Industrial controls.	\$33.00 W/M.....	\$21.00 W/M.....	\$43.50 W/M.....	\$74.50 W/M.....

<sup>1</sup> Westbound rate is on cubic meter basis. This commodity stows about 55 cubic feet per 2,240 pounds, therefore, the westbound rate is almost \$10 per 2,240 pounds higher than eastbound.

<sup>2</sup> The eastbound conference has approximated the westbound rate. While some very small shipments have moved on the previous higher rate, it is the considered opinion of the lines the major ports of export are located on the South Atlantic, gulf, and Pacific coasts.

<sup>3</sup> The Eastbound Conference considers \$44 W/M fair and reasonable vis-a-vis the westbound rate structure because it is believed hand tools produced in the United States would bear a value per freight ton in excess of \$30. In another conference, a letter from a shipper regarding a rate adjustment indicated a value of \$1,500 for 3,000 wrenches weighing 5,790 pounds. Value in this case approximately \$577 per ton. To adopt the westbound tariff rates could diminish possibilities of American exports.

<sup>4</sup> The conference considers the above reduced rate as a fair average compared with the westbound rate structure.

<sup>5</sup> The conference considered this differential reasonable on the basis of higher valuation of the U.S. product as compared with the European products.

<sup>6</sup> Differential considered reasonable due to higher value U.S. product.

<sup>7</sup> The eastbound rate is on weight basis only, whereas westbound is W/M. Since structural steel may measure from 40 to 100 cubic feet per 2,240 pounds, thereby costing up to over \$50 per weight ton, the eastbound rate is considered reasonable.

<sup>8</sup> It is rather difficult to pinpoint the exact name item for both directions. It is well known that the tobacco industry, like the steel industry, is very active in dealing with all conferences on rate matters affecting them. We should cite the rate for cigarettes eastbound Benelux ports \$26.50 W/M, German ports \$29.25 W/M, westbound \$38.50 W/M (\$41.32 M); cigars eastbound Benelux \$63.75 W/M, Germany \$70.25 W/M westbound, value up to \$600 per FT \$66 W/M (\$74.72 M) over \$600 per freight ton \$89.00 (\$100.80 M).

Senator DOUGLAS. I would ask Mr. Boggs, our staff assistant, to find out whether this equalization was done by raising import rates to the level of export rates or lower export rates to the level of import rates.

Mr. Boggs says it is a combination of both.

I hoped very much it could be the latter—lower export rates to the level of import rates, rather than the former.

Fifth, partially as a result of the JEC's investigations, the Honorable John D. Dingell, Democrat, of Michigan, member of the House Merchant Marine and Fisheries Committee, has been motivated to introduce legislation amending the Shipping Act of 1916 to require that the Federal Maritime Commission exercise to the fullest its authority to disapprove any rate or charge of any common carrier by water in foreign commerce, and of any conference of such carriers, which is detrimental to the commerce of the United States. Congressman Dingell's proposed legislation would reinforce existing laws. I ask unanimous consent to insert in the record at this point, Congressman Dingell's press release accompanying his legislative proposal.

Pausing for a suitable moment to hear objections from other members of the committee—hearing none, this will be done.

(The document referred to follows:)

PRESS STATEMENT OF CONGRESSMAN JOHN D. DINGELL, OF MICHIGAN

OCTOBER 7, 1963.

I have introduced legislation amending the Shipping Act of 1916 to require that the Federal Maritime Commission exercise to the fullest its authority to disapprove any rate or charge of any common carrier by water in foreign commerce, and of any conference of such carriers, which is detrimental to the commerce of the United States.

My amendment would make the validity of the rate depend on whether or not the rate is detrimental to the foreign commerce of the United States. Failure of the Maritime Commission to require that rates on our exports are competitive with our imports requires this legislation.

We are faced with a problem of substantial gold outflow, and a significant and continuing deficit in the imbalance of payments of the United States.

In 1949 the U.S. gold stock was \$24½ billion. That figure is down now to \$15½ billion and still falling. Twelve billion dollars of this remaining \$15½ billion stock is frozen by the 1945 amendment to the Federal Reserve Act of 1914, so that remaining to meet our dollar commitments around the world are only \$3½ billion.

At this moment we owe the outside world in excess of \$25 billion, callable on demand of relatively short notice, in gold. We have lost \$395 million of gold so far this year. If our present rate of loss continues, conceivably we could run out of gold sometime in late 1965.

In this climate a study by the Joint Economic Committee characterized the activity of the Federal Maritime Commission as "inadequate, shocking, disgraceful, and giving every indication that the Commission has been grossly negligent and gravely derelict in their duty to protect American industry, the public interest, and the U.S. national interest."

Specifically, the reason for the introduction of this legislation is the fact that ocean freight rates established by international shipping conferences are often from ports in the United States to North Atlantic European ports, and from our Pacific coast ports to Japanese ports, much higher on American exports than on American imports.

One of the major contributing factors to our unfavorable balance of trade is the higher conference rates for exports. Steel exported from the United States is an outstanding example. The Joint Economic Committee found that the rates on beams, angles and girders in March 1962 were \$28.50 per ton on U.S. exports, but only \$19.75 on U.S. imports. On bolts the rates were \$31.25 per ton on exports, but were only \$24 on imports, for a difference against the

American exporter of \$7.25 per ton. Conference rates on castings and forgings were \$44.25 on exports, but \$29.25 on imports, a difference of \$15. The difference of rates on screws was \$22, or 90 percent higher on exports than on imports.

In a table published by the Joint Economic Committee, on steel generally for three major trade routes one finds that ingots, blooms, billots, and slabs rates on exports were 86 percent higher than on imports; on wire rods, 71 percent; on structural shapes and pilings, 69 percent; on rails and accessories, 91 percent; on nails, 34 percent; on pipe and tubing, 45 percent; and on barbed wire, 37 percent.

For 1962 our exports of steel were only 2.1 million tons and imports were 4.3 million tons. It is fair to point out that a large part of our steel exports are subsidized through foreign aid and defense support.

It costs less to send a Rolls Royce from England to the United States than it does to send a Chevrolet from the United States to England.

The cost of shipping a bicycle is as much as three times from the United States to Europe as from Europe to the United States. Cotton goods cost almost twice as much to ship from the United States to Europe as from Europe to the United States. In the case of shipments to Japan, a study of selected conference rates shows that the cost of shipments of angles, beams, and steel girders is \$31.10 from the United States to Japanese ports and inbound to the United States only \$15.50. Bolts and nuts cost \$33.25 to export and \$25.25 to import. Barbed wire costs \$36.60 to export and \$18.75 to import or about half of the export charge. Machine tools cost \$76.50 to export and \$45.50 to import into the United States.

Trucks shipped to Japan unboxed cost \$50.75 and inbound to the United States only \$23, a differential favoring the Japanese import over the U.S. export by 2 to 1. This discriminatory treatment of American industry and the American worker contributes heavily to our grave balance-of-payments problem.

For this reason I am asking for hearings at the earliest possible date on my legislation to force equity and fair play on the international shipping conferences—the steamship cartels of the world. For protection of the United States, its workers, and industry we must force a small measure of protection for the American dollar which is so much jeopardized by this kind of outrageous and discriminatory treatment.

Senator DOUGLAS. The committee has reconvened these hearings to receive testimony from economists and legal experts in this field, and also shippers who are affected by these problems. These hearings are designed to develop additional facts dealing with steamship conferences, rebates, and other malpractices, methods of determining ocean freight rates, operation of the American subsidized lines and the subsidy program, and the effects on shippers of current practices.

Additional hearings will be held in mid-November to receive an explanation of these discriminatory rates and other practices from the American steamship lines.

I have invited Senator Warren G. Magnuson, chairman of the Senate Commerce Committee, and Congressman Herbert C. Bonner, chairman of the House Merchant Marine and Fisheries Committee, to participate in these hearings. I have also asked that representatives from the Department of Commerce, the Maritime Administration, and the Federal Maritime Commission be present. We are very happy to acknowledge the presence of Adm. John Harllee, Chairman, and Mr. Harvey Sneider of the Federal Maritime Commission; Mr. Philip E. Franklin of the Department of Commerce's Bureau of International Commerce, and Mr. Carl L. Weir of the Maritime Administration.

It is my hope that these further hearings will not only shed new light on this problem, but will also stir the international shipping conferences—the cartels which establish ocean freight rates—and U.S. steamship lines to a thorough review and revision of their current rate structures. It is also my hope that the governmental agencies involved will act upon information brought out at these hearings.

We are very happy to welcome these four distinguished gentlemen this morning.

We are going to start with the testimony of Professor Gorter, who is professor of economics at the University of California at Los Angeles.

**STATEMENT OF PROF. WYTZE GORTER, DEPARTMENT OF ECONOMICS, UNIVERSITY OF CALIFORNIA, LOS ANGELES**

Mr. GORTER. Thank you, Mr. Chairman.

Shipping conferences rank high among the many controversial features of the ocean shipping industry. Considering the very long history of shipping, they are a fairly recent development, originating with the Calcutta Conference, formed in 1875. It was a response to overtonnaging—too much cargo space available for the amount of freight to be moved—which had developed when the Suez Canal opened for traffic in 1869.

As a voluntary organization of shipping lines, the Calcutta Conference established uniform rates, to be charged by all its members, from a number of ports of departure. It also eliminated all preferential rates and other concessions to specially favored individual shippers. These had become common as shipping lines competed for cargoes to fill their ships.

Today there are hundreds of conferences. To attract and hold shippers, some use the deferred rebate scheme and others a system of dual rates. Under the deferred rebate arrangement, shippers who have patronized the lines of a given conference exclusively for a specified period receive a rebate after completing one additional period of such loyalty. The dual rate system provides for a set of lower freight rates to apply if shippers agree to use only conference liners for some minimum length of time.

These conferences, to put it simply, regulate competition among their members. Each conference consists of shipping companies serving a particular set of ports. By setting freight rates and regulating whatever other aspects of shipping service they deem desirable, the members of each conference voluntarily restrict competition among themselves. Their competitive behavior is suggested by the word "cartel."

Shipping conferences have been organized almost exclusively in one segment of the ocean shipping industry—the dry-cargo liner part. A "liner," as the term is used here, is a vessel on a regular sailing schedule. Tramp ships, adhering to no fixed schedule or trade route, and bulk carriers such as tankers and vessels specially designed to lift single commodities by the shipload constitute the other basic types of ocean shipping services.

Conference liners compete primarily with nonconference liners and, to a limited extent, with tramp ships. They compete with nonconference liners for the same types of cargoes. If liners have insufficient bookings of general cargo they may try to get a consignment of a bulk cargo ordinarily handled by tramps. And tramp operators, who generally lift only one or two commodities on any leg of a voyage, may occasionally bid for freight usually handled by liners. This happens, of course, if they, in turn, lack adequate bulk cargo. However, for the most part, tramps and liners serve different markets. Tramps

concentrate on the movement of bulky, low-value commodities and serve customers who do not want regular service. Liners, by contrast, provide regular service for shippers of relatively high value merchandise.

Within conferences, competition among member lines may range from fierce to nonexistent. If all the members adhere strictly to their agreement regarding rates, then they may compete by offering a variety of services for the same rate. If there is enough cargo for all to earn adequate returns, competition will certainly not be very keen. Or if the conference agreement includes an arrangement for pooling earnings among members, then there is no incentive to divert cargoes from one member to another. If cargoes are scarce, the self-interest of individual members may dictate that they violate the agreement. Competition will then be intense and the conference itself may break up.

Even if we admit that there is some competition among the members of conferences there would be little reason for organizing them if the members did not believe that they could maintain shipping rates higher than would prevail under freely competitive, nonconference conditions. Also, there is little doubt that were there no conferences, ocean freight rates would fluctuate more than they do.

Though shippers may gain some advantage from stable rates, they certainly lose if they have to pay higher rates than competitive rates. How much higher rates they will have to pay depends upon the actual or potential competition conference members face from outside the conference. On some trade routes there is much of these kinds of competition and on others relatively little. Thus we find different rates for shipping the same merchandise the same distance and sometimes lower rates for shipping it farther.

We must recognize that these differences in ocean freight rates, either among different commodities, or for the same commodity on different trade routes, or for the same commodity inbound and outbound on the same route, can exist under freely competitive conditions, too. The essential economic implication of shipping conferences is that they may succeed in keeping the level of rates above what they would be under more competitive conditions.

Senator DOUGLAS. Thank you very much.

I would suggest as a procedure that we permit these four gentlemen to read their papers and then address questions to them individually or collectively.

Senator JORDAN. I agree, Mr. Chairman.

Senator DOUGLAS. The next witness is Mr. Julian H. Singman.

#### STATEMENT OF JULIAN H. SINGMAN, ATTORNEY, WASHINGTON, D.C.

Mr. SINGMAN. Thank you, Mr. Chairman.

Adam Smith wrote in his "Wealth of Nations":

People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices.

This statement can be roughly paraphrased for the ocean freight industry to state that seldom in the history of maritime affairs have competing steamship line owners met together without forming a

conference to regulate the rates and terms for their services in the trade.

It was the coming of the steamship and its greatly increased capacity that made conferences possible and desirable. As soon as steamships began to replace the clipper ships in the middle of the last century as transporters of the bulk of transoceanic trade, conferences began to sprout up like weeds. The first of these took root in the late 1860's or early 1870's. They multiplied rapidly thereafter.

The only reason I equivocate about the date of the beginnings of these conferences, unlike Professor Gorter, who mentions the Calcutta Conference, is that once several years ago the late Charles Andrews, who was chairman of the Transatlantic Conference and has since passed on, took some time out to show me documents which he contended proved that his conference, the Transatlantic Conference, actually started in the late 1860's, before the Calcutta Conference. But this is not clear.

The reasons for their growth are many. Conferences are said by their proponents to have the effect of stabilizing rates, a condition desired by most shippers because it enables them to compute easily their competitors' costs long in advance. Conference supporters also say that the conference system holds the advantage of charging the same rates for small and large shippers alike.

On the other hand, conference detractors blame the persistent growth of conferences on their maintenance of rates at the highest level that traffic will bear, thus maximizing profits for the shipowners. They also state that by unifying themselves into international shipping cartels, shipowners minimize their commercial risks, largely eliminate the need for efficiency of operation and soundness of management, and create a machinery for crushing annoying competition by those who refuse to "play the game" in a "gentlemanlike" fashion.

In varying degrees, all of these claims and charges have been proven to be true by various scholars and critics. The conference system, as it is often called, has been studied, investigated, written about, praised, and calumniated for nearly a century. Yet today it remains essentially unchanged from its original form.

There have been four major governmental inquiries into conference operations during the past hundred years; two, early in this century, and two, quite recently. The first was the British Royal Commission on Shipping Rings, appointed in 1906; the second was the House of Representatives Alexander committee investigation begun in 1912. The third and fourth were the House of Representatives investigations by the Bonner committee and by the Celler committee, both of which were begun in 1958.

Study of the reports from all four of these inquiries makes it clear that the French are quite right when they declare that the more things change, the more they remain the same. All four authoritative investigations found essentially the same abuses inherent in the conference system. All four found the same undesirable practices taking place despite some effort to prevent them. All four concluded nonetheless that the advantages of steamship conferences outweigh their disadvantages. And all four concluded that in the absence of a better or more perfect arrangement, conferences should be permitted to thrive provided they are subjected to appropriate governmental supervision and regulation.

After the Alexander committee report was published in 1914, the Congress of the United States enacted the Shipping Act of 1916. That act was designed to provide the regulation of conferences thought necessary by the committee to minimize the unfavorable effects upon U.S. foreign commerce. It placed the waterborne part of that commerce under the general supervision of a Federal agency, the ancestor of our Federal Maritime Commission. In addition, the Shipping Act declared unlawful certain especially dangerous practices that the Alexander committee found to be widespread but abhorrent. If I may oversimplify somewhat, the practices declared unlawful by the Shipping Act are the following: First, the use of discriminatory rates or practices; second, deferred rebates; third, the use of "fighting ships"; and fourth, the entry into, or use of, secret anticompetitive agreements.

All of these practices have been used by steamship conferences and individual shipowners since conferences first germinated. Unfortunately, their use continues at present, despite their illegality. Because of the importance of these proscribed practices in the field of conference regulation, I think it would be helpful to the committee if I were to describe them briefly.

The group of general discriminatory activities outlawed by the Shipping Act includes not only the establishment of rates for one shipper at a level less than that for other shippers for the same services, but encompasses also discrimination against ports in rates, schedules, services, or in any other way, or the favoring in a similar manner any geographical area over another. As this committee well knows, rate discriminations against exporters in the United States in favor of their foreign competitors is also outlawed.

The deferred rebate is somewhat more complicated to explain, but refers to the kind of situation where, for example, a steamship conference or single operator returns to its shippers on, let us say, December 31 of a given year, a percentage of all freight payments made between January 1 and June 30 of that year if, and only if, such shipper has exclusively patronized ships belonging to that conference, or ships of that particular owner, not only during the January 1 to June 30 period covered by the rebate, but during the succeeding 6-month period from July 1 to December 31 as well. On the following June 30, the same percentage rebate would be paid on all freight payments between July 1 and December 31, again only if patronage had been exclusive during that entire 6-month period and during the succeeding 6-month period from January 1 to June 30 as well. Obviously, this system makes it extremely expensive for a shipper to interrupt his exclusive patronage, since, as in the hypothetical case described, one shipment on a nonmember line would result in forfeiture of rebates covering a 12-month period. The strength of such a tying device and its predatory effect upon competitors caused it to be declared unlawful by the Congress.

A steamship operator is said to be using a "fighting ship" when he establishes rates or follows schedules for one or more of his ships in a manner that is designed to drive another ship out of the trade. For example, if an operator were to schedule the arrival of one of his ships in each port visited by a competitor's ship a day or two before that competitor's ship arrived, and in each case charged rates that



were below that of his competitor's his ship would be considered a "fighting ship" if it could be established that the purpose for this pattern was to force the competitor out of the trade.

The proscription in the Shipping Act against the use of secret anti-competitive agreements arises from the act's conditional antitrust exemption. Exemption from our antitrust laws of such an agreement, provided it meets other statutory requirements, is contingent upon its being filed and approved by the Federal Maritime Commission before it can be put into effect. Failure to file even an executory agreement subjects parties to Shipping Act penalties of \$100 per day, in addition to whatever penalties the antitrust laws might provide.

Despite the fact that these four groups of practices were declared unlawful by the Shipping Act in 1916, the Celler committee investigation—

Senator DOUGLAS. Do I understand you were chief counsel for the Celler committee?

Mr. SINGMAN. I was actually associate chief counsel, Mr. Chairman, but I was in charge of the maritime phases of the investigation.

Senator DOUGLAS. Thank you.

Mr. SINGMAN. Despite the fact that these four groups of practices were declared unlawful by the Shipping Act in 1916, the Celler committee investigation, with which I am most familiar, discovered that for more than 40 years all of these outlawed practices had proliferated throughout the foreign commerce of the United States with virtually no interference by the Federal Maritime Board or any of its predecessor agencies. The record of those hearings, including documentary evidence, covers 9 volumes and more than 10,000 pages. The report on those hearings alone is 400 pages long.

Mr. Chairman, I have made available to the committee this report, House Report 149 of the 87th Congress.

Senator DOUGLAS. Thank you very much, Mr. Singman.

Mr. SINGMAN. The Celler investigation surprised many. It brought to light shocking neglect by the maritime agencies and callous disregard for the law by steamship line owners, here and abroad. It demonstrated that the Shipping Act had been largely a dead letter since the day it was enacted. A few highlights from those hearings might prove useful.

The basic thrust of the Celler committee's investigation revolved around antitrust policies and practices. Accordingly, one of the most interesting cases from its point of view concerned the congeries of secret, unfiled, anti-competitive agreements connected with the so-called rate war of 1953-58 in the inbound trade from Japan—what has been called by the Celler committee the "phony" rate war. Steamship operators in that trade complained loud and long during all of that period and since then, that, because of vicious rate-cutting practices by an independent or nonconference operator, the conference lines were forced into successive rate cuts resulting in a ruinous rate war. They have also contended that the results of the rate war were an unstable rate structure in the trade, destructive competition, and serious loss of revenue.

In fact, the Celler committee found—and I refer the members of the committee to pages 227 through 234 of the Celler committee re-

port (H. Rept. 1419, 87th Cong.)—that the following facts were true:

1. The immediate cause of the rate war was not unreasonable rate cutting by a nonconference line but the declaration by the conference itself that its members would no longer adhere to filed tariff rates but would consider themselves free to quote whatever rate was necessary to secure cargo;

2. The overtonnaging in the trade which gave rise to this fierce competition came, again not from independent competition, but primarily from the entry once more into the postwar trade by the Japanese conference lines;

3. Rates were in fact not "open" and not set competitively; instead, the principal stockholders or managing directors of the conference lines would correspond secretly or even hold secret meetings in which it was decided which lines would charge what rates and how much cargo each group would be permitted to carry. These "owners' meetings" were used in preference to meetings of corporate officers on the theory that such meetings need not be reported to the Federal authorities under the Shipping Act. A more careful reading of the statute would have persuaded them otherwise.

4. Finally, the financial records of the American conference lines show that none of them was severely affected by this alleged rate war. In fact, the only American line that lost money during the height of the rate war was the Isbrandtsen Line, the nonconference operator.

The fact that liner operators were huffing and puffing about irreparable harm from the depredations of an unscrupulous independent when in fact they were hardly hurt at all is not so important. The crucial fact of life to be learned from the history of the phony rate war is that, when not closely supervised, liner operators will enter into illegal secret agreements to further their own interests. In this case, the old Federal Maritime Board not only offered no supervision but seemed to have been totally unaware that these agreements existed. On one occasion a suspicious rumor reached the ears of one of the Board's employees, but, upon being reassured by the Japanese that he was misinformed, the subject was dropped.

Many other cases of secret agreements were unearthed. One involved secret, discriminatory rebate agreements in the Spanish inbound trade. Others dealt with the division of ports of call in the North Atlantic trade. The evidence showed that these illegal "gentlemen's agreements" were more numerous than the lawful, filed, and approved agreements. Yet, until the Celler investigation, not one prosecution had been brought in the 40-year history of the Shipping Act for failure to file a secret anticompetitive agreement.

The deferred rebate is one anticompetitive practice that the Congress in 1916 thought to be so reprehensible that it left no discretion for approval with the shipping board. Its use was flatly declared to be a misdemeanor, punishable by a \$25,000 fine. The dual-rate system was devised by conference operators in the 1920's to take its place as a more palatable technique for insuring exclusive patronage. The dual rate was not considered so vicious in its anticompetitive impact and, until a Supreme Court decision in 1958, was thought by the industry to be entirely lawful.

Despite that history, the Celler committee uncovered convincing evidence that, in the inbound trade from Italy, American and foreign steamship operators were offering, and paying, deferred rebates. These rebates were paid under the umbrella of a complex pyramid of secret agreements. These agreements called first for a secret but nondiscriminatory rebate which was paid to certain selected shippers with a larger volume of business. On top of these two secret rebates, the agreement called for yet a third secret rebate to a few "key" shippers. The second and third rebates were to be deferred and paid subject to the usual requirements for a deferred rebate. In somewhat characteristic fashion, the steamship executives involved in these agreements preferred to call these rebates "fidelity commissions," apparently in the mistaken belief that by referring to Jimson weed as a rose they could make it smell sweeter and avoid the consequences of the law.

Most steamship operators will confess that the use of fighting ships is a fearsome competitive technique that is clearly unlawful. Yet the Celler committee record established that fighting ships in fact were used by a group of conference lines in at least one instance to drive an independent operator out of the trade serving the North Atlantic. Again the operators employed a euphemism to avoid the jarring sound of an unlawful term; the device was referred to among themselves as a "fighting committee."

As explained to the Celler committee by a general freight traffic manager of one of the lines, a fighting committee was a committee of conference line representatives authorized on a moment's notice to commit the members of the conference to any rate quotation necessary to preserve for the conference lines the shipment of particular commodities which the nonconference operator was seeking. Whatever rate the fighting committee established became the conference rate. Not surprisingly the device in this instance proved greatly successful. Only a few months after the establishment of the fighting committee, the independent line left the trade.

From the Celler committee's antitrust point of view, another disturbing common practice of the conference lines concerned their tendency to use various extreme methods, including those already mentioned, to "kill off" independent competition. For example, in the South African trade, the Celler committee came across one letter by an American steamship vice president saying:

We have sold [one line] \* \* \* on the idea that we both should work closely together to try and kill off the Baron Line and then go back to our own private battle (Celler hearings, pt. 1, vol. IV, p. 4314).

With this insight into attitudes and purpose one can have little doubt that the predatory practices that were unfolded by the Celler committee had unlawful intent.

Perhaps even more significant for demonstrating guilty conscience as well as guilty intent was correspondence between the headquarters of one American line and its Manila office. It reflected secret arrangements between the line and certain of its shippers, the effect of which was unlawfully to evade exchange regulations of the Philippine

Government. This correspondence contains the following typical statement:

I believe you know that this is a private arrangement which we have with [X] \* \* \* by which they can wangle some exchange benefits. Should a copy of these correction notices fall into the wrong hands in Manila both [X] \* \* \* and ourselves would be seriously embarrassed with the exchange control authorities there (Celler hearings, pt. 2, vol. I, p. 429).

Senator DOUGLAS. I appreciate the way in which you do not mention names. But I wonder if you would be willing to give the names of the line and of the shipper.

Mr. SINGMAN. In this last case, Mr. Chairman?

Senator DOUGLAS. Yes.

Mr. SINGMAN. I can give you the name of the line. It was the American President Lines, headquarters in San Francisco. I cannot give you the name of the shipper because by agreement between the line and the chairman of the Celler committee, Representative Celler, the names of the shippers in the official record in order to protect certain of these shippers which the line contended were largely innocent. It may be possible that with some arrangement with the chairman, he would make these files available. But they are not public.

Senator DOUGLAS. May I ask, then, if you would identify the American steamship line whose vice president made the statement which you quote on the top of the page?

Mr. SINGMAN. My recollection is that that was the Farrell Line. It was Mr. Gorman. And my recollection is that he was the vice president of the Farrell Line. And when he said, "one line" he was referring to the Moore-McCormack Line, both of those lines being in the South African trade.

Senator DOUGLAS. If it was an error in your memory, you will correct this on the record.

Mr. SINGMAN. Yes, sir, I will.

But the piece de resistance of this correspondence lay in one short note from headquarters to Manila reading:

The purpose of this letter is to make sure that you have taken the precaution of destroying any file copies that you may have of letters such as your FTD-223-RMR of July 1 to Hal Campbell. There have been several other letters of this type and we assume you have removed them from your files and destroyed them so there would be no danger of their being subpoenaed.

Senator DOUGLAS. Who was Mr. Hal Campbell?

Mr. SINGMAN. Mr. Hal Campbell was the representative of the American President Line in Manila.

P.S.—Please destroy this letter after you have read it. (Celler hearings, pt. 2, vol. I, p. 438.)

Unfortunately for the sender of that note he failed to follow the advice given to his colleague in Manila.

I could go on for hours giving you other examples from the proceedings of the Celler committee investigation, but I think these few have provided you with some idea of the extent and variety of the unlawful practices followed by the various conferences and the almost incredible neglect of the Federal Maritime Board and its predecessor agencies in regulating those conferences.

It was the conclusion of the Celler committee that this regulatory neglect was in large measure attributable to the duality of functions vested in the old Federal Maritime Board and its predecessor agencies. Those agencies were charged with responsibility for promoting and subsidizing the U.S. merchant fleet, as well as being delegated the duty of regulating the waterborne foreign commerce of the United States in the best interests of the public at large. Accordingly, the chairman of the committee, Representative Emanuel Celler, recommended to the President that the Federal Maritime Board be reorganized into two different agencies, thus separating those inconsistent functions. This was done by Reorganization Plan No. 7 of 1961, and the Federal Maritime Commission became the successor agency of the old Board for regulatory purposes.

In addition, the Celler committee and Bonner committee cooperated in drafting amendments to the Shipping Act to give the new Commission broader powers. The subsequent legislation has come to be known as the Bonner Act of 1961. It was hoped that the reorganization and the additional statutory authority would prevent a recurrence of the nonregulation so characteristic of the first 45 years of the Shipping Act's existence.

Only time will tell whether the new Commission will use the extensive powers at its command to protect adequately the broad interests of U.S. foreign commerce. Thus far, the Commission has barely scratched the surface of its not inconsiderable powers. Long years of patient negotiation with foreign steamship companies and their governments and of firm administration of the Shipping Act lie ahead.

I firmly believe that if the Commission were to follow the recommendations set forth in the Celler committee report on the ocean freight industry published in March of last year much headway would be made in this area. One of the most important of these recommendations is that "the maritime agencies should conduct a thoroughgoing, intensive study of the structure and level of conference rates." The committee also recommended that the Federal Maritime Commission "should commence and pursue a general investigation of ocean freight rates" and should establish criteria for determining whether or not particular rates are fair, reasonable, nondiscriminatory, or not prejudicial to exporters of the United States vis-a-vis their foreign competitors. If the Commission can provide sound economic studies along these lines, in my judgment it would serve the public interest in the most effective way possible.

In the foregoing, I have covered many topics representing only the highlights in the broad subject of conference regulation. In summary, it is important, I think, to emphasize the following points:

1. Steamship conferences, if properly and effectively regulated and controlled can, and should be, beneficial to steamship operators, shippers, and the public at large.

2. If the broad interests of the United States are to be protected, the Federal Maritime Commission must use all of its regulatory and persuasive powers to shape a conference system in our trades that is not inconsistent with national interests and is generally beneficial.

3. Despite the tremendous power of the Federal Maritime Commission, little that is lasting can be accomplished in conference regulation without the full cooperation of all steamship operators, foreign

as well as American, and the wholehearted aid of the foreign governments involved.

4. Foreign maritime powers can, I believe, be convinced that it is in their best interests to cooperate in our efforts to rationalize ocean trade in the broad public interest; multilateral international regulation on a government-to-government basis is the only practicable long-term solution to these problems and should be possible. At least we must make a beginning.

Senator DOUGLAS. Thank you very much for this very interesting testimony.

The next witness is Dr. William Grossman, chairman of the transportation department of New York University.

**STATEMENT OF WILLIAM L. GROSSMAN, CHAIRMAN, TRANSPORTATION DEPARTMENT, NEW YORK UNIVERSITY**

Mr. GROSSMAN. Thank you, Mr. Chairman.

As a business enterprise, an ocean common carrier seeks, presumably, to maximize its net income. The application of this objective to the determination of the most desirable freight rate for a service, requires estimates of: (1) The total revenue that the service would produce under each of the rates that might reasonably be considered as candidates, and (2) the out-of-pocket cost to the carrier of providing the service under each of the rates. These estimates, in turn, necessitate an estimate of the amount of traffic that will move under each rate, for the amount of traffic will affect both the revenue and the cost to the carrier. The most profitable rate is, ordinarily, the one that will result in the greatest excess of revenue over out-of-pocket cost.

Are such rates—that is, rates fixed in accordance with the carriers' enlightened self-interest—desirable in the public interest, apart from their effects on the carriers themselves? To the limited extent to which the world economy is free and competitive, it will be promoted by such rates; for the advantages of a free economy rest upon the enlightened self-seeking of sellers and of buyers. As participants in international trade and in the world economy we are, therefore, interested in determining whether carriers operating between the United States and foreign countries are, in fact, trying intelligently and conscientiously, through their conferences, to fix their rates at the levels that will produce the greatest excess of revenue over cost. It is quite possible that, in some cases, rates so fixed would be substantially lower than rates determined by guesswork vaguely based on selected relevant factors.

Reliance on the information given by shipping conferences with regard to their ratemaking methods can lead to only one conclusion: Either the methods used by the conferences have not been fully revealed or they are appallingly inept. I call attention, for example, to a statement introduced by the chairman of 12 associated conferences in the course of the 1959 hearings before the Special Subcommittee on Steamship Conferences of the House Committee on Merchant Marine and Fisheries (pp. 860-865). This statement sets forth the disposition, and the reasons for the dispositions, of each of the 23 requests for rate reductions received by an important conference during a period of 4 months. The chairman of the conference affirmed

that the statement was "detailed" and that it provided "an adequate picture of our day-to-day operation" (p. 850). Examining this statement to determine the extent to which the conference made the estimates necessary for an enlightened decision in the interest of its members, one notes the following facts:

(1) So far as one can tell, in none of the cases was an estimate made of the amount of traffic that would move under the proposed rate, or for that matter under any other rate; the revenue that would be produced under the proposed rate; or the cost of producing the service under the proposed rate. Indeed, in 10 of the cases there was no reference whatever, direct or indirect, to carrier cost.

(2) In every one of the cases, only two rates appear to have been considered: the existing rate and the reduced rate proposed by the applicant. In many instances, the most desirable rate may well have been intermediate to these two.

(3) In none of the cases, apparently, was an effort made to resolve any conflicts of interest among carriers in the conference. Yet, of two possible rates, the higher may be more profitable to a relatively high-cost carrier, and the lower may be more profitable to a relatively low-cost carrier. Failure to consider such conflicts of interest is probably less important, however, than the other inadequacies listed above.

(4) All 23 cases were initiated by requests received from shippers. There was no report of any proceedings initiated by the conference itself.

In the hearings previously referred to, a spokesman for the Chamber of Commerce of the United States, defending the ratemaking methods of the conference, said:

It has not been my experience that conference rates are set at the highest possible level. It has been previously pointed out that a shipowner has a fixed cost. Obviously, the maximum revenue that the shipowner can get will result from rates that will move the greatest amount of traffic. This is an elementary factor in conference ratemaking (p. 552).

I might point out that he is suggesting there, indeed stating, that in seeking to maximize his revenue, a shipowner will automatically fix rates which will maximize the traffic. The implication, I suspect, is that he will also maximize his profit by this procedure. But this is untrue.

The speaker had had extensive relations with conferences and may be supposed to have known their methods above as well as anyone other than the direct participants in their inner deliberations. If the principle stated by him is really an elementary factor in conference ratemaking, the conferences had better change their methods radically. For it is by no means obvious—it is, indeed, generally untrue—that the rates that will move the greatest quantity of traffic will produce the maximum revenue.

This will become clear if one simply faces the obvious truth that the lower the rate, the greater the traffic is likely to be. Thus a rate of zero will produce the maximum traffic, and certainly not the maximum revenue.

And even if it were true, it would not be the key to a solution of the carriers' rate problems, for enlightened self-interest leads a carrier to maximize not its revenue but its profit.

My point here, I might add, is to indicate that so far as we can gather from statements by the conferences and their champions, they

are extremely foggy in their ratemaking method. It is possible that we are being deceived. If we are not, I can only turn again to the statement I made before, that their methods are appallingly inept.

The Federal Maritime Commission might apply the profit principle to the adjustment of inbound and outbound freight rates with the objective of increasing the excess of our exports over our imports, so far at least as agencies of foreign governments refrain from rate regulation inconsistent with such adjustment. This may be accomplished by a requirement that, with regard to every significant rate on outbound freight suspected of being unreasonably high, the conference fixing the rate establish, to the Commission's satisfaction, the probability that a lower rate would reduce the profitability of the service for which the rate is charged—that is, that a lower rate would reduce the excess of revenue from the service over the service's out-of-pocket cost; and by a requirement that, with regard to every significant rate on inbound freight suspected of being unreasonably low, the conference fixing the rate be required to establish, to the Commission's satisfaction, the probability that a higher rate would not be more profitable. Failure of the conference to bear the burden of proof on the issue would be followed by appropriate action to require a reduction of the rate on exports or an increase of the rate on imports, as the case may be.

Senator DOUGLAS. In other words, you are proposing that the burden of proof be shifted on these commodities from the Commission to the conferences.

Mr. GROSSMAN. Precisely so. The conference presumably has already fixed the rate on the basis of maximum profitability. It, therefore, should be in a position to bear that burden of proof. And the Commission and the public should not be put to the expense of repeating processes that the carriers, as businessmen, should already have gone through. I think the burden of proof should clearly be on the carriers here.

Senator DOUGLAS. Especially if the disparity in rates is very marked.

Mr. GROSSMAN. Yes, because then the prima facie case for unreasonableness is all the stronger.

What if the evidence shows that a certain rate on inbound freight is so low that it can be justified only on the "added-traffic theory"? Under this theory, a rate would be justified against the charge that it is unreasonably low, if the rate is needed in order to attract freight on return legs on which the space occupied by the freight would otherwise be empty and if the rate is high enough to cover the comparatively small additional cost occasioned by the carriage of this added traffic. The most experienced Federal agency in the field of rate regulation, the Interstate Commerce Commission, has repeatedly rejected the added-traffic theory. In the ICC's words:

The contention that the proposal should be approved because it would supply backhaul tonnage is essentially the so-called added-traffic theory. It is well settled that proposed reduced rates which could be regarded as compensatory only on that basis may not be approved (*insulation material*, 309 I.C.C. 580, 582 (1960)).

If the Federal Maritime Commission finds that added-traffic rates exist on inbound traffic and that their effects are adverse to the national interest, action by the Commission inimical to such rates would thus be consistent with well-established regulatory practice.



If I may interrupt myself again, Mr. Chairman, I try to make the point throughout this statement that the Commission and the Government in general need not depart from established principles of economics and of regulation to bring about what is desired.

The fixing of ocean-carrier freight rates by conferences may be sufficiently influenced by route competition and by competition between conference members and independent carriers (including tramp operators) to provide a significant and positive relationship, in some cases, between the maximization of profits and the prevention of excessively high rates. At the same time, its quasi-monopolistic nature invites an application of the established principles of public utility rate-level regulation whenever no such relationship appears to exist. Utility regulation attempts to bring about, in industries in which competition itself is greatly limited or insufficiently effective, the desirable effects on prices (rates) normally associated with competition in industries that do not require price regulation.

An important effect of competition, under ideal conditions, is a reduction of prices to the level of the costs of production of the marginal producer, with consequent discouragement of submarginal operations and of the dedication of excessive amounts of productive resources to the economic segment or activity under consideration. Where, therefore, competition among ocean carriers fails to eliminate submarginal operations, where a trade is habitually overtonnaged, the wholesome effect on prices, ordinarily associated with competition, can be achieved only if freight rates are fixed at the level at which they would provide a fair return to the carriers if the trade were not overtonnaged. In other words, shippers should not be obliged to subsidize the operation of an excessive number of voyages. Enforcement of a policy to prevent such subsidization may well result in rate reductions and, in this case, would probably increase our foreign trade. The decrease in freight rates and the increase in trade would, in all likelihood, be greater for our exports than for our imports, for many rates on inbound freight are probably already close to out-of-pocket costs. Even if the percentage of increase is identical for trade in both directions, the amount of increase in our exports will be greater than in our imports, with consequent advantage to our balance of payments.

I say the amount would be greater simply because a given percentage of a larger number of dollars will be a larger number of dollars than the same percentage of a smaller number of dollars, or the same percentage of a certain number of ton-miles will be a larger number of ton-miles than that percentage of a smaller number of ton-miles.

Under public utility rate-level regulation, imprudent investments are not included in the base on which a fair return is calculated, and unreasonable expenses are not included in the revenue needed of a company. Here again, so far as the application of the regulatory principles would result in freight rate reductions, it would tend to increase the amount of our exports more than the amount of our imports.

Rate reductions based on these principles may bring pressure on our carriers to operate more economically. So far as the rate reductions may nevertheless add to the inadequacy of the revenues of American-flag carriers (under reasonably good management), the burden of providing these carriers with enough revenue for successful operation

should be borne not by our exporters but by the American public in general, through increased Government subsidization; for the benefits of successful American-flag operations to defense and to the national economy are enjoyed by the Nation as a whole.

My conclusions, then, are these:

(1) There is reason to suspect that many conferences are lax in their efforts to fix rates at the most profitable levels. Such laxity tends to be adverse to the public interest. Where a conference cannot establish, by cost data and reasonable traffic estimates, that a rate on inbound freight is as high as profit maximization requires or that a rate on outbound freight cannot be lowered without a decrease in profits, governmental action to compel appropriate rate adjustments is desirable.

(2) Where the most profitable rates are or would be adverse to the public interest, and in particular where they would unreasonably frustrate the aspiration of the United States to improve its balance of payments, their appropriate adjustments may be compelled by governmental action without departure from the established principles of rate regulation. The following principles are especially relevant:

(a) Rates fixed on the added-traffic theory are unreasonably low. This principle may require substantial increases in some rates on inbound freight.

(b) Revenues should be no higher than necessary to cover reasonable carrier costs, including a fair return. Such costs are those that would be experienced under sound management if the trade were not over-tonnaged.

(3) Action along the lines indicated would increase the excess of our exports over our imports and would therefore have a favorable effect on our balance of payments.

Senator DOUGLAS. Thank you very much.

Finally, our last witness is Mr. Joseph Klausner, a maritime attorney, practicing here in Washington.

Mr. Klausner, do you have a statement?

Mr. KLAUSNER. Yes, sir.

Senator DOUGLAS. You may proceed.

Mr. KLAUSNER. Thank you, Mr. Chairman.

#### STATEMENT OF JOSEPH A. KLAUSNER, ATTORNEY, WASHINGTON, D.C.

Mr. KLAUSNER. The joint committee's deliberations come at an interesting moment for American shipping policy. So far as I know, this is the first time the country has consciously called on the merchant marine in a nonmilitary contingency; hitherto, the primary object in underwriting a national fleet has undoubtedly been its wartime utility, which is partly proved and partly explained by the procession of distinguished naval officers who have at various times presided over the shipping affair. Now, however, the merchant marine is asked to justify itself by its contribution to a favorable balance of payments. This is not a new conception in international trade; many nations, especially the small maritime powers, particularly the Scandinavians, have traditionally balanced their foreign accounts by the sale of shipping services not merely in their own comparatively narrow commerce

but in the cross-trades between third nations, predominantly the United States; at present, for instance, about 90 percent of our total trade by weight moves in foreign bottoms, of which I should think 75 percent are not owned by American interests.

Senator DOUGLAS. Mr. Klausner, that means that 15 percent are owned by American interests but fly foreign flags?

Mr. KLAUSNER. Yes.

Senator DOUGLAS. These foreign flags are Liberia, Panama?

Mr. KLAUSNER. In addition to that—Honduras—now in addition to those, this figure that I use here of course includes the tanker fleets. Many of the great oil companies, as you know, maintain full fleets under flags like the French or the Greek flag.

Senator DOUGLAS. Is that so? I didn't know that.

Mr. KLAUSNER. They are very powerful constituents of the economies of many countries in addition to our own, and they have flag fleets of considerable size and scope there.

Senator DOUGLAS. That is very interesting. I had not realized that.

Mr. KLAUSNER. Perhaps we may say that this has been a form of indirect foreign aid; but our heavy direct aid, which now outweighs the trade balance, has evidently been thought by those responsible to require a stricter control of indirect expenditure. Hence, the American fleet has been called to make its contribution in the various ways that theoretically lie open, whether by using its competitive power to reduce the general rate structure, or by earning more dollar freights, or by finding new markets for our exports to penetrate.

Its capacity to rise to this demand is partly the occasion, as I gather, for this committee's inquiry. In another form, it is obvious that the executive department has raised the same question and perhaps at least tentatively reached a negative answer, for it has already for some time been engaged in an unannounced but very perceptible contraction of the Federal shipping programs. Scheduled replacements of existing ships with construction subsidy have been cut sharply below the contractual commitments of the subsidized lines; new awards of operating subsidy contracts will not, I think, be made again soon; construction and mortgage aids for unsubsidized companies have been denied in circumstances where they would previously have been granted in normal routine. Whatever the official explanation, which is doubtless convincing in each individual case, I shall venture to infer from this pattern a certain official disillusionment with the cost and ultimate utility of a subsidized fleet both for military and other functions. The impact of this contraction has been muffled by the fact that companies already subsidized are not directly affected, and even feel relief at the deferment of their replacement expenditures, and by a countervailing pressure of the payments problem itself, which has transferred heavy movements of Government-sponsored cargoes to American ships; but its presence should I think be noticed and weighed.

The questions the chairman has asked me to discuss are certainly germane to an assessment of current statutory policy, and to a determination of the fleet's utility in such a contingency as is now presented. There are, besides, many related problems of policy and detail. The fullest account I can give is contained in the paper, prepared in a

different but comparable context, that supports my present statement, and which perhaps the committee may wish to include in its record.

Senator DOUGLAS. It is a very thorough and bulky study, running to approximately 115 typewritten pages.

Mr. KLAUSNER. It has the virtue, sir, of being double spaced.

Senator DOUGLAS. I will ask unanimous consent that it be printed as an appendix to today's proceedings. (See p. 243.)

Mr. KLAUSNER. What it all comes to is that, surveying financial conditions in the most important segment of the industry, and observing the extent of its physical utilization, I take a sanguine view of the usefulness in current and future need of the instrument the Government has spent so much to construct and perfect. With many obvious shortcomings, both of policy and execution, and with some perhaps built-in waste and inefficiency, this instrument has grown to a size and power reasonably fitted for the task intended, and capable of but requiring measurable improvement and expansion. I shall suggest that just at this moment a strong Government lead in respect of technology and operating policy would yield very great benefits at diminishing Federal cost.

I begin with a technical point of some consequence. Until recently, it was possible still to read in the pronouncements of even very responsible officials that our ships are sailing more than half empty. There is a sense in which this is true, but an entirely misleading one. Both in the physical and revenue sense, cargo has two shipping dimensions, weight and cubic measurement. For its part, the ship has weight capacity and cubic capacity, too. A cargo that weighs disproportionately to its measurement in either direction will leave some of the vessel's reciprocal capacity unused. Shipping tariffs are adjusted to account for this disparity, taking usually as a swing point the long ton occupying 40 cubic feet. A commodity occupying 80 cubic feet to the ton pays freight for two revenue tons; a commodity occupying 20 cubic feet to the ton also pays for two revenue tons. Thus the ship is protected against waste of its capacity in either dimension. Now, it is a fact that American foreign trade runs decidedly to measurement. To illustrate the point I have made a table of the relation of weight to measurement in our foreign commerce, based on the carryings of subsidized lines in 1962, and constructed simply by dividing the tons carried into the space occupied:

	Tons (thousands)	Cubic feet (millions)	Ratio
Outbound:			
Europe.....	2,287	270	118
Far East.....	2,249	188	84
Latin America.....	1,540	155	100
Africa.....	768	56	72
Australia.....	128	7	55
Total.....	6,972	676	97
Inbound:			
Europe.....	1,115	191	170
Far East.....	855	89	104

You will see that our total exports, the much more important leg from every point of view, run very nearly 100 cubic feet to the ton, a relation of almost 2½ revenue tons to 1 weight ton. To Europe the

proportion rises almost to 3 to 1. The significance of these relations is plain: a vessel of 10,000 deadweight tons design, with I suppose average cargo capacity of 9,000 weight tons, will in our chief trades be practicably full in cubic when carrying 4,000 weight tons or less. To say such a vessel is more than half empty is quite wrong; nothing more could be physically crammed into her; and she is being fully compensated under her tariffs for her unused weight capacity.

When we come to analyze the operating results of the American subsidized lines, we see how pertinent all this becomes. Table 11 of the main paper shows a 5-year average utilization outbound exceeding 80 percent; considering the variance in trades, and with a reasonable allowance for broken stowage, it is safe to say that these ships enjoyed utilization exceeding 90 percent. I understand the year 1962 showed no significance decline in utilization either in total or in detail, except perhaps to Latin America, where political conditions continue unsettled; and more than 100 additional sailings were made above the 5-year average of about 1,500. It is probable that the same satisfactory results would in the main and with occasional deviations be confirmed if we pursued them back to 1946, since the whole period was a good one for the liner services. A conclusive demonstration of the distortion between weight and measurement is offered by the fact that the carryings of the subsidized lines declined by nearly 500,000 weight tons, about 6 percent, between 1961 and 1962 but the amount of space occupied actually increased slightly.

The inbound position is also suggestive. If you will examine table 12 of the main paper, you will see what seems at first a somewhat spottier picture. The utilization is excellent (more than two-thirds) in the movement to the Atlantic ports from all foreign points except the special case of Latin America; and I am informed that there was even an improvement in 1962. You will notice, however, a markedly poorer showing both from Europe and the Far East to the gulf and Pacific ports, and this trend likewise persisted in 1962, accompanied as well by a decline in total sailings to the gulf. To some extent, this reflects the nature of the import market involved, but the primary factor is the much more profitable cargo available outbound. Emerging in these figures is a remarkable pattern of operations, in which the vessel turns around without actively soliciting inbound cargo to carry the high-rated exports offering in much greater quantity here. I do not think this could be done in a common carrier operation if the dual features were not present outbound of shortage of space and high profitability outbound, so high, indeed, that with subsidy one of the great American lines could afford to come home on one of its routes with only 3 percent of its space filled—in effect, empty.

Senator DOUGLAS. This is a startling statement, venturing into a field with which I am unfamiliar.

Are you saying that the outbound cargo is so profitable that ships carrying it from here, let us say, to Europe instead of waiting in Europe to take an inbound cargo at low rates, with the delay which comes from loading, will come back to the United States relatively empty in order to get the high outbound rates?

Mr. KLAUSNER. Quite so. In many trades that is undoubtedly the fact.

Senator DOUGLAS. Well, this is astounding.

Mr. KLAUSNER. There are explanations for it to which I will come in the course of the discussion. But it is undoubtedly the fact in many trades—less so to Europe, by the way, to deal with that example. Many of the leading lines—indeed I would say the most startling demonstration of this fact is that the great and perhaps only remaining independent line has for many years operated in just that fashion.

Senator DOUGLAS. What is that—Isbrandtsen?

Mr. KLAUSNER. States Marine—unsubsidized, is what I mean, and also partly independent. The States Marine complex. They have for many years operated an extremely interesting service, because they seem to have discovered very early in the game, much earlier than the other lines, that it was possible to subsist in this way without subsidy even.

Now, this pattern is being adopted by one or more—I would say by several of the major subsidized lines. And the figures are certainly available to the committee in official form from the Maritime Administration.

I may say that I am not at all certain that this committee's unfamiliarity is unique with this field. I have an impression that this phenomenon is not fully appreciated even in Government quarters that daily deal with the problem. And there is a reason for that—to which I come soon enough.

We grip here the key to some of the curious happenings in the regulatory field. The inbound trades have traditionally been overtonnaged, simply because our exports have in shipping terms substantially exceeded imports. Since the outbound rates are shown to be high enough virtually to sustain a round voyage (and this is shown by the practice not only of the subsidized but the unsubsidized American lines, who in fact originated the one-way operation), and since economists and accountants would agree with freight men that most vessel charges for both legs are incurred merely by putting her on outward berth, the tendency has always been to regard as profitable any inbound rate that exceeds the bare out-of-pocket cost of loading and discharging—which you see fits neatly with what Professor Grossman has been telling you.

Here is why inbound rates have tended to fall far below outbound rates even on identical commodities, and moreover to be exceptionally volatile. The rate wars of the past were always fought in our inbound trades, and the conference structure at its most rigid has never succeeded in stifling the temptation of the members to steal a march and a cargo: all the disciplines were aimed at brother members, but the individual line obviously tended to be realistic about its own opportunities when its price margins were so great. Hence also the pool, which has suddenly been burgeoning in all our trades, but especially inbound, for the division of revenue makes it less important to be the carrying line and diminishes the incentives for rate cutting. These pools are being approved by the Maritime Commission apparently as a routine matter, with a sense evidently of relief that administration of the Shipping Act is thereby simplified. Yet it seems clear that when American lines fight for cargo they do well. And one remembers that one side of the payments problem is to keep imports cheap.

The virtual departure of some of our lines from the inbound trades, in some instances perhaps retraining a pool interest, is a significant phenomenon.

Senator DOUGLAS. What do you mean by that?

Mr. KLAUSNER. An interest in the revenue pools that are being formed more and more.

Senator DOUGLAS. Are there revenue pools?

Mr. KLAUSNER. Yes, a good many, sir. And many more pending at present.

Senator DOUGLAS. Do you know the size of these revenue pools?

Mr. KLAUSNER. Well, in what terms of size?

Senator DOUGLAS. Amounts.

Mr. KLAUSNER. The funds involved?

Senator DOUGLAS. Yes.

Mr. KLAUSNER. Well, the general rule in those that are being submitted at the present for approval have been to give, say, 70 percent to the foreign line, reserving a 30-percent maximum interest to the American member. In the South American trade I think we tend to have a bulge. I warn in advance against the response which is not coldblooded and perfectly judicious. I feel that before we form judgments on these matters, we ought to see them in their true context, with all the facts before us.

Senator DOUGLAS. Do we share in the earnings of the European lines, or the Japanese lines?

Mr. KLAUSNER. The theory would be so. How they work out in practice is unclear. I believe that it is said that in one of the most important pools, the famous Lykes-Harrison pool, the division has been worked out by the adjustment of services so that I think neither line has ever made a payment to the other. I may not be quite accurate over the long history of that pool. But in general it is claimed that that can be adjusted by the service.

The point I make here, and the one I stress with as much force as I can muster here, is that what is happening is that there is a tendency for us, for a reason I shall come to, which I think is of paramount significance, to reduce the service in the undercargoes, overtonnaged leg of our trade, namely the inbound trades. And I think the tendency is for these pools to preponderate in the inbound trade.

I do not make that as an absolute assertion, because there are several trades in which there are outbound as well. For instance, the outbound cotton pool to Japan. The Lykes-Harrison pool I think is also an outbound pool.

But in general you have the coffee pools from South America. There is a growing tendency of the South American countries to demand a place for their own fleet, even a preponderant place. They generally tend to include us because they really cannot carry all their cargo, and depend upon the famous lines that we have.

The tendency is to squeeze out third-flag lines, the small countries, the Scandinavians and the British, for instance, which have had so famous and traditional a place in ocean shipping. The tendency nowadays is for the pool to be limited to the lines of the recipient and exporting country.

I am inclined to think this is a fairly pernicious idea. It is certainly one which is shortsighted from every point of view. But the immediate fact is that the pool tends to spring up in that way.

What it signifies in my opinion is that the American liner fleet is in fact severely undertonnaged. In no other way can it be explained

that while our foreign trade has been continually growing in quantity and value, and our ships have been substantially full during many years, our percentage of carryings has diminished in relation to the carryings of foreign lines.

Senator DOUGLAS. You say our ships have been substantially full. But that seems to be true only on outbound voyages, not on inbound.

Mr. KLAUSNER. That by far the—that is by far the more significant leg. It is overwhelmingly the more significant leg in shipping terms—both in the value and quantity of cargo.

Now, what I say here is not intended to be limited in this way. I think that for practical purposes our ships are unable to reach the peak of our outbound movement, even if in various trades they do not rise to a full utilization of the inbound cargo. I think what they are doing is attempting to create a somewhat larger pool of outbound tonnage by this device of short-changing the inbound leg. It seems to me quite obvious that that is the case.

In no other way can be explained these distortions of sailing pattern by which the lines seek rather artificially to increase their service outbound at the expense of the less profitable inbound leg. There is no use criticizing this tendency: it is a foreseeable economic reaction to adjust service to the most profitable demand when supply is short. My point is that there exists a chronic American undertonnaging, and this, coupled with our adherence to the conference system, largely explains the rate structure the joint committee has noticed.

This undertonnaging is aggravated by another factor. I draw your attention to table 13 of the main paper, which sets out the movement during several years of what is called Government-sponsored cargo. Notice that in 1959 the total of aid and defense export cargo carried by American liners, 3.5 million tons, represented 37 percent of their total export carryings of 9.5 million tons; by 1961 the corresponding figure was 41 percent and almost the whole increase in tons carried came from this source; in 1962, as I am informed, the proportion was over 54 percent, and it may well be greater in 1963. These figures must be received with some reserve, partly because they are in long tons, partly because they are not exhaustive, and are unrefined as to export area; nor do we know the division between subsidized and unsubsidized carriers. It is possible to guess that roughly 40 percent of the cargo of the Agency for International Development goes to the Far East, and probably more of the Agriculture Department shipments, and that a considerably smaller proportion goes to Europe. Thus the impact is different in different areas. There is no information on the defense cargoes, except that they are probably even more desirable. With all these qualifications, whose exact application this committee could certainly ascertain, this Government movement which is of growing importance as the payments issue throws more on the American carriers, is another profound evidence of understanding. This cargo is valuable, easy to solicit, and on the average high paying.

Senator DOUGLAS. May it not also be an evidence of overpayments?

Mr. KLAUSNER. It may very well be. Still—those are obviously reciprocals. If you had enough tonnage, you might not find the same price effect. It strikes me those are necessarily economic reciprocals. Especially at this moment, you see, when we are really forcing more and more of this cargo on the American lines because of the balance-of-payments problem.



Senator DOUGLAS. That does not mean that the high rate must be granted.

Mr. KLAUSNER. No; it does not. But it invites—but unregulated as it is, with the rates made in effect unilaterally, or bargained over by the Government agency sitting down—

Senator DOUGLAS. Doesn't that indicate that possibly the Government agency should be tougher bargainers?

Mr. KLAUSNER. Yes. But it is very hard to ask of them. I am afraid that it is not a highly—

Senator DOUGLAS. Why is it hard to ask of them?

Mr. KLAUSNER. It is hard to ask of them because I believe their essential training is not along those lines.

Senator DOUGLAS. Would you repeat that, please?

Mr. KLAUSNER. I say the essential training of Government officers is not along the lines of hard bargaining.

Senator DOUGLAS. Well, this can be encouraged.

Mr. KLAUSNER. I dare say.

The Maritime Administration not long ago recorded that some west coast shippers prefer foreign carriers, which do not turn them away for Government cargo; now Government officers are finding the carriers a bit selective. Some of this lift is quasi-commercial, and would move anyway; but looking at the figures, I incline to think that its present effect is to displace commercial cargo in our ships. The definite decline of our actual and relative position in the commercial category as shown in this table has been confirmed and extended in 1962; in that year we still carried a third of our total liner exports in tons, but only 19 percent of the purely commercial constituent. The displacement may be greater than the long tons show because Government (especially defense) cargo tends to run to higher measurement.

With a static capacity more and more taken up with Government shipments as the payments problem is aggravated, we not only accentuate our tonnage shortage and actually diminish inbound space, and we not only leave the commercial field preponderantly to foreign development, but by the same token we reduce our leverage in the area of our commerce governed by the conferences. Our own necessities thus end by breeding the rate structure of which the joint committee has complained.

I would also invite you to notice that we are probably on the verge of a major shipping boom. The grain lift projected for Russia, whether or not we join in it directly, is bound to syphon off a large part of the world fleet. If China and the other Communist countries are to become buyers on the same scale, again whether or not we join in selling, a demand for ships may be expected as intense as we saw in the Suez crisis. The shortage of American tonnage will then be come acute, and the quite inadequate reserve fleet will no doubt have to be broken out again—a step only possible when the rates have risen high enough to cover the marginal costs of obsolete laid-up tonnage. This will be the last stage of proof that our fleet is too small even for our peacetime commerce.

You will expect all these tendencies to have proved themselves in the financial results, and perhaps you will consider that they have. Table 15 of the main paper reflects substantial and rapid growth in almost every constituent of the finances of the subsidized lines. In the 7

years recorded there, 1954-61, net worth rose 50 percent, from \$523 million to \$785 million, of which the growth ingredient was earned surplus, up 56 percent from about \$400 million to more than \$650 million. Total assets rose 73 percent, from about \$750 million to about \$1,300 million.

Senator DOUGLAS. Just a moment. Net worth rose 50 percent—

Mr. KLAUSNER. If you look at the table itself—

Senator DOUGLAS. From 1954 to 1960?

Mr. KLAUSNER. To 1961. Is that figure clear, sir?

Senator DOUGLAS. Yes, in 7 years.

Mr. KLAUSNER. Yes, that's right.

I was saying that the total assets rose 73 percent, from about \$750 million to about \$1,300 million.

There is an uneven distribution among the lines, but in 1961 only two companies had assets less than \$10 million, and one more somewhat less than \$20 million, but it is a joint subsidiary of two of the largest lines; four ranged between \$30 and \$40 million, two between \$70 and \$80 million, three between \$100 and \$150 million, two between \$150 and \$200 million, and one over \$250 million; if one company be consolidated with two others in which it has probably controlling stock interests, a second complex results of well over \$200 million in assets. These impressive figures represent real growth from a rather small base: paid-in capital was about \$179 million in 1961, against earned surplus at that time of \$646 million for the whole group of 15 lines, so that the original investment has quadrupled.

Senator DOUGLAS. In how many years?

Mr. KLAUSNER. Well, that varies, sir. Some of them go back of course to 1936 or earlier.

Individual cases are much more remarkable. One company had in 1961 an original capital of less than \$2.5 million, and an enormous earned surplus of \$86 million; \$7 million has earned \$49 million for another; for two others \$5 million has generated about \$25 million each, and \$4 million nearly \$20 million for another. It will be remembered that earned surplus is what remains of net profits after paying dividends.

Senator DOUGLAS. You have a record of the dividend payments?

Mr. KLAUSNER. They are available, sir. They are comparatively modest, for a reason which I will indicate.

The most interesting part of these figures is how much of the cumulative profits stands in cash and equivalent: from year to year current assets and funded reserves represent 50 to 60 percent of assets. Further, although the net investment in ships grew 64 percent between 1954 and 1961, and the reserves only 35 percent, the relation of ships to total assets actually declined slightly, to 37 percent. This contrasts with other forms of transportation and public utilities, where the usual proportion is between 70 and 80 percent. Probably there has been some change in 1962-63 when more ships have been under construction in the present slowed-down cycle of replacements—some of them paid for in cash at least during construction, and perhaps one whole fleet replaced for full cash. That will modify the proportions. But by the end of the decade I should expect these proportions to be restored and even exceeded unless there is a change of policy.

This condition is caused by the interplay of genuinely good operating results with the technical terms of the Merchant Marine Act. My main paper explains this in some detail, and I shall only note here that the statute requires the funding of depreciation to pay purchase-money mortgages and to allow for replacement in 25 years, and of all profits above 10 percent of capital necessarily employed in the business to allow for recapture (i.e., repayment) of operating subsidy. Since the war, payments of operating subsidy have been net of recapture, so that the reserve for that purpose is available for other purposes.

Senator DOUGLAS. What do you mean—net of recapture?

Mr. KLAUSNER. Before the war, the accrued subsidy—crudely, the difference between foreign costs and American costs in certain items—was paid out, and the accounts were only struck at the end of 10 years—a sort of unrecorded loan.

Beginning in 1947, the Government adopted a policy that it would only pay out the net between the accrued subsidy and the estimated recapture, so that at any given moment the line is likely to be very nearly current as between what it is entitled to receive and what it is obligated to pay.

You do know, sir, that under the Merchant Marine Act the subsidized lines are obliged to repay to the Government 50 percent of all their profits above 10 percent of the capital necessarily employed in the business, as the agency defines it. I think it is one of the few subsidy systems that has such a repayment feature. The results vary. I think that with the greatly increased costs of ship construction, the tendency has been virtually to eliminate recapture. But I notice that in this year and last year the results indicated that some of the lines are in a recapture position.

But in addition to these requirements the statute treats profits as taxable only when released to the line's general funds, in practice only in dividends paid out to the stockholders. Otherwise, the tax is deferred to the depreciation base of ships acquired with the retained profits. Thus, the effective tax rate has as a rule worked out to about 25 percent of net profits, rising I think to 30 percent in 1962, when the dividend rate may have been somewhat easier because of a 50-percent increase in net profits during that year.

Senator DOUGLAS. Are you saying that earned surplus not distributed is nontaxable?

Mr. KLAUSNER. That's right. They are permitted to make deposits into their capital reserve or special reserve funds.

Senator DOUGLAS. Are there any other industries which are given this privilege?

Mr. KLAUSNER. I am not offhand aware of any. It is, however, of very long standing.

Mr. SINGMAN. Mr. Chairman, excuse me for interrupting. I think it should be pointed out that not all earned surplus is tax free. Only that part of earned surplus which is placed in their reserve fund becomes tax free, and that reserve fund is subject to rigid statutory requirements as to how it may be spent.

In general it is designed for replacement purposes of their ships, and can be spent only with permission of the Maritime Administration.

Mr. KLAUSNER. What Mr. Singman says is quite true. But my statement is also correct—that in effect the only money taxed is the money paid out in dividends.

Representative CURTIS. Well, is this a depreciation?

Mr. KLAUSNER. It is both. The way the system is set up is this: In the first instance the capital reserve fund consists of a mandatory deposit of depreciation on the vessel calculated in accordance with the formula agreed between Maritime and the Treasury. It is probably equivalent now to about 4 percent per annum on the capital cost of the vessel to the operator—that is, after subsidy.

In addition to that, there is a special reserve fund into which all profits above a given percentage are required to be deposited as well.

Representative CURTIS. Is that for future acquisition?

Mr. KLAUSNER. The capital reserve fund was intended for the purpose of replacement of vessels and the acquisition of further ships. What has happened is that the special reserve money has tended also to go into the capital reserve and free profits instead of being taken out as dividends or distributed to the stockholders in other forms are all going into the capital accounts for in fact I have no doubt the purpose of acquiring ships. There is no other possible use for the money—short of a liquidation.

The Government's conservative dividend policy plus the considerable tax incentive to retain money on the reserves on a capital-gains basis are therefore responsible for these large cash accumulations.

There are, I think, two errors of policy in process, whose joint operation creates the frustration responsible for the skepticism and disillusionment I have mentioned; and I cannot deny that they really tend to hold the maritime instrument to a lower accomplishment than all these otherwise favorable signs suggest.

The first error is the failure to translate the cash resources of the industry into ships, and thereby to expand the tonnage base to an adequate extent. Of course, in a way it seems all to the good to see so much cash. No doubt the statutory policy of building the financial strength of the lines has been vindicated. I cannot help suggesting, however, that it has reached to the limit and beyond of current usefulness. The real object of the law is not money but ships. Ships are better than cash. They do not depreciate as fast during a quarter of a century; they even earn more money. It is not sound to sterilize 50 to 60 percent of the industry's assets at 2½ percent and to throw the whole burden of earning and expanding on the remainder. We do not exact that much reserve coverage even from banks. I worked out the results for 1959 when the net vessel property of the subsidized lines and the funded reserves of these lines were practically equal at \$400 million each. The ships grossed \$600 million that year, and the reserves earned interest of only \$10 million; if the ships be deemed to absorb all expenses, the respective yields were still 10 percent against 2½ percent, or 4 to 1. Besides the uneconomic use of capital in this way, there are other dangers, for instance, that such topheavy cash positions may tempt financial raids, to which, by the way, I have not hitherto noticed any particular sensitivity on the part of the Government.

Senator DOUGLAS. Have there been any such raids?

Mr. KLAUSNER. Well, there have been one or two; yes, sir.

Senator DOUGLAS. Would you explain that?

Mr. KLAUSNER. Well, the most prominent instance is the case of a company about a decade ago, which was a quite powerful and well-

established subsidized line, and which was acquired by—in the open market, incidentally—by an organization which makes a business of these liquidations. And this quite powerful company, which was bought for very little money cash, was rapidly liquidated and stripped out.

Senator DOUGLAS. Let's get down to details. What was that company?

Mr. KLAUSNER. That was the New York & Cuba Mail Line.

Senator DOUGLAS. Who acquired it?

Mr. KLAUSNER. The original acquirers were an organization known as Newman-Graham, or Graham-Newman, well-known financiers, so to say, in New York. This company I think went through several hands, always at a discount. But it was a fairly unpleasant thing to watch this organization that had been built up over many years, really a rather famous constituent of our fleet, destroyed in this way. And I think it was solely the result of these very high cash reserves.

I think the tendency on the part of the Government is to be insufficiently alert to a duty in that respect.

I will say quite bluntly that within the last couple of years there has been at least one very remotely similar example, because it did not end by any means with the destruction of the line in question, which on the contrary remains a very great and powerful one. But it was a case which I scarcely believe should have been permitted, of a line being purchased, or the controlling interest in it being purchased, and then the line in effect paying out the purchase price to the buyer.

Senator DOUGLAS. What company was this?

Mr. KLAUSNER. I refer to American Export.

Senator DOUGLAS. Who purchased that?

Mr. KLAUSNER. The Isbrandtsen organization. They purchased the controlling interest of about 25 percent. The circumstances were such as seem to me clearly to involve very little more than the company—the acquired company paying the purchase price to its purchaser. Now, the amount in question—

Senator DOUGLAS. Well, this would have done Jay Gould credit.

Mr. KLAUSNER. Well, Senator, it is by no means an unknown phenomenon in current finance. We have not totally reformed our views of the way these things are done. We all think very little of them. But in practice they happen every day.

My own impression is that the Government agency involved should be a much more rigid controller of the possibilities of this sort and ought to prevent them.

Senator DOUGLAS. Does it have legal powers to do so?

Mr. KLAUSNER. Unquestionably.

Senator DOUGLAS. You think it does.

Mr. KLAUSNER. Unquestionably; no doubt about it at all.

Senator DOUGLAS. What is the statute which gives them this power?

Mr. KLAUSNER. The Merchant Marine Act gives them every conceivable power. This was a subsidized line.

Of course, you must not suppose, as I observe Mr. Singman's unhappiness to my right, that all I say has no countervailing positions against it.

Senator DOUGLAS. You are privileged, not subject to libel suit.

Mr. SINGMAN. Mr. Chairman, may I have a word at this point?

Senator DOUGLAS. Yes, certainly.

Mr. SINGMAN. I would like to make one comment on Mr. Klausner's mention of the American Export-Isbrandtsen merger case, because, as a matter of fact, at the time that that merger was approved by the Maritime Administration and the Secretary of Commerce, I was Deputy Maritime Administrator and was a member of the Maritime Subsidy Board that approved that merger.

I can say that although Mr. Klausner's delightful account is very amusing, I think that a more accurate description of the transaction would be simply that the Isbrandtsen Co. gave up all of its ships and goodwill in return for a controlling interest in American Export. American Export, it is true, during part of the transaction paid for these ships. But it was a complicated series of transactions, the net effect of which was the Isbrandtsen Co., an independent line, sold its ships to the American Export Line, an independent line, for a controlling interest in the American Export Line.

I might say that the controlling interest, as Mr. Klausner mentioned, is by no means a numerical majority of the outstanding stock. So that although it is now controlling, these things have a way of disappearing in proxy fights and such.

Mr. KLAUSNER. Mr. Singman is one of my dearest friends, and there is no man I admire more. But I would gladly have compared his version of this transaction in his old role as counsel to the Celler committee with his description of it now as a former Deputy Maritime Administrator.

The fact is——

Mr. SINGMAN. Touché.

Mr. KLAUSNER. Nothing distresses me so much as to be obliged to disagree with Mr. Singman in public. The fact is that his use of the term "merger" is—contains the inaccuracy which is the fundamental error.

Had there been a merger, there would have been no cash passing to Mr. Isbrandtsen's company for those 14 ships. A merger would have been a merger. And there would have been no possible criticism of it. The trouble was that there was no merger until after the money had passed.

I think it probably would be not fruitful to detain the committee with a very elaborate description of it. But I take myself a grimmer view of transactions of this character than Mr. Singman appears at present to do.

Now, to return to my statement: Without purporting to criticize past judgment, I only invite attention to the immediate and future need for ships in our commerce, even without regard to the underlying and perennial military demand. I suggest that the right place for this impressive financial accumulation is in new ships, which if I am right are needed now, and which these reserves seem to offer a golden chance to acquire—a chance rendered the more attractive by the imminence of mechanical improvements that should strikingly reduce unit costs of operation and with them of operating subsidies. This is a subject too large to enter into now, but the Joint Committee will find it developed in outline in the main paper, and much has happened since I wrote it. It is enough to say that the technical means exist for reversing the upward subsidy spiral while acquiring a fleet of twice the capacity and largely self-sustaining.

It is a curious phenomenon to observe the Government draw back just as it reaches the edge of accomplishment: it becomes disillusioned and disheartened just as the combination forms itself of scientific advancement, adequate industry financing and growing foreign trade. I should myself be disposed to press forward a policy that, primarily aimed at war, vindicates itself even in peace.

The second major cause of this official disillusionment springs from a certain inconsistency of administrative as distinguished from statutory policy. It is inconsistent, and contradicts national policy, to give a subsidy to meet foreign competition and at the same time to compel or encourage the subsidized line to join with its competition in conferences, superconferences, and pools. We thus pay subsidy in order to pay high freight rates. A kind of intellectual mist obscures this subject, and distorts real values with flickering and even reversed images. If a little healthy competition threatens to let in a breeze, there arises a universal grumble of rate-war, chaos, the commercial ruin of the merchant marine; and public officials hasten to bludgeon the adventurous dissident back within the reservation, or fly off to negotiation revenue pools as the universal pacifier.

Senator DOUGLAS. Public officials do that? Public officials negotiate rate revenue pools as a pacifier?

Mr. KLAUSNER. Well, I speak, subject, of course, to the most official and public correction. But it is I think understood that at least in respect to the Japanese trades, a leading force in bringing about this state of pools has been the Maritime Commission itself.

Senator DOUGLAS. When?

Mr. KLAUSNER. Since its reorganization—within the last 2 years, I would say.

Representative CURTIS. It is the part of the whole pattern in trade today.

Senator DOUGLAS. Can you prove that?

Mr. KLAUSNER. Oh, I don't think that these assertions are of a character that anybody would deny. I think the thing to do is to ask the Commission point-blank.

May I finish my statement at this time, Senator?

Senator DOUGLAS. Please proceed.

Mr. KLAUSNER. In such an atmosphere, only rising rates, ever tighter controls of shippers, ever closer ties between carriers, pyramids of conferences piled up one upon the other to approximate the vast cartel from which no doubt the economic gods can be defied, only such tendencies come to be considered sound. Nor can one recall a single agency among the many that have had the duty, each in its brief time, of administering the Shipping Act which has taken a more critical view. Yet our lines are among the most powerful in the world, with some of the finest equipment and at the beginning of immensely better. Right now the fleet is large enough to carry nearly a third of our liner exports by weight. What a leverage on the rate structure this amount of tonnage could exert, buttressed as it is with Government subsidy and tremendous amounts of Government-sponsored cargo, if it stood out independent on our trade routes. How this leverage could augment if the efficiency and size of the fleet should double as it easily could in 10 or even 7 years. Nor does it follow that the effect would be what the conferences call "chaos": for such a fleet

cannot only be a stabilizing force against the sudden shifts of world tonnage in periods like Suez or Korea, but could meet with impunity any challenge to carry rates below reasonable levels, just as it could readily prevent their rising above.

I oversimplify, no doubt; but these possibilities should occasionally be given public voice, so that they may suggest alternatives to the present sterile, and I really consider naive conceptions. It is, in fact, along these lines of an expanded, mechanized and independent fleet that thought might well proceed, for the purpose at once of perfecting and reducing the Federal cost of a shipping instrument already valuable and capable of becoming a largely paying national investment in peace and war alike.

Senator DOUGLAS. Well, members of the Commission are here listening to this testimony. If they wish to make a statement in reply at a convenient time, we will be glad to have them.

Representative CURTIS. Why don't we have something on the record here?

Senator DOUGLAS. Admiral Harlee?

Admiral HARLEE. Yes, Mr. Chairman, I would be glad to address a statement to that.

The statement that the Federal Maritime Commission has in the recent past approved pools as a matter of routine I believe to be absolutely incorrect.

Most of the pools which have been approved by the Federal Maritime Commission to my knowledge have been subject to changes, to proceedings, judicial proceedings, they have been subjected to protests. And I cite that as a specific example a pool in the North Atlantic and the gulf to Japan trade submitted by the United States Lines and other lines that were submitted almost a year ago, which we have found required a number of changes, we suggested changes be made, they have come back, made some changes and not others. And we have told them they will have to make more.

Those pools stand unapproved.

I cite as another example the pool in the coffee trade about which proceedings are now underway—the Brazilian coffee trade. A Scandinavian line has protested and we are having hearings on this.

I do not think that it can be proven at all that approval of these pools has been accomplished in a routine manner, as a matter of routine.

Now, as far as flying off to negotiate revenue pools, I absolutely, categorically deny that myself or any other member of the Federal Maritime Commission has flown off to negotiate a revenue pool.

Senator DOUGLAS. That may have been a figure of speech. That is, it may not have referred to your taking an airplane.

Admiral HARLEE. The Commission has not taken the attitude or the position that we should not approve pools. I will concede that point. If the point is made—and if some of you, or some of the members of the committee, or Mr. Klausner think that pools should not be approved, I must concede the point that that has not been the position of the Federal Maritime Commission.

Representative CURTIS. Do you encourage people to enter into these pools?

Admiral HARLEE. Not in my opinion, sir. There will be some difference of opinion about that, in view of the fact that we have ap-



proved pools. And I must confess that I cannot point to a case where we—right at the moment—where we have finally and positively said we would not approve. We have rather suggested changes be made which we think are in the public interest.

There is still another pool I might mention specifically going on in the Far Eastern trade to which the Marchessini Line and Sabre Line have protested. That pool has been submitted almost a year ago, and that has not been approved.

But in answer to whether we encourage it or not, it all depends on what you mean by encouraging. We have not aggressively solicited that lines get into pools.

Representative CURTIS. I would say this: You apparently approve of the technique of the use of pools as a mechanism.

Admiral HARLLEE. Under certain conditions, yes, sir. To that extent we do encourage it, sir. But we do not go out and say "we would like you to get into a pool." We do not do anything of that sort. I believe that implication is here. And that is the one I would like to correct.

Mr. KLAUSNER. Well, I am a singularly—I am not willing to retire from the position I have announced, which is one that I have carefully considered.

I think it is a correct statement.

And remember it is a matter of my impression of events which are not denied by the admiral. There has been no pool disapproved. Perhaps the admiral would be able to tell the committee in how many instances an investigation of a pool has been ordered or set for public hearing in the absence of a protest by some line not admitted to it. Is there any case in which the Maritime Commission has of its own motion initiated an investigation of a pool? I venture the assertion that there is no such case.

Admiral HARLLEE. I would like to say that in the majority of these cases that there are protests.

Mr. KLAUSNER. I think that is certainly the case.

Admiral HARLLEE. I will have to check the record on this. But I cannot name at this moment an investigation of a pool which we have entered into in formal proceedings, absent a protest. But we have suggested that changes be made to the pool.

Mr. KLAUSNER. I am also afraid—and I make this assertion also advisedly, and not without friendliness to the new incumbent of that very difficult post—that as yet there is absent any sign whatever that the Maritime Commission is considering the propriety of the whole principle in our foreign trade.

These corrections and improvements which are imposed upon these lines will be found in most instances to be little clarifications of intent as to how the distributions are to be made, mostly with an eye to being sure that the proposed American member is not shortchanged.

I am inclined to feel that one of the most portentous phenomena about the Commission's approach to this whole problem is not merely that they do not look at all to whether there is something dangerous to our foreign commerce in allowing this unified organization, this financially intimate organization to spring up—it is not just that. But it is that they fail even to consider the impact on the lines that are excluded.

So far as I am aware, the excluded lines are always told that there is no indication that the pool is going to damage them.

I remain fundamentally skeptical.

What I would like to say here—I certainly have no intention of engaging in a controversy of this character, but I consider that I have the experience on the basis of which to express an opinion.

What is happening here is that there is a total absence of critical appreciation of the shipping field on the Government's side.

So far as I am aware, the abstract significance of any individual event is not appreciated. It is quite possible, of course, that that is because the people who come into these jobs come into them fresh from entirely different fields. They are as a rule neither economists nor shipping men. And the consequence is that it is not the general implication of the proposal to which they pay attention. I think what happens is that there is a tendency to give way on grounds that are certainly not abstractly very sound ones. And I am suggesting—I am something of a believer in the abstraction as a necessary guide to action in a particular case. A knowledge of general principles is often a considerable help.

I see no sign of a change in that regard. And I think this awfully important phenomenon of pooling—I repeat this—is acceptable to the Maritime Commission for one very important reason—it tends to breed peace in the family. You get fewer of these unmannerly controversies between lines that are trying to get a cargo by cutting a rate. It makes for peace in the family, and is a great pacifier. This I think is the attraction of it.

Now, I certainly do not intend in any respect to gainsay the admiral as to a fact. What I do say is that my interpretation of the fact is somewhat different from his interpretation of it. And I read a significance into the failure of the Commission ever to disapprove a pool that he does not see.

It may be that he feels that from case to case he is exercising an independent and critical judgment.

Admiral HARLEE. Senator, I recognize fully that this is not the day of the Federal Maritime Commission in court, and I will minimize any prolongation of this interchange. But I would like to make one thing clear:

I do agree with Mr. Klausner absolutely on the point that the Federal Maritime Commission has not studied the abstract question of whether having pools at all is in the public interest of the United States.

That was one of the specific recommendations of the Celler committee. There are some 33 of those recommendations which bear on these big, major abstract, broad questions. And I concede the point freely that we have only begun to work on these matters.

I think that you have knowledge of the initial steps we have taken. I also concede the point that we need some top-level economists to work on the problems which he has mentioned, and steps are underway to get these. And there I am in accord with them.

But I do disagree with him that we have not started to do anything. I think that you know the steps we have taken along these lines. And I think by the time that we do have our proper day in

court here again, that we can report some progress in considering abstract questions with which Mr. Klausner is so rightly concerned.

Senator DOUGLAS. Thank you very much.

Mr. KLAUSNER. Perhaps the chairman will also allow me to express my perfect satisfaction with what the admiral has just said, and my hope that it all will turn out in just that way.

After this brisk exchange, it is an anticlimax for me to say that in the atmosphere that has at any rate until now prevailed, only rising rates, ever tighter controls of shippers, ever closer ties between carriers, pyramids of conferences piled up one upon the other to approximate the vast cartel from which no doubt the economic gods can be defied, only such tendencies come to be considered sound.

I will venture even now to say that one cannot recall a single agency among the many that have had the duty, each in its brief time, of administering the Shipping Act which has taken a more critical view.

Yet our lines are among the most powerful in the world, with some of the finest equipment and at the beginning of immensely better. Right now the fleet is large enough to carry nearly a third of our liner exports by weight. What leverage on the rate structure this amount of tonnage could exert, buttressed as it is with Government subsidy and tremendous amounts of Government-sponsored cargo, if it stood out independent on our trade routes. How this leverage could augment if the efficiency and size of the fleet should double as it easily could in 10 or even 7 years.

Senator DOUGLAS. Aren't you saying this? There is no need for the American lines to be bound by the conferences.

Mr. KLAUSNER. Exactly. I think that what the conferences call chaos would not follow. For such a fleet cannot only be a stabilizing force against the sudden shifts of world tonnage in periods like Suez or Korea, but could meet with impunity any challenge to carry rates below reasonable levels, just as it could readily prevent their rising above.

I have much greater confidence in this method, Mr. Chairman, than in Professor Grossman's notion of a strictly regulated rate structure, which may be very hard to obtain, as he himself points out—or as Mr. Singman has pointed out—in the present international atmosphere.

I think that a fleet of this size and power, ready and able to make rates, is much more likely to obtain a reasonable rate structure than this prolonged and rather agonizing technique, which I somehow suspect will not come true.

These possibilities, I think, should occasionally be given public voice, so that they may suggest alternatives to the present sterile, and I really consider naive current conceptions. It is, in fact, along these lines of an expanded, mechanized, and independent fleet that thought might well proceed, for the purpose at once of perfecting and reducing the Federal cost of a shipping instrument already valuable and capable of becoming a largely paying national investment in peace and war alike.

Senator DOUGLAS. Thank you very much.

Senator Jordan?

Senator JORDAN. Mr. Chairman, this has been a very informative presentation to me from this distinguished panel of experts. I confess to you and to the panel that this is an introduction for me in a

sense to some of the ocean shipping economics. And so my questions, such as they are, may appear a little amateurish.

But I am concerned that the abuses which seem to have plagued the shipping industry back through the years are still with us in a large measure.

I am concerned, as I listen to the testimony today, that there are various cash reserves in the hands of shippers that might better be employed in investment in ships.

I am concerned that many of the ships carry cargo only as they leave this country and come back comparatively empty.

I am concerned, too, that our exporters, under the system that prevails today, seem to operate at a distinct disadvantage because of these freight rates.

I think it is indeed time that we paid some attention to this, because it has such a direct bearing on our balance of payments and all the interrelated problems.

So I shall not direct any questions at this time.

I want time to go further into the complete statement made by the last witness.

It is just too big a dose for me to assimilate all at once.

Senator DOUGLAS. Your conclusion is very sensible. Thank you very much.

Mr. Curtis?

Representative CURTIS. I have no questions.

Senator DOUGLAS. Mr. Gorter, I take it that the substance of your testimony was that in your judgment the ocean conferences tend to keep export rates at a higher level than they would be if free competition existed.

Mr. GORTER. I think that is substantially true; yes, sir.

Senator DOUGLAS. Would you favor, therefore, the withdrawal of the American-flag ships from the conferences?

Mr. GORTER. It depends upon what grounds one wants to discuss that particular problem.

If one makes the assumption that all lines are private lines and privately operated and not subsidized in any way, then certainly one could say: Let's eliminate the conferences. But I am a little concerned about what would happen if we got into a situation in which, with our own higher costs and our subsidizing our liners, we should cut rates; and foreign governments, backing their lines in their way, would also begin to subsidize. We might find the governments rather than the private operators becoming engaged in some sort of economic warfare. And I think on those grounds one has to be a little careful about suggesting that particular alternative.

Senator DOUGLAS. Well, now; just a moment. You would not suggest that we cut the rates of inbound cargo still further, would you? Any cutting of the rates should be on outbound cargo, should they not?

Mr. GORTER. It might very well be. I would suspect that the rate cuts would be there. But one of the curious things about talking about not cutting rates on inbound cargo and discussing whether out-of-pocket costs are covered or not, is that one must remember that the round voyage is really the unit we are talking about.

If one indeed could, in following Mr. Grossman's suggestions, gain greater profit by cutting outbound rates, and either not adjusting or

adjusting inbound rates upward, then this certainly would be the thing to do, in order to maximize the returns on the round voyage.

I think it is a mistake to think of a ship as going in one direction or another. A ship starts at a port and goes around, and it picks up a consist of cargo on a round voyage. There is a very difficult problem involved in determining just what to charge for all the different kinds of cargoes one carries inbound and outbound.

I would suspect that with greater competition, certainly the rates outbound would be lower. I think this would be true. Whether or not one could argue the inbound rates would be lower or higher, I simply cannot say.

Senator DOUGLAS. But even if the outbound rates were lower, especially on Government cargo, they would not be so anxious to give up the opportunity to take inbound cargo in order to get the "fat" rates on the outgoing cargo.

Mr. GORTER. That is correct. I think we also should keep in mind that the vessels themselves, operating inbound and outbound, are involved in our balance-of-payments picture as well. You have to consider the fact that when we export out of this country in an American vessel, that some foreigner is importing that. And he is paying our vessel owners freight charges—that is, a credit on our balance of payments, which is very helpful to us.

Now, the question you have, then, you see, is whether a reduction in the shipping rates on export commodities would sufficiently increase the attractiveness of our exports overseas to offset whatever loss in revenues from shipping services we might have.

Senator DOUGLAS. If our ships were out of the conferences, and reducing rates on outbound cargoes, wouldn't this force foreign-owned ships to reduce their rates?

Mr. GORTER. Precisely; it would.

Senator DOUGLAS. And wouldn't this be a stimulant to our exports?

Mr. GORTER. Yes; I presume it would, to some extent. In a recent study in the Survey of Current Business in August of 1963 an estimate was made which showed that the freight rates were about 12 percent, I believe, of free on board value of our exports.

Thus a 50-percent reduction in freight rates would mean 6 percent reduction in landed value of our exports overseas, all other things considered equal here.

You have to assume certain things, as you know, about the character of the demand for our exports. A minor decrease in rates might not bring about such a substantial increase in exports as we might suspect.

Senator DOUGLAS. Mr. Singman, as I remember, you referred to a debate, a widespread practice of rebate by the lines—I wonder if you would describe that in more detail.

Mr. SINGMAN. Yes, Mr. Chairman; I would be glad to.

What we find in our inquiry was that very often this practice of rebating was taking place. The deferred rebate that I described is an unusual, a very highly specialized form of rebate. But, in general, a rebate is a return by the carrier to the shipper of part of the freight payments he pays in order to give him a discount.

Senator DOUGLAS. Would these be given to some exporters, for example, and not to others?

Mr. SINGMAN. That is correct. When they are discriminatory rebates, they are given to some without the knowledge of the others. It is a secret agreement.

Senator DOUGLAS. Is this a widespread practice?

Mr. SINGMAN. This is very widespread, Mr. Chairman. But I must say that it is hardly existent at all in the outbound trades.

Senator DOUGLAS. Not in the outbound trades?

Mr. SINGMAN. Hardly at all. It is almost entirely on the inbound trade.

Senator DOUGLAS. You mean that the inbound rates, which are published inbound rates, are already much lower than the outbound rates; have a still further deduction made for them in still lower unpublished rates which are granted, or cash rebates?

Mr. SINGMAN. That is correct, Mr. Chairman. But they are not always cash rebates. For example, in one case there was a shipment to Korea; a series of shipments to Korea, and the rebate took the form of financing the college education of the son of the man in the Korean Government who was responsible for purchasing the goods—that kind of thing, you see. But these rebates—the reason they take place mostly in the inbound trades, is that evidence of this rebate, rebating practice, is available in this country usually when it is on the outbound leg. And since the Federal Maritime Commission has, more recently at least, indicated some interest in this practice, the steamship lines are somewhat reluctant to engage in this practice for fear—on the outbound trade—for fear that they would be discovered. I am not saying it does not happen on the outbound trade.

Senator DOUGLAS. Has it happened in the past; in recent months?

Mr. SINGMAN. Yes, Mr. Chairman; it has.

Mr. KLAUSNER. Mr. Chairman, allow me—if my good friend Mr. Singman will also permit me to break in at this time on him. I would think that if the statement of fact he makes is correct, that the rebate are found on the inbound leg and not on the outbound leg, that coheres perfectly with the economic facts as I have related them.

Outbound is the area where you are not short of cargo. Inbound is the area you are. You fight for the cargo on inbound, where you are fighting for it. You pay for it, if you have to pay for it.

I think that that more likely than the timidity of the outbound lines would account for this phenomenon. And there again I venture a kind of skepticism that the portentous figure of the U.S. Government rearing up with its trident of discipline is not really so terrifying.

The economic facts tend to speak more forcefully. And if Mr. Singman is right, that the rebates are found inbound, I suggest that the underlying economic condition is responsible.

Senator DOUGLAS. Well, is this the justification or an explanation?

Mr. KLAUSNER. I am against sin. But I think it is a point, Mr. Chairman, that you have the right to make.

Before I am deeply moved by indignation, I tend, I think, as a rule to feel that I ought to know the explanation. I do not necessarily forgive the breaches of the proprieties. But my impression is that it is much better to understand just what is going on than it is to become morally indignant about it, especially in the present atmosphere.

This inquiry, which has already been very useful, and no doubt can be extremely useful in the future, does well to look for these basic trends, I think, rather than to act in *terrorem*.

Mr. SINGMAN. Mr. Chairman, may I add one thing? Professor Grossman asked me whether these rebates are given normally by conferences or individual lines. I should point out that rebating is universally decried by conferences and conference mechanism. It is the individual lines who make their own secret "sweetheart" deals with various shippers in order to, as Mr. Klausner has suggested, secure the cargo where it is short, in order to—

Senator DOUGLAS. Do you have documentary proof of this?

Mr. SINGMAN. Oh, yes, Mr. Chairman. The hearings of the Celler committee are loaded with it, if I may use a colloquialism.

Senator DOUGLAS. What has been done about the facts developed by the Celler committee?

Mr. SINGMAN. Well, some measures have been taken. I should say that the Celler committee sent the full record of its hearings to both the Department of Justice and the Federal Maritime Commission and requested that continuing reports be made.

As Chairman Harllee mentioned a few minutes ago, there have been a number of areas where the Federal Maritime Commission has taken no action on those recommendations. There are a few areas where they have taken some action. The Department of Justice, I am informed, has taken very little action, if any, on the recommendations—final action—on the recommendations made by the Celler committee.

They impaneled a grand jury which met for about a year and a half, was discharged accidentally by a district judge who had not been notified what the grand jury was doing. They then impaneled a new grand jury. And then it sort of petered out and nothing has been done.

Senator DOUGLAS. Whose job was it to inform the district judge as to what the grand jury was doing?

Mr. SINGMAN. Well, I suppose one could always point to the Assistant Attorney General, or perhaps the Attorney General. I assume it was someone in the Department of Justice here in Washington who is charged with that responsibility. But in fairness to the Department of Justice, Mr. Chairman, I should point out that the particular district judge involved in this case happens to be one whom it is extremely difficult to inform on any subject.

Senator DOUGLAS. After the hearing is over, I would like to get the name.

Mr. SINGMAN. I might go on to say, Mr. Chairman, that some action has been taken. But I do not think nearly as much as might be has been done.

On the subject of rebating, which you seem to be very much interested in, the Celler committee recommended that self-policing mechanisms be established by the conferences in the form of mutual bodies, as they are called, and I think some efforts have been made to establish these mutual bodies, although they have not been singularly successful either.

Senator DOUGLAS. You make a final recommendation, Mr. Singman, of multilateral agreements with foreign governments.

Mr. SINGMAN. Yes, sir.

Senator DOUGLAS. Of what nature would these agreements be, with whom would they be?

Mr. SINGMAN. Well, I suppose one has to make a beginning. Perhaps it would be best to begin bilaterally, and then blossom out into multilateral discussions. But I do think that dialogs must be begun between the U.S. shipping experts and the shipping experts of the major maritime powers to look for some kind of cooperative regulatory venture.

This is not an easy task, because regulation of shipping is considered anathema by most maritime powers, partly because the maritime interests themselves have been extremely powerful in those countries.

But there is no doubt that the results of the past few years, with the Celler investigation, the Bonner investigation, with the reorganization of the Maritime Commission, with a renewed interest by the United States, both in the executive branch and the legislative branch, to drive ahead and do something about faltering U.S.-foreign commerce. All of these developments have had a tremendous impact upon our foreign friends. They have been frightened, they have been angered, they have written, they have shouted, they have threatened, and they have been disturbed. And I think—

Senator DOUGLAS. In other words, their special privileges are being questioned, and so therefore they want to take it out on the United States; is that correct?

Mr. SINGMAN. Well, I think we are the ones that are making the most noise in this area at the moment.

Senator DOUGLAS. We are simply making the most noise because we have suffered the most, isn't that true?

Mr. SINGMAN. Yes, sir. And I think therefore they are perhaps right to begin some kind of international discussions to seek a common solution which might be somewhat more beneficial to us than the history has been.

Senator DOUGLAS. Which nation would you start with?

Mr. SINGMAN. Well, I am insufficiently familiar with the personalities of the shipping experts in the governments of the various maritime powers to hazard a guess. I would hope that there are people in our State Department that will be better qualified than I.

Senator DOUGLAS. Well, I will suppress—

Representative CURTIS. Where did you say they were? I didn't hear. I thought you said the State Department.

Mr. SINGMAN. Yes, sir.

Representative CURTIS. No wonder I thought I heard it wrong.

Senator DOUGLAS. May I say the State Department is frequently improperly abused. And I am not going to join in the current pastime of further abusing it. But since they lack a domestic constituency and feel that they have to get along with other countries, they are not resolute in the defense of American economic interests.

I think that is a charitable statement.

Mr. Grossman, we have sort of left you out of this.

You believe that if the Maritime Commission requires the conferences to establish rates which were based on reasonable economic principles, that exports would increase and the lines would make more money?

Mr. GROSSMAN. I think so. I do not suggest that this be the only measure taken for attainment of the goal that we all have in mind.



But I think it is one that ought to be taken. And I think that much of the talk one hears on this general subject seems to aim in the direction of action by fiat rather than action by application of principles with which our foreign friends would have to agree if they were to be honest with us.

Senator DOUGLAS. We could always get peace by acquiescence.

Mr. GROSSMAN. Yes; that is true. I am not suggesting peace by acquiescence. I am suggesting that we can disarm our critics by applying here principles that almost no reasonable man can deny, and yet principles which in this case, I think, promote our interests.

Senator DOUGLAS. I am told that the foreign shipowners wish to put a statement in the record seeking to explain the disparities in rates.

Without objection, that will be made a part of the record.

(Subsequently, the following statements were received:)

[Release Oct. 8, 1963 for Committee of European Shipowners.]

STATEMENT ON ALLEGATIONS OF FOREIGN-FLAG DISCRIMINATION AND DOMINATION  
IN THE U.S. TRADES<sup>1</sup>

Allegations have been made before Congress that certain export and import freight rates in U.S. trades discriminate against U.S. exports, and that this discrimination stems directly from the dominant role of foreign-flag operators in the conference serving U.S. commerce.

These allegations are based on (1) certain "discrepancies" between the level of outward and inward rates from and to the United States respectively; (2) export rates from the United States being, in some cases, higher than foreign-to-foreign rates for comparable distances and cargoes; and (3) foreign-flag lines outnumbering U.S. lines in the U.S. trades.

(1) In most U.S. trades, the amount of dry cargo moving out of the United States is considerably larger than the amount of dry cargo moving into it. In 1961, inbound dry cargo amounted to 84 million short tons, and outward cargo to 112 million short tons (Statistical Abstract of United States, 1962, p. 591). But a great part of U.S. dry-cargo imports consists of ores (28 million short tons in 1961), a predominant part of which is carried in specialized ore carriers which operate scheduled services to the United States, returning to their port of loading in ballast. Deducting from the total this movement of ores in specialized tonnage, there is about twice as much dry cargo moving from the United States as to the United States in ordinary tramps and liners.

U.S. Maritime Administration statistics for 1960 show imports in liners of some 17 million long tons, compared with exports in liners of just over 31 million long tons.

Clearly, in these circumstances, more ships are required to carry cargoes out of U.S. ports than are required to carry cargoes in. The effect of this on freight rates can be seen immediately in the tramp trades, where freight rates are determined by world conditions of supply and demand. Freights outward from the United States must be high enough to induce owners to send vessels in ballast to the United States. In other words, freights on outward cargoes from that country must be high enough to cover costs and profits for the whole round voyage.

For tramp cargoes to the United States the circumstances are different. As an alternative to sending their vessels to the United States in ballast, owners will accept cargo to the United States if freights are just high enough to cover the extra costs of loading and discharging as well as the extra time involved by taking cargo, as compared to the costs of proceeding to the United States in ballast. Freight rates to the United States therefore tend to be depressed in relation to freight rates the other way. There is no discrimination

<sup>1</sup> A copy of this material is filed with the Department of Justice where the required statement under the Foreign Agents Registration Act of Allen, Murden, Nystrom & Armstrong, Inc., 39 East 51st Street, New York, as an agent of the Committee of European Shipowners, is available for public inspection. Registration does not indicate approval of this material by the U.S. Government.

in this. It is the result of the interplay of supply and demand in a free, competitive market.

In the liner trades, the basic situation is the same. Similar economic pressures operate, with similar results; namely, that the level of rates in the inward trades to the United States is generally—though not invariably—lower than in the outward trades.

The circumstances of each trade vary considerably. All that can and need be said generally is that the conference tariff structures are the outcome of normal commercial and economic factors and that freight rates are not manipulated by individual lines to discriminate against any country whose trade it is their livelihood to serve.

(2) Where outward rates from the United States to certain countries are higher than the rates from third countries to these countries, taking into account the distances involved, the size of the differentials will depend on factors peculiar to particular trades. To a large extent, it is attributable to stevedoring and other expenses in U.S. ports being higher than in European or indeed any other ports in the world. A study for 1960 of gross freights earned by a group of foreign liners trading to the United States and of their disbursements showed that more than 52 percent of their gross freights were disbursed in that country—the largest item being stevedoring and certain port charges which accounted for 32 percent of the freights. These charges, on an average, are about three times as high in the United States as in Western Europe, and even higher by comparison with those of other countries, e.g., as much as four to six times higher than countries in the Far East.

While this is perhaps the chief reason, another reason for rate differentiation as between one trade and another lies in the volume of the particular commodity which moves. A particular commodity which moves in large quantities in any trade tends to attract a lower rate than in another trade where it moves only occasionally or in small quantities. It is no use comparing the rate for occasional small shipments in one trade with the rate which has been secured by consistent large shipments in another trade.

Differentials of this sort can be found by comparing almost any two liner trades. They are caused by the fact that conditions are dissimilar in all of them, and freight rates are affected by them.

(3) The allegation that the foreign-flag lines in the U.S. conferences may be using their numerical superiority to the detriment of U.S. commerce is a clear indication of ignorance of how a conference works. Nor are there grounds on which such an allegation could be sustained. Moreover, there are innumerable trades throughout the world where the national-flag line of any one country served by the conference is outnumbered by foreign lines. The minority position of U.S.-flag lines is in no way peculiar. The foreign-flag lines, in common with the U.S. lines, are interested in the carriage of cargoes, both inward and outward, in the U.S. trades. Their individual concern is to fill their ships in both directions at rates which will give a long-term prospect of a fair return on their capital outlay. If each national-flag operator, or any of them were to seek to establish preferential rates for his own national trade, the conference system could not possibly work. Where there are rate differentials it is because all lines have agreed that these are justified on valid shipping grounds, and not on national grounds.

It is recalled that, during recent hearings on FMC docket No. 1111, a spokesman for the National Industry Traffic League stated that the league had, for many years, been fundamentally in support of the conference system; that "this is still the position of the league" and that "the league is committed to the conference system of ratemaking."

Congress has itself recognized the conference system as being in the interests of the U.S. commerce. Continued criticism and suggestions of further widespread investigation of the system are, however, rapidly undermining confidence in it and the steadily mounting day-to-day control and regulation of those operating in conferences are making it increasingly difficult to maintain the continuity and efficiency of services which it is the object of all conferences in the U.S. trades to provide.

The proclaimed aim of Public Law 87-346 (the Bonner Act) was to insure a fair and effective conference system for shipper and shipowner alike. This aim, far from being achieved, is being frustrated.

COMMITTEE OF EUROPEAN SHIPOWNERS<sup>1</sup>

The Committee of European Shipowners consists of shipowners from 10 leading maritime countries in Europe. The merchant fleets of these countries represent more than 50 percent of the world's merchant tonnage.

An impressive solidarity of viewpoints was demonstrated by European shipowners in meetings in January this year with the Federal Maritime Commission and congressional leaders in Washington in expressing concern about the application of U.S. shipping legislation to international shipping and the serious consequences it held for the continuance of liner conference in U.S. trades. Following the Washington meetings, the European lines discussed arrangements for continuing consultation and cooperation. It was felt that these means could best be achieved through the Committee of European Shipowners by expanding its membership. This was done and the membership of the committee today covers virtually all European conference liner shipowners trading with the United States, including those providing services in the cross-trades as well as direct from Europe from the following countries:

Belgium	Greece	Sweden
Denmark	Italy	United Kingdom
France	The Netherlands	
West Germany	Norway	

Three Japanese lines are affiliated members of the committee.

The chairman is Sir Errington Keville (United Kingdom), and the two vice chairmen are Mr. Richard Bertram (West Germany) and Mr. Peter van Houten (Netherlands). The committee is administered from London with Mr. Harold Gorick as secretary.

Shipping being an international industry, is confronted with both international and national problems. Shipping lines extend to virtually all the ports of the world and thus could be subject to a variety of conflicting laws in the many countries with which they trade.

It is not often that national law conflicts with international law, but occasionally this happens. On such occasions it is the responsibility and in fact the duty of those affected by the conflicting national legislation to seek a revision of it in the interests of international trade and harmony.

Thus when the United States of America developed shipping legislation which introduced a novel conception of jurisdictional rights into the international field, the need became imperative for some organization to be able to speak on behalf of the shipping companies of other countries. Hence, the formation of the Committee on European Shipowners.

The committee wishes to emphasize that its views and objects are not inconsistent with or against the interests of the shipping lines of the United States nor of its commerce.

Liner conferences are widely acknowledged as essential to the provision of the efficient liner services required by world trade. A shipping conference is an association of lines, normally international in character, which operate in a given trade whereby standard or tariff rates are fixed and a regular service operated for the mutual benefit of both the merchants trading in that area and the shipowners who run the lines.

Under this system the shipper is assured of regular and frequent sailings, of efficiency of service and of stability in freight rates for small and large shippers alike, regardless of day-to-day fluctuations in open market rates. From the shipowners' point of view the system insures that necessary degree of support from the shippers to justify the maintenance of the service and the provision of the up-to-date specialized ships required.

<sup>1</sup> A copy of this material is filed with the Department of Justice where the required statement under the Foreign Agents Registration Act of Allen, Murden, Nystrom & Armstrong, Inc., 39 East 51st Street, New York, as an agent of the Committee of European Shipowners, is available for public inspection. Registration does not indicate approval of this material by the U.S. Government.

It has been suggested that the shipping conferences serving the American trades are dominated by foreign interests. These allegations are not justified. The fact that conferences are international in character must inevitably mean that the lines of any particular flag are in a theoretical minority, but to be effective and indeed to function at all, there must be broad agreement among the members of a conference.

Senator DOUGLAS. I want to thank you gentlemen. I want to thank my colleagues for coming. The testimony has been very valuable.

We will meet again tomorrow morning at 10 o'clock. The first witness will be Congressman Dingell, to testify on the bill which he has introduced.

(Whereupon, at 12:25 p.m., the hearing was recessed, to reconvene at 10 a.m., Thursday, October 10, 1963.)

## APPENDIX

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(By order of Senator Douglas, the following prepared statement of Joseph A. Klausner is printed as an appendix to the daily proceedings:)

### PREPARED STATEMENT OF JOSEPH A. KLAUSNER

The present law governing shipping assumes necessity for a merchant fleet able to lift our total waterborne domestic commerce and approximately half of our ordinary waterborne foreign commerce, and able to act as a military auxiliary in time of war. It also assumes that construction and operation facilities on this scale should be furnished by private capital. Finally, it assumes that practically they could not be so furnished, and that accordingly such capital must be eked out with Government aid in a proportion that currently approximates half of vessel construction and a fourth of operating cost, in addition to large credit facilities for construction by way of mortgage and mortgage insurance. Direct aids now aggregate about \$0.3 billion per annum, while outstanding principal of mortgages and mortgage insurance policies and commitments have grown to about \$0.6 billion (probably averaging an accretion of \$0.1 billion per annum). Various peripheral aids are also afforded, including exchange of obsolete tonnage for credit against new construction or superior reserve fleet vessels, substantial tax benefits, and flag preference for certain Government cargoes, all adding measurable out-of-pocket cost to the Government. Flag monopoly in the domestic trades is provided by law, and in addition a form of international monopoly by exemption from the antitrust laws of cartels of shipping companies, but these costs are borne by the shipping public at large and are not meted out of the Treasury, though their impact is ponderable.

Even apart from growing cost, the assumptions underlying our shipping policy naturally challenge reconsideration at intervals, and it is noticeable that their reexamination has generally accompanied or followed a legislative reorganization of the maritime agency for the time charged with execution of the policy. This implies, of course, recurrent dissatisfaction either with the policy or its effectuation. As a rule, we observe, these periodic reexaminations have vindicated the former and criticized the latter. About once a decade, a usually well-founded irritation with the agency has been expended in an energetic dissolution and reconstruction, while the objects and policy of the Act have been reaffirmed.

We have, in our turn, succeeded to the labor of reconsideration in the immediate sequence of such a reorganization, which followed extensive investigation by two committees of the House of Representatives into the monopoly phases of the laws. On this occasion, too, searching questions are put that go to the foundations under the whole structure of shipping. Perhaps all this teaches is that policy is always in a state of doubt, and that efficient execution is by no means automatic. But we could not, at starting, help wondering whether this old wisdom was the whole explanation for the remarkably short cycles of administration, each begun with a sense of solution, each rapidly running down in apparent disgrace and ignominy. We have therefore thought right to look at the policy in a skeptical sense, to weight, within our limits of knowledge and experience in shipping, as well as of time, whether it was in itself conspicuously impractical or unsound, so that it could not be accomplished or maintained. In our considerable investigation we have attempted to see how far the underlying assumptions are sustained in action by unprejudiced observation. The overtones of dissatisfaction with the results of present policy have required us also to assess the state of shipping and its prognosis, and to deduce the causes of the failures or, if the evidence was not decisive, to indicate what pragmatic studies should hereafter be made by those with continuing duties and power. As to the

mechanics of administration, we have like many of predecessors found these so recently reconstituted by the President and Congress that another interval must pass before they can be judged; we have instead considered certain theoretical conceptions of Government reorganization for evolving high policy and for operation.

It is right to say that we have consulted interested branches of Government, industry and labor, and have attempted to expose ourselves to all shades of opinion. We do not at all anticipate that our conclusions and advice will find universal acceptance, but we have the less diffidence in advancing them when we reflect that even the process of refuting them may bring the most important issues into focus and permit a fruitful deliberation.

#### 1. SHIPPING REQUIREMENTS FOR DEFENSE AND COMMERCE

Present shipping policy holds that a fleet of a certain magnitude is necessary for defense and commerce, but that private resources are inadequate to supply and maintain it. Hence the law provides a large scheme of financial aids, including direct subsidy for construction and operation, and a variety of preferences, preemptions, exemptions, and indulgences added piece by piece over half a century, somewhat formless in outline but more or less consistent in purpose. We must evidently commence by testing these two basic assumptions, before measuring whether the costs they entail are reasonable.

##### (a) *Defense requirements*

In respect of defense, we find that military thought has not modified except in degree the principle of a merchant fleet. We have been provided a detailed analysis of shipping requirements on several assumptions of graduated war, but it will not be necessary to discuss them publicly since the quantitative standards are within our own independent estimates of other essential needs in peace and war. Our conclusions do not depend on classified matter of any character, and involve judgments that all can criticize and evaluate upon the basis of entirely public information.

The argument is, of course, technical, but can be set forth in general terms. The dominant considerations appear to revolve around the probable nature of future war. This is not a new condition in itself. The attacking power determines the time, direction, and kind of war, and thereby achieves considerable economies in preparation. The defending power must prepare in diverse directions while it seeks to penetrate the mystery of the foe's intentions and capacity. It, therefore, often finds itself preparing for the last war, and surprised accordingly. This traditional problem is much complicated today by the possession on both sides of a species of ultimate weaponry.

In some respects this affords a certain simplification: We may guess that in a full-scale nuclear war only ships in being will be useful, and that their chief utility may come after a holocaust. It follows that whatever construction is foreseen as necessary had better come into being before the war, on the assumption that neither facilities nor time will otherwise be available to repair deficiencies.

On the other hand, the case is simpler again if we are to entertain the conception of nonnuclear war, or of one that will only after a time reach a nuclear stage. General wars short of that level will evidently require shipping on the same vast scale as the world wars, in which there really never is enough tonnage, however large the beginning fleets and however massive the construction programs. Conventional ideas can reign in this conception: The more, faster, and bigger (all within reason), the better for the immense task of sustaining the peoples and the war machine, for succoring allies, for feeding men and weapons to the battlefield—by preference far away. One predictable variance from prior experience is that we shall almost certainly not be vouchsafed a lead time of 2 to 3 years of peace to expand our military plant while others fight. The crisis will come at once.

Both theories, then, seem to coincide: whether for convention or nuclear war, a nation that expects in the one case to fight far from home and that in the other may, without shipyards, be obliged to rebuild itself and the world (for victory or stalemate must be assumed—we need scarcely trouble to prepare for defeat) will require an adequate fleet in being before the event. The worst that can happen is that we shall have overprepared—an eventuality neither likely nor culpable. It may be barely possible that adequate strength in conventional arms will tend, by deferring the need to invoke the nuclear, to maintain the combat at less deadly levels.

An additional consideration supervenes. Since it is impossible to predict with certainty which species of war the enemy will impose, it would be desirable on ordinary tactical principles that the most valuable components of this fleet should at the critical moment be scattered on the broad seas, going about their daily business, in fact anywhere except concentrated in home ports or laid up in helpless masses in reserve fleet sites, vulnerable to single deadly blows. Hence, an operating fleet is wanted, either under the navy or with the private merchant marine.

Can we reach some quantitative measure of requirements for war? Broadly, we can discern the determining factors. In the first place, we are disposed to discard any standard narrowed to the needs of so-called limited or brushfire war. Unless the range of war graduated immediately from minor affrays to nuclear combat, there is no rationale for such a scale in shipping, which however large is flexible for small demands—but not vice versa. That is really a standard of minimum security, and would only be acceptable if the cost of full preparation were literally prohibitive or (what comes to the same thing) if it entailed diversion of technical and industrial resources from much more important objects. As a matter of fact, construction in wartime is far more costly and always involves just such competitions for the limited resources available. A better reason for proceeding at reduced planes would be the imminence of some technical revolution that would rapidly render present equipment obsolete or inferior. That is common in the production of all classes of actual fighting weapons, and very painful decisions are often forced upon those responsible, who must arm the forces adequately and are yet conscious of the constant flux of advancing science. It is true that we anticipate important advances in ship characteristics in the immediate future, and hope indeed that these will commence to be incorporated in the major cargo vessels to be laid down not later than 1964; but they run in the main along the line of economizing manpower and speeding the handling of cargo, and there is no special reason why they should not be largely adaptable to existing tonnage. Obsolescence, therefore, except from otherwise expected causes, is not a factor, particularly since a considerable range of vessel types is acceptable or, indeed, required. It follows that as the physical plant for construction already exists, and as the gross cost of a large building program, suitably phased over a period of years, would be minuscule in the scale of current defense expenditures, minimum objectives should not be accepted. Of an annual military budget of \$40 to \$50 billion, a 50-ship-per-year undertaking would scarcely consume 1 percent of which under our present law perhaps half would ultimately be recouped by the Government in cash with interest. This seems to be one of the few places where the cost of a defense commitment is almost self-liquidating. We counsel in favor of meeting the main requirements of a general war of conventional type.

TABLE 1.—*Total cargo*

[In millions of long tons]

Year	Exports			Imports		
	Total	United States	Percent	Total	United States	Percent
1937.....	43.8	9.0	20.7	39.1	12.9	33.0
1938.....	44.9	8.5	18.9	29.6	10.9	37.0
1939.....	44.9	7.6	16.9	33.1	9.8	29.7
1940.....	39.8	8.5	21.4	36.1	14.7	40.7
1942.....	37.2	14.4	38.9	24.4	15.5	63.5
1943.....	42.6	22.6	53.0	27.7	22.1	79.8
1944.....	49.3	30.4	61.6	29.8	23.4	78.7
1945.....	55.0	33.7	61.2	35.2	28.0	79.7
1946.....	62.2	39.2	63.0	40.7	27.9	68.8
1947.....	92.6	48.7	52.6	49.5	33.2	66.9
1958.....	90.3	13.8	15.3	159.7	15.4	9.6

The magnitude of these requirements is also roughly discernible. In such a war, a considerable contraction of trade occurs at first, much more in imports than exports, but a heavier burden of carriage falls on our shipping as the fleets of foreign belligerents are withdrawn, destroyed or captured. Table 1 shows what happened in World War II. As early as 1940, though our exports declined

in a single year from 45 to 40 million tons, U.S. carryings increased by nearly a quarter, from less than 17 percent to more than 21 percent. Our own losses, once we were at war, and the concomitant diminution of vessel fertility became other limiting factors. Yet at the lowest point of the war in 1942, when exports had fallen to only 37 million tons, we were obliged to lift over 14 million tons, nearly 40 percent, twice our 1939 level in tons and more than that in percentage. On the import side, though the fall in tonnage was even more precipitate, from 33 million in 1939 to 24 million in 1942, our relative lift had risen from 30 percent to almost 64 percent, and the actual tonnage from less than 10 million to almost 16 million. These successive declines in trade were partly attributable to the closing off of Europe and Asia as markets, but we had on the other hand the duty of supplying the Western Hemisphere, Britain, and Russia, and there is no reason to question our wish on every ground to expand rather than contract. The undoubted determinant was lack of shipping, which was at every stage the ceiling on military and civilian effort, although we were not subjected to the constrictions that bound the British, who were compelled to budget imports at half the amount brought to their ports before the war by their immense merchant fleets, of which there had never been fewer than 2,000 units at sea on any day. When in fact the tide turned, and the great stream of American shipping construction began to flood in, while at the same time the allied navies mastered and then strangled the enemy submarine and sea bomber, the volume of our ocean lift likewise swelled. By 1943 our exports were up to 43 million tons, and by 1945 to 55 million; imports rose to 28 million tons in 1943, and to 35 million in 1945. But flag carryings were responsible for the whole increment and more after 1942, and by the end of the war we were carrying 60 percent of our exports and 80 percent of our imports at these constantly rising levels.

The Merchant Marine Act gives as a standard sufficient tonnage to lift all our military and half our foreign commerce. No doubt it was thought that ships exceeding the latter objective but necessary for the former could be maintained in reserve. The two objectives, however, seem to have a rational, observed connection. For it is notable that tonnage adequate to carry 50 percent of our average exports (the heavier leg by far) during the 4 prewar years 1937-40 would have enabled us to carry the full burden that actually fell upon us during the first 2 years of war. That average was half of about 43 million tons, or say 22 million tons, an amount we could not lift until 1943 when the vast maritime construction made good all losses from the beginning of the war. Evidently the statutory measure, if ready in time, would have covered the first 2 years; and further than that no one can really be expected to see, with all the new as well as traditional imponderables. We are disposed to think that this is more than an arithmetical coincidence and that there are meaningful explanations.

But if this is a reliable index to requirements, it stands absolutely at a much higher level than in 1939. It is true that the current active fleet is greatly superior in its individual units. The C-2 cargo vessel, which still preponderates, is war built and therefore increasingly obsolescent, but it is in every respect superior to its Hog Island precursor, and numerous units of bigger and faster types have also joined the fleet in recent years; the T-2 type was an important advance over prewar tankers, and is giving way rapidly to types superior in every dimension. Total capacity per unit has therefore greatly increased. But our foreign trade of all kinds, which in the years 1937-40 averaged 78 million tons per annum, and 75 million in the war years 1942-45, has grown to 287 million tons in 1960, with a peak in 1957 of more than 300 million tons, and an average during 1957-60 of 280 million tons per annum. It is certain, moreover, that foreign trade will continue to increase to levels which if sustained at the 1946-60 pace will reach 400 million tons by 1970.



TABLE 2.—*Waterborne foreign commerce, 1960*

[Millions of long tons]

	Exports	Imports	Total
Total.....	109	178	287
Dry cargo.....	95	85	180
Liner.....	32	18	50
Irregular.....	63	67	129
Tanker.....	14	93	107
U.S. flag.....	18	18	36
Dry cargo.....	15	12	28
Liner.....	9	5	14
Irregular.....	6	7	13
Tanker.....	3	5	8
Foreign flag.....	91	160	251
Dry cargo.....	80	73	152
Liner.....	23	13	36
Irregular.....	57	59	116
Tanker.....	12	87	99

NOTES.—Figures are not additive because of rounding. Figures exclude special category and in-transit movements.

To refine the problem, we examine this trade by types of cargo. We present table 2 showing the movement in 1960. Of the total lift, 37 percent was in tankers, primarily inbound, and the remainder dry cargo, divided between liner and irregular movements in the proportion of 3 to 7. The latter movement is well balanced in tonnage outbound and in, but liner exports preponderate over imports, in 1960 by 2 to 1, by varying amounts in other years. It is evident that tonnage adequate for our dry cargo exports will also be adequate for our imports, and in fact both foreign and American carriers appear from visual inspection of the table to have a commercial problem of overtonnage in the inbound liner trades; this circumstance does not affect our defense analysis, and we observe that its commercial significance, as we shall later weigh it, is likewise not marked. The total value of our foreign trade is about \$45 billion at present, and growing steadily.

There does not seem to be any reason for expecting a major decline in our exports, and on the contrary responsible economic opinion is cited to us as anticipating the same rate of growth we have indicated for total trade. We have been particularly concerned to cause inquiry as to the future for bulk commodities which, at 63 million tons in 1960, represented two-thirds of our exports by weight, principally in coal and grain, about half the total for each. Our inquiry was based on our impression that before World War II this country was only a marginal exporter of these articles, and during the postwar period found a prominent place in the world market partly because Argentina and Eastern Europe disappeared as major producers or exporters of grain, and the latter of coal as well, and partly because India, Pakistan, Formosa, Korea, and Japan have emerged as special charges upon our resources and aid. There is no sound reason to expect the requirements of these nations to decline materially during the present decade, and we should expect them rather to be intensified than diminished by war. The situation is somewhat different in respect of Europe. The decline in coal exports to Europe will not be an exact function of the transition to other sources of energy, since it seems the diminution of coal consumption is considerably less than the increased consumption of petroleum. In France, for

instance, a decline in coal use from 54 percent in 1960 to 50 percent in 1962 is estimated to result in an actual increase in coal volume from 67.5 million metric tons to 68.9. An estimated reduction of 5 percentage points for the whole European coal and steel community during the same period is expected to decrease coal demand only 9 million tons, or 3½ percent. Italian coal consumption is only a million tons lower in 1961 than in 1938—while dropping from 53 to 18 percent of total energy consumption. In tons it is rising.

The decline in exports from this country to Europe has been very sharp since the 1957 Suez peak, more than two-thirds by weight, but the rate of decline has slowed in the years since 1959. An additional factor is introduced by the Common Market, which will give special emphasis to developing internal sources of supply. On the other hand, official optimism prevails that this community will ultimately stimulate, rather than retard, trade with the United States. On balance, it may be that Asiatic demand will grow, while European will decline, but the residual requirements will continue at high levels. At present we carry less than 10 percent of this huge lift in American bottoms. Yet this is precisely the kind of trade from which foreign tonnage will vanish at once if the past is a guide, so that as we shall scarcely be willing to abandon these bastions on the flanks of the Communist landmass, a very heavy burden will be cast upon our merchant fleet.

We consider, therefore, that the level of our probable exports during the foreseeable future is likely to be not less than 95 million tons, and that only shortages of carrying capacity will make it fall below that level in war.

Taken in gross, the privately owned freight fleet consists of about 600 ships with aggregate deadweight of about 6 million tons; of these, not more than 500 are in foreign trade, and since the remainder chiefly serve our noncontiguous States and Puerto Rico, which must be sustained in war as well, we consider they are, without obvious qualifications, unavailable for foreign service. The range of types is wide, from marginal Libertys to the finest ships yet delivered, and it is, of course, only by assumption that we shall infer a common standard of performance. The weak varieties, for instance, may find short trades in which speed may be less a consideration, thus releasing better types for the most demanding services. In peacetime, we shall evidently not be much astray if we assume an average experience for all liner trades of 5.5 voyages per vessel per annum and about five voyages for tramps. Thus, the theoretical deadweight of the private fleet approximates 30 million tons in one direction. But this is far above their real capacity to carry tons of cargo.

We deal with the liner compartment first, which on July 31, 1962, consisted of 352 ships, having deadweight of roughly 4 million tons, or 22 million tons a year. In the first place, there is a loss of deadweight, varying chiefly with length of voyage, to accommodate fuel, supplies, and water, which will be rather understated at 10 percent; 1961 results indicate available cargo deadweight for the Mariner type in their very long routes of only 70–80 percent of their design of 13,000–14,000 tons, and this though those taking the Panama route from New York refuel in California on their way to the Far East. The 10-percent figure seems to accord with the general experience of the C-2, however, and as this is still the main component of the fleet, we employ it. In the second place, cargo in most of our trades runs markedly to measurements greater than the standard of 40 cubic feet per long ton, and therefore consumes a larger proportion of cubic than of weight capacity; commercial tariffs exact the revenue of 2½ perfect tons from an article which measures 100 cubic feet to the long ton. 1961 operating results of the Mariners, which ran substantially full cubically in all services outbound, indicate that in the Atlantic-Far East trade they carried 6,600 long tons per sailing, in the Pacific-Far East trade 6,700 tons, and around the world 6,100 tons. Thus, on 123 sailings in all those services the Mariners utilized less than half their design weight capacity when full by cubic. For the C-2, the staple unit in our various trades covering the globe, the experience was 5,500 tons on 428 outbound sailings in which their bale cubic capacity was substantially reached. This is also about half the design capacity.

Analyzing the results, we find only one subsidized line with worldwide services that seems on the whole to sail full and down, as the expression goes: this argues a high degree of selectivity in the choice of cargo and may even involve diminishing returns. We have not, however, excluded this line's figures from the averages mentioned, though they must somewhat distort them, for by and large it seems that on a broad view our foreign trade runs decidedly to measurement. Nor is there any question that wartime cargo will do so to an even greater extent.

Thus, the 22-million-ton design capacity shrinks in ordinary commercial operation to little more than half. This means a capacity to lift a shade over 11 percent of the 1960 outbound cargo of 95 million tons and only one-third of even the liner component of 32 million tons. But that is not the end of the matter. We have assumed that orderly, routine commercial operation will allow 5.5 voyages per annum, averaged over all our trades. This will certainly not be possible in war. The closing of war zones, the delays to assemble and travel in convoy (if that should be resumed) and in any case by roundabout and tortuous courses, congestion in port and in repair yards, all will lie heavily over operations, and contribute to diminish the fertility of the fleet. The best opinion we can gather is that an average of four voyages per annum will be an excellent accomplishment under such conditions, and that it probably errs on the high side. This means a reduction of at least one-quarter in real capacity, and leaves the existing private liner fleet, which contains the best units, able to lift less than 8 million tons of the assumed 95 million tons of dry-cargo exports.

We deal next with the nonlinear constituent of the fleet. This is a shifting quantity to some extent, but as an average is made up of about 93 vessels of various types, chiefly Libertys and some converted tankers and C-types, with a total deadweight probably in the neighborhood of 1 million tons, and with available annual capacity, after a deduction of 10 percent for fuel, water and stores, of 4.5 million tons. As the principal commodities carried are coal and grain which stow in almost perfect tons of 40 cubic feet virtually no loss of design weight capacity is suffered, and this figure is therefore a true index to peacetime operations. In war, however, it is doubtful, for the reasons stated below in connection with the reserve fleet, that they could rise above three voyages per annum, and this would reduce their annual lift to less than 3 million tons.

Thus the peacetime capacity of the private fleet is less than 15 million tons, and in war only 11 million, respectively 15 percent and only 11 percent of the total expected to be carried.

We come now to the Government reserve of merchant ships, in principle, held for emergency use. This consists to the extent of 70 percent of Liberty ships, and an additional 14 percent of Victories, with a sprinkling of other smaller or special types as well as C-types gradually traded in by the subsidized lines against new construction. So far are the Libertys from figuring in the military future, that they have been gradually scrapped over the years and, as we are informed, it is planned within 5 years to reduce them from their present 902 to only 400. It is difficult to equate those ships to the active private fleet, and in commercial operation they are no longer the ships of choice even as tramps to carry Government-aid bulk cargos guaranteed to American operators, having been displaced by the T-2 tanker. Simply on the basis of the difference of speed from a C-2, a middle availability of 600 reserve ships of this type during the next 5 years, with aggregate deadweight of 6 million tons, would in war average 2.5 voyages a year. *Caeteris paribus*, they would add annual one-way capacity for about 7.5 million tons if used in liner and 14 million in bulk service; an average of the two may be accepted. The dangers of relying on this arm of shipping speak for themselves. The commercial Victory ships in the reserve fleet, 181 in number at present, could lift perhaps another 4 million tons.

Thus the private and reserve fleets present average one-way capacity for about 25 million tons per annum, or 26 percent of our assumed export requirement. This makes no allowance whatever for losses at the outbreak or early stages, though these were particularly heavy for us in the first year of World War II.

We conclude that such a fleet is not adequate to meet the standards we have advised. It is not large enough quantitatively to carry the minimum amount for which we must prepare. Seventy-five percent of the assumed reserve are inferior in speed and inferred capacity, and have only residual value. They will be used, if they must, just as a world crisis in tonnage and a high rise in rates now brings them out occasionally to meet a marginal demand. In both cases we are grateful to find them in the cupboard when they are all we have in reserve. But we cannot counsel the Nation to rest with confidence on their military utility. Nor is the main private fleet sufficient. Though of much higher quality than the Government reserve, one-fifth are also Libertys, and so many of its units are already old that their average age is almost 16 years. Their number, moreover, provides far too little of the capacity we consider essential.

As the present fleet is inadequate, a program that plans merely to replace the subsidized segment of this fleet (about 300 in number) over a period of 20 years does not meet our views. An active private fleet is required with one-way capacity to perform an annual lift in peacetime conditions of 40 million tons. We do not prescribe the exact numbers or quality of such a fleet, although we foresee that its liner component will consist of ships between 10 to 15,000 tons and with speeds upward of 20 knots; the capacity can be distributed in units favorable to military and commercial utility. We discuss below the prospects and proportions we deem feasible, but a one-third increase in 5 years is the scale on which thought should proceed. Behind this frontline the reserve can be maintained, augmented by the better ships retired from time to time.

The problem of the tanker movement is, in some respects, more complex. We have, in effect, no such fleet in the foreign trade. As of September 30, 1961, of 282 active tankers in the private fleet, having 6 million deadweight tons, only 28 of 500,000 million deadweight were outside of domestic commerce. Forty private tankers of 600,000 tons were inactive in 1960. In that year, 93 million tons of tanker products were imported, and 14 million tons exported, a proportion of about 7 to 1. U.S. vessels carried only 5 million tons of the imports, and less than 3 million tons of the exports. Their share of the constantly rising total movement has declined, as table 3 shows, from 30 to 7 percent since 1954.

TABLE 3.—*Tanker movements*

Year	Total	United States	Percentage
1954.....	66	20	30
1955.....	75	18	24
1956.....	88	20	22
1957.....	97	17	17
1958.....	94	8	9
1959.....	101	6	6
1960.....	107	8	7

NOTE.—Millions of long tons.

Except for certain circumstances, urged upon us from responsible quarters, it would seem scarcely debatable that this branch of shipping is grossly deficient, especially as the reserve fleet contains only 39 T-2's as of July 31, 1962. Here, as in the dry-cargo trades, though the war lift barely exceeded the prewar average, U.S. vessels were called upon to carry an average of 60 percent with a peak in 1944 of over 70 percent. At no time during the years since then have the foreign-trade tankers been a large factor, albeit their peak in 1950 was three times their present number and capacity. The primary weight of the American tanker has been directed into coastwise traffic, from which the law excludes foreign-flag tonnage.

The special circumstances pressed on our consideration arise out of the following conditions. Before the war the industry was almost entirely proprietary, with a few independent owners who subsisted by chartering to the major oil companies, which in addition to these and their own American fleets, always had substantial tonnage under the flags of other countries in which they did important business. A combination of lower operating costs and special tax advantages has introduced a new pattern in the last decade, in accordance with which both the oil companies and the independents, who now also play the spot market, have constructed large fleets in various low-cost shipbuilding countries such as Japan and then registered them in the ownership of local subsidiaries under so-called flags of convenience, principally Liberia and Panama. In 1960, 179 such tank vessels, with aggregate deadweight of 5.7 million tons, carried about 42 million tons in U.S. trade, just short of 40 percent of the total movement in that year. And it is contended that since they are American owned their results may be combined with the U.S.-flag 7 percent to demonstrate adequate supply. It is pointed out that they are among the finest tankers in the world, and that the Defense Department considers them to be under effective U.S. control. We should hardly do other than defer to the Department in a matter of opinion concerning defense, but this case really involves legal and practical commercial considerations rather than military; and since we cannot, as we conceive, discharge our duty without reaching conclusions on so controversial an issue, we must likewise give them candid expression though they differ from those of others.

The primary instrument of control appears to be a commitment by the owners that while the Maritime Administrator's war risk insurance is in effect he may demand or by means of the Navy take possession and use of the ships. We notice that only 170 vessels are now covered out of over 300, and that of those 19 are T-2's and 17 EC-2's; thus, more than 20 percent are of obsolescent type with only marginal value. The remainder includes many new and valuable ships, some of them ore carriers, but scarcely the whole fleet that carries so much of our trade. In the second place, we note the controversy arising out of an attempt by American seamen's unions to organize these ships. In resisting this attempt, the owners, supported by the Departments of State and Justice, have advanced arguments which, if valid, much undermine the claim of effective control. It is pointed out, for instance, that the ships are, under international law, considered the territory of the countries of registry, and that our labor laws cannot extend to foreign territory. If this is true, nothing can legally prevent those countries from exercising eminent domain over the ships, especially as the technical owners are not the parent American but local citizen subsidiaries which hold full title. It must be borne in mind that American companies in the same position in the last war raised this very legal argument against requisition of their fleets by the United States, and complicated negotiations were necessary to resolve the issue, though our statutes purported to authorize requisition of the property of citizens wherever situated; it was not by right but by contract that the War Shipping Administration finally acquired them.

We shall presumably not flout the feelings of these small countries by implying that we shall in any case seize their ships by naval force, although as a matter of fact the operative documents go rather far in this direction, as if, after all, the authority or benevolence of the register-states were not reliable—and indeed how could they be when the ships never drop anchor in their ports and they lack all power over them, when in fact they may be thought (as other commercial nations assert) even to lack a genuine link to them? The real sanction is the agreement that the ships may be seized while war risk insurance provided by the Maritime Administration is in force. But the owners may breach their warranties, thereby terminating the insurance automatically, or may simply cancel, as some have, whereupon, we are told, the right of seizure disappears. In addition, it is said that if our labor laws are held applicable, the owners will transfer the ships to other flags and thus be lost; but if they can so readily do so on that provocation, which amounts to a loss of profits, what is the assurance, exactly, that they will not do so in an emergency, when international bidding for foreign tonnage will flash the allure of much higher profits and other insurance may be available? Something is said of other contractual commitments by the owners to bring ships under American flag upon demand by the authorities. We are led to understand, however, that these commitments exist predominantly as to tonnage transferred out from U.S. registry; as these were mostly inferior EC-2 types, the argument as to them fails to meet the issue.

In sum, the effectiveness of control seems to depend rather on a judgment of the probability that the owners will wish to serve us than on explicit and binding powers. No doubt many of them will, but we must venture to counsel against relying as a constituent of defense upon tonnage so anomalously situated. If it proves available, it will represent a windfall of great value; we hope indeed all will develop as anticipated, and that all will be done to insure that it does. But among the unpleasant surprises which war always unfolds it would be improvident to find ourselves counting a disappointment from this direction and a failure to prepare the means for our own carriage of these vital materials.

#### (b) *Commercial requirements*

We have measured the defense objective in relation to the level of foreign trade, which has seemed to us on empirical grounds to predict wartime need, and we have indicated the extent by which all branches of shipping fall short. The clear and precise dimensions of the problem must not be blurred by the obvious difficulties, political as well as fiscal, of solving it by a straightforward program of Government construction and stockpiling. This has had to be done before under existing statutory authority that can be invoked by the Maritime Administration with the President's approval: It was done in 1939 on a very large scale that was overtaken only by the war, and most recently for the fleet of 35 Mariners laid down in the Korean war. Outside of imminently impending danger, however, we must suppose reluctances to embrace a program of such proportions,

even especially in a permanent state of cold war. Protracted tensions become accustomed, and the comfortable counsels of thrift assert themselves the more persuasively as time mitigates a familiar peril. It has been noticed that alertness for the ultimate shock lulls perception of the intermediate jars that have accompanied the expansion of communism; and economy of money as well as other resources is after all necessary, too. Responsible thought commences to reckon with reduced standards and to speculate on higher margins of world shipping that might be drawn upon. What we have comes to limit our requirements. Optimism clothes sloth. An effortless drift ensues.

Though we warn against these tendencies, we can scarcely discount their influence, which is augmented by valid discontents with the results of the present system. If we read the portents aright, a Government program on the necessary scale will not be easy to procure.

But ships have utility for commerce as well as defense. In fact, their war task is only an intensification of their daily work in peace, which has, besides, independent importance for the national economy and prestige. To bring in the valuable produce of other nations and the raw materials for our own industry, and to carry out into the world market some of the fruits of that industry are phases of the cycle of international commerce to which we have always attached significance. The cost of transportation, moreover, is favorably affected by the mere existence of an American merchant marine superadded to the world fleet, which thereby tends to increase trade. Finally, such a marine can be a factor in the balance of payments to almost the full extent of its earnings, by collections of freight from foreign shippers and by savings of freight for Americans that would otherwise go to foreign tonnage. It is on these grounds that the present law seeks a fleet with merchant capacity.

But what an easement of the defense burden if commerce could sustain the capital and peacetime operating costs of a merchant fleet adequate for whatever war might demand. Other great trading nations have achieved this, though some government contribution is common today. In such cases, defense becomes as it were a byproduct of commerce, like a factory system convertible from producing automobiles to tanks but self-supporting in ordinary times. The result if obtainable is conformable to the fundamental truth noticed above that alike in peace and war the task of shipping is in principle the same, to carry cargo—and indeed one of the great military objectives always is to preserve with minimum derangement the immense traffics of a vast economic complex that continues as yet a central focus of the world's affairs. For new reasons we should have arrived back at Admiral Mahan's doctrines of the interrelation of merchant and naval arms which in this country lie at the heart of our policy. It is the basis and limitations of this conception that we have been particularly anxious to explore.

We first examine the framework of international commerce. Table 4 shows the total cargo movements over a period. In the latest year, merchant ships carried about a billion tons, twice the figure for 1937. In just about 20 years the trade of the world in weight terms has doubled; and the rate of growth is increasing. The United States is an enormous factor in this trade, accounting for about a sixth of the world's tonnage as a whole (see table 5), and about a fifth of the dry cargo. The same proportions apply to value of trade, ours representing in 1959 a sixth of the dollar value of world commerce. These are impressive figures.

TABLE 4.—*Goods loaded by type of cargo in world trade*

[Long tons in millions]

Year	Total	Ocean shipping		Great Lakes shipping
		Tanker	Dry	
1937.....	486	103	369	14
1952.....	651	280	344	27
1953.....	670	290	354	26
1954.....	721	315	384	22
1955.....	813	344	443	26
1956.....	885	384	472	29
1957.....	942	413	502	27
1958.....	926	433	472	21
1959.....	985	462	497	26

Source: U.N. Statistical yearbook, 1960.

TABLE 5.—*U.S. portion of international seaborne shipping*

[Long tons in millions]

Year	Loaded, United States		Unloaded, United States		Composite percent of world
	Tons	Percent of world	Tons	Percent of world	
1952.....	96	15	103	16	15
1953.....	77	12	114	17	14
1954.....	75	10	115	16	13
1955.....	105	13	137	17	15
1956.....	135	15	155	18	16
1957.....	153	16	165	18	17
1958.....	106	13	168	18	15
1959.....	99	10	191	19	15

NOTE.—Figures are for loadings only, and must be doubled to be comparable.

Source: U.N. Statistical Yearbook, 1960.

Internal relationships are as imposing. The value of exports via ocean carriers in 1960 represented 6 percent of our production of movable goods; both have increased, but exports at double the rate of the latter. (See table 6.) Exports provide, therefore, a significant market for American industrial production. They are also a major element of gross national product: the 2.6-percent relation reached in 1960 (understated for the reasons explained in the note) compares with sales of primary iron and steel producers, 3.4 percent; consumer purchases of automobiles, parts, and accessories, 3.7 percent; and consumer purchases of furniture and household equipment, 3.9 percent.

TABLE 6.—*U.S. production of movable goods; gross national product; and exports via ocean carrier*

Year	Movable goods produced	Gross national product	Exports U.S. merchandise	Movable goods	Gross national product
				Percent	Percent
1954.....	\$176	\$363	\$8	4.7	2.3
1955.....	193	397	9	4.8	2.3
1956.....	203	419	11	5.4	2.6
1957.....	201	443	13	6.2	2.9
1958.....	207	444	11	5.2	2.4
1959.....	226	482	11	4.7	2.2
1960.....	235	504	13	5.6	2.6

NOTE.—Movable goods and GNP include, and exports exclude special category items. Exports represent value at shipside only, and do not reflect transportation goods and services included in GNP. Dollars are billions.

The huge movements in our foreign trade fall, as earlier remarked, into three major categories, so-called general cargo, and dry and liquid bulk. The first is carried by common carriers operating as a rule in regularly scheduled services on permanent routes; the second by private carriers which move full shiploads for single large shippers at whose individual convenience they operate between whatever points they select; and the third by specialized tank vessels largely owned or chartered by the oil companies and likewise operate as private or industrial carriers. The total has more than tripled in tonnage since 1937. Significant changes have occurred in the distribution of trade among the three groups. (See table 7.)

TABLE 7.—*Relative service composition, U.S.-foreign commerce, 1937, 1954-60*

Year	Dry cargo				Tanker	
	Liner		Irregular		Tons	Percent
	Tons	Percent	Tons <sup>*</sup>	Percent <sup>†</sup>		
1960.....	50	18	129	45	107	37
1959.....	48	17	126	46	101	37
1958.....	42	17	123	47	94	36
1957.....	46	16	159	52	97	32
1956.....	45	16	142	52	88	32
1955.....	41	18	110	49	75	33
1954.....	37	21	74	42	66	37
1937.....	30	36	24	29	29	85

NOTE.—Excludes special category and intransit cargo. Millions of long tons. 1937 figures exclude Great Lakes-Canada.

Owing to the characteristic we have pointed out respecting general cargo, the liner figures are heavily understated in long tons, which do not reflect the true demand for shipping space; properly translated into units that stow in 40 cubic feet, the equivalent of the dry cargo irregular average, the liner component in the table rises by 2½ to 3 times, and remains the largest single physical constituent of our ocean trade, as well as by far its most valuable. Its growth since the base year, when in long tons it represented 36 percent of the total and 63 percent as adjusted, has been substantial, about two-thirds. But the other sectors have grown even more, both absolutely and relatively. Tramp dry cargo has increased 400 percent since 1937, from 29 to 45 percent of the total on the long-ton scale, and from 16 to 33½ percent on the true scale. This development is exactly opposite to what was confidently predicted in 1937, when it was expected that tramping would disappear. The tanker trade has tripled and more in tons, and retained or somewhat increased its relative proportion. Thus all branches of a constantly growing trade exhibit dynamic trends, and seem to present a natural field for American shipping enterprise to cultivate and even dominate.

It is curious that, on the contrary, a nation with historic seafaring traditions, with thousands of miles of coastline that seem to invite exploitation of the economies of sea transport, with a vast and burgeoning international commerce, and with practically unlimited speculative capital, should turn out to be marginal ship operators. Our coastwise common-carrier trades are decadent and all but vanished; our foreign operations seem to face their competition only by means of subsidies and cargo preferences; in the tremendous new growth of tramping and petroleum we have no significant part. As table 8 shows, flag carryings in 1960 dwindled to 12 percent of our trade as a whole; excluding Great Lakes cargo, it was 10.5 percent. Going back 40 years or more, almost all major ship construction except by industrial carriers, chiefly the oil companies, has been for Government account, and has been sold to operators at discounts below cost ranging from one-third to two-thirds. During that period the staple of our commercial fleets has been the surplus construction of three wars, filled out to a comparatively modest extent by subsidy programs. Capital drawn to shipping has sought foreign construction centers and convenient foreign registry.



TABLE 8.—*The U.S.-flag share in each service of the U.S. foreign commerce, 1937, 1954-60*

[In percent]

Year	Total	Dry cargo			Tanker
		Total	Liner	Irregular	
1960.....	12	15	28	10	7
1959.....	12	16	27	11	6
1958.....	14	16	32	10	9
1957.....	19	20	38	14	17
1956.....	22	22	39	16	22
1955.....	23	23	38	18	24
1954.....	28	26	35	21	30
1937.....	27	29	29	-----	22

NOTE.—Excludes special category and intransit cargo. (1937 figures exclude Great Lakes-Canada.)

The apparent reason for these conditions is that shipping has failed to make the adjustment by which other high-cost American industry faces foreign competition. Only superior productivity could have equalized the very heavy initial and operating costs of an American service and, until recently, this has not been forthcoming in any degree greater than available to low-cost foreign competition. Given higher labor and capital costs, one would have expected operators to turn to the larger, faster tonnage that would have meant lower costs per unit of capacity, with concomitant power to price lower, especially in the long trades. The actual history seems to be that every important advance in this direction, from the T-2 tanker to the C-4 Mariner, was originally stimulated by the Federal maritime agencies. The extra-speed factors built into these ships, for instance, had to be paid for by the Government as defense features. It was not long before the operators, who had insisted they could not afford to run them at design speed, and at first declined to buy them at all, discovered commercial advantages in what they had deemed disabilities. And from what we can gather, the important technical advances now impending will require the same sort of patient administrative guidance if they are to come with the promptness that is realizable. Finally, the problem of wastage in port has only begun to be grappled with. The shipyards have been, as much as the lines, in the grip of the cost of dilemma: they deliver a ship today at twice the foreign cost, and the gap has steadily widened.

The failure to find for shipping the same superiorities of technique that have generally characterized American industry, and which go to the foundations of cost and price, has obliged the Government, where it wished to produce a fleet, to assume the considerable shares of capital and operating costs earlier mentioned. We now examine, in particular, the subsidy program that constitutes the country's maximum effort to make a merchant marine possible. We may say at once that though the program has many obvious deficiencies and shortcomings, its results are by no means insignificant: almost more than what it has actually delivered, it suggests the possibility of reaching the object desired, a merchant fleet altogether or very largely self-sustaining in peace, and constituting in the meantime a diminishing direct charge on the Treasury, perhaps for special purposes only.

The central theme of the subsidy scheme is cost equalization to the foreign level; as the conception in 1936 was that liners would rapidly displace other dry-cargo carriers, they were designated as the beneficiaries, and while, during the last decade, construction subsidy was by statutory amendment made available to all building for foreign commerce, in practice only liners already enjoying operating subsidy have also received construction aid, amounting in effect to sale at the prices foreign competitors would pay. The terms of sale are

generous, 25 percent down of the reduced price, with 25 years at present in which to pay the balance in equal installments at low interest of 3½ percent; in the past few years the Government has required the lines to borrow the funds from banks against the security of a mortgage whose principal it fully insures. The purpose of this development seems to have been less to draw private loan capital into shipping than to reduce budget requests, but it may be hoped that both results followed. In any case, the operator is enabled to finance purchase of a vessel with a downpayment equal to one-eighth of its real cost, while paying off the remaining three-eighths of the price to him on exceptionally easy terms. In addition, the Government undertakes to absorb the amounts of his chief direct operating costs that exceed those of his foreign competitor, including crew wages, insurance, fuel and repairs. In 1961 this subsidy amounted for all subsidized lines to about 24 percent of operating expenses before depreciation. The expense of foreign operation appears, therefore, to be three-fourths of our own. The primary differential is in crew wages.

Our business at present is to assess the effects of thus equipping operators to compete at foreign cost levels, and we necessarily assume that the system has been applied in accordance with the statutory standards. The theory is certainly attractive: where the difficulty is high cost inherent in operation under our flag, a more or less scientific equalization to foreign cost should permit companies selected for their experience, skill, and adequate financial resources to compete on favorable terms. It is true that the effort at precision may to some extent be delusory, but competently administered it should result in adequate approximations. The risk is more likely to be extravagance than the reverse, and on occasion in the past promotional overenthusiasm has been the sufficient ground for abolishing the agency and starting afresh. On the whole, a system based on ascertainable data may be thought less open to abuse than others that have been used or suggested. The determination of subsidies has not recently been criticized, but the constantly increasing amounts have raised the issue whether they produce worthwhile results.

On the whole, we consider that they have.

In the first place, the proportion of our total liner trade carried in American ships has remained at comparatively high levels while the unsubsidized tramps and tankers have rapidly dwindled to insignificance. The liners are predominantly subsidized. Table 8 shows they secured 28 percent of the business in 1960, diminished from 38 to 39 percent in the years 1955-57. In 1960 the figure was above 30 percent excluding the Great Lakes-Canada trade. This was by far the largest block of traffic carried by a single flag, 2½ times the nearest one, and in fact equal to the combined carryings of the next three fleets: Norway, Japan, and Britain.

Secondly, the decline in relative carryings from a peak of 39 percent in 1956 to 28 percent in 1960 does not seem to imply diminishing success of the ships actually in service, but a failure to provide sufficient tonnage to carry a constant share of constantly increasing trade. (See table 9.)

TABLE 9.—*Volume of liner cargo, 1954-60*

[Millions of long tons]

	Total	United States	Foreign flag
1954.....	37.2	13.3	23.9
1955.....	41.0	15.5	25.5
1956.....	44.6	17.3	27.3
1957.....	45.7	17.5	28.2
1958.....	42.2	13.7	28.5
1959.....	48.1	13.1	35.0
1960.....	50.4	14.3	36.1

NOTE.—Excludes special category and in-transit cargo.

To begin with, we must continue to bear in mind the deceptive aspects of results calculated in long tons. Maritime Administration subsidy authorities report that not only do most of our trades run to measurement cargo, but that American vessels characteristically carry more, and more valuable, cargo per sailing than their foreign flag competitors. According to preliminary data of the Office of Business Economics, American liners in 1961 export trade averaged revenue of \$33 per long ton, while foreign lines averaged only \$27. Since the most valuable cargo, as we have seen, runs to measurement it is plain even without other confirmation that our lines are carrying higher rated goods; this again illustrates how unrefined long-tons data distort the true proportions of the two classes of carriers. Moreover, it makes it unclear how far the apparent decline in long-ton carryings in 1960 from the peaks shown for American lines in 1956-57 is real. This is a fall of 17 percent, suffered predominantly in exports (see table 10), which fell from almost 11 million tons in 1957 to 9 million. Yet the maritime officials point out that during the Suez crisis bulk commodity rates rose so high that they became attractive to liners; hence American carryings in 1956 and 1957 ran much more to weight than ordinarily, and the consequent reversion to a more normal pattern does not necessarily imply a much reduced utilization (albeit the pressure of demand for space while the Canal was closed must presumably have increased profitability). This was surely the case with the subsidized lines. In 1957 they were 70 percent full by weight and 86 percent by cubic, but in 1958, while still 80 percent full cubically they had come down to 60 percent by weight. In both years the cubic figure represents practical capacity of the vessels employed, the larger figure representing apparently the only signified response to emergency liner demand by the subsidized lines.

TABLE 10.—*Volume of liner exports, 1954-60*

[Millions of tons]

	Total <sup>1</sup>	United States	Foreign flag	Subsidized lines <sup>2</sup>
1954.....	22.8	7.8	15.0	-----
1955.....	24.9	9.1	15.8	-----
1956.....	27.2	10.4	16.8	-----
1957.....	29.0	10.9	18.1	9.4
1958.....	26.6	8.3	18.3	8
1959.....	28.1	7.3	20.8	7.2
1960.....	32.0	9.0	23.0	8

<sup>1</sup> Excludes special category and in-transit cargo.<sup>2</sup> Includes all cargo.

The extent to which the subsidized lines continue in aggregate to enjoy full utilization of outbound space strikes us as the single most significant fact in our problem. (See table 11.) Taken in all, a plateau has been reached on which they make about 1,500 freighter sailings a year, representing about 800 million cubic feet of cargo space of which more than 80 percent is filled; as our source makes no deduction for broken stowage, we infer the real utilization exceeds 90 percent. That figure has actually been surpassed in the concentrated services to Europe and the Far East, which alone absorb over 900 or more than 60 percent of the sailings. Even in the very large Latin American trades, where Cuban and Venezuelan problems have closed our entire services, and where accordingly a steep drop of 18 percent in sailings has occurred since 1958, the space utilization of the 397 still made in 1961 was 78 percent (probably more than 85 percent if 10-percent broken stowage be assumed). We may guess that as the earlier years since the war were generally even better for the American services, the record of the last 5 years would not be falsified by tracing the figures back that far.

TABLE 11.—Outbound space utilization of subsidized freighters  
[In millions of cubic feet]

	1957				1958				1959				1960				1961			
	Sailings	Available	Utilized	Per cent	Sailings	Available	Utilized	Per cent	Sailings	Available	Utilized	Per cent	Sailings	Available	Utilized	Per cent	Sailings	Available	Utilized	Per cent
Latin America.....					484	239	169	70	465	230	156	67	439	219	163	74	397	202	158	78
Europe.....					578	304	269	89	550	289	246	85	594	313	272	87	604	324	276	85
Far East.....					335	195	173	89	331	201	175	87	338	205	182	89	344	207	184	90
Africa.....					119	67	34	51	104	60	33	55	109	62	41	66	112	64	46	71
Australasia.....					31	13	8	61	31	16	12	75	31	16	14	87	35	15	11	73
Total.....	1,534	833	717	86	1,547	818	653	80	1,481	795	622	78	1,491	815	672	83	1,492	812	674	83
Round the world.....					19	13	13	100	19	13	13	100	20	13	13	100	20	14	13	91
Trade route 34.....									10	4	2.7	68	9	3	2	64	9	4	3	72
Total.....					1,566	831	666	100	1,510	812	638	79	1,520	831	687	83	1,521	830	690	83
Trade route 33.....									15	8	5	55								
Grand total.....									1,525	820	643									

Figures are not additive because of rounding.  
Carryings of combination vessels are excluded except on trade routes 2 and 4.

Figures include all cargo.

These facts contrast strangely with the impression that subsidized operation is a failure. They are, indeed, consistent with a quite different theory: taken as a whole the subsidized lines are heavily undertonnaged for their task. In no other way can it be explained that while a foreign trade that is constantly growing utilizes their stationary capacity to the full, they have yielded virtually the whole increment to the foreign-flag lines, which have increased their carryings by 50 percent in the 7 years through 1960. It is doubtless also on this ground that the American lines appeal to a higher quality of cargo, including large quantities of Government-aid cargoes.

Other peculiarities that have tended to creep into the pattern of their operations seem to point in the same direction. It is noticeable that in both quantity and value imports are smaller than exports. In 1960, for instance, they were \$14.6 billion as compared with \$20.3 billion; nor was this all, for while the exports contained \$10 billion worth of machinery, chemicals, and metals and manufactures, or one-half of the total, plus special categories that raised the highly finished goods to practically \$12 billion, or 60 percent on the contrary only \$4 billion of the imports belonged to these groups, or between 25 and 30 percent. Thus, high-value exports are three times as great as high-value imports; and of all imports, which constitute but 43 percent of total trade in value and 36 percent in liner shipping weight, only one-quarter are of the value with which high freight rates are associated. Moreover, liner exports increased by 78 percent between 1950 and 1960, while imports increased only 6 percent. An odd result has followed: One would expect that the leg offering less cargo would be highly competitive, but that American lines would do about as well as their rivals. This has, indeed, generally been the case, and the table, which should be carefully studied, also shows very high space utilization in almost all trades except from Latin America. (See table 12.)

TABLE 12.—*Inbound utilization of subsidized lines*

[In millions of cubic feet and thousands of tons (W)]

	Sailings	Available	Utilized	Percent
Europe-Atlantic:				
1959.....	397	210	164	78
1960.....	423	224	157	70
1961.....	441	233	144	62
Europe-Gulf:				
1959.....	152	83	41	50
1960.....	166	89	36	40
1961.....	171	95	23	24
Far East-Atlantic:				
1959.....	83	51	41	80
1960.....	85	53	41	77
1961.....	84	54	38	70
Far East-Gulf:				
1959.....	40	23	7	33
1960.....	43	25	9	37
1961.....	65	34	13	36
Far East-Pacific:				
1959.....	204	125	69	55
1960.....	213	130	61	47
1961.....	205	126	40	32
Latin America:				
1959.....	345	117	64	55 (M)
1960.....	147	993	368	37 (W)
1961.....	231	120	47	39 (M)
1959.....	210	1,524	609	40 (M)
1960.....	204	111	42	38 (M)
1961.....	197	1,368	462	34 (W)
Africa:				
1959.....	107	1,055	782	74 (W)
1960.....	160	1,001	740	74 (W)
1961.....	110	1,051	677	64 (W)
Australasia:				
1959.....	31	266	200	75 (W)
1960.....	31	267	160	60 (W)
1961.....	19	10	6	62 (M)
1961.....	10	1,101	70	69 (W)

In later years certain lines in the inbound trades from Europe and the Far East to the gulf and from the Far East to the Pacific coast have adopted a policy of concentrating on the outbound movement almost exclusively: this means sailings inbound with light carryings or even in ballast. These are among the most successful operators, unsubsidized as well as subsidized, and it is clear that for them rapid turnaround and high outbound utilization at suitable rates pay better than intensive solicitation of less valuable or less plentiful cargo, or of cargo available only at cost of port delays or perhaps of numerous calls. We are mindful that the Merchant Marine Act requires adequate ocean carrier service in both import and export commerce, and it may be open to question whether the method of operating described in itself conforms to such a standard. Its evident success, however, establishes the decisive importance of the outbound leg in measuring the amount of tonnage our commerce can absorb, notwithstanding the obvious implication that under present patterns many of our inbound trades must be technically overtonnaged. A further consideration that suggests the desirability of promoting adequate outbound service is that exports bear a fundamental relation to a favorable balance of payments: adequate tonnage at reasonable rates will develop as well as move them, and a further invisible gain accrues to the balance through earnings in freight not expended in hiring foreign ships.

One additional factor concerns the high proportions of government preference cargoes carried by American ships. This amounted in 1959 and 1960 to 25 percent of their carryings by weight, and in 1961 to an estimated 30 percent; of exports, the comparable figures have risen from 36 to 42 percent. (See table 13.) We do not know the full meaning of these figures for the subsidized fleet, because it is obvious that unsubsidized lines receive higher relative proportions of the reserved quantities: in one route the 1960 defense lift of two subsidized lines was respectively 15 and 9 percent of their total outbound cargo, but of several unsubsidized lines it ranged from one-third to three-quarters, and several sailings were reported as devoted solely to defense cargo. We are not informed whether this is also characteristic of the aid traffic. Purely commercial export shows a decline in 1961 below 1959 levels of penetration after a 19-percent growth in 1960.

TABLE 13.—Federal contribution to liner movement

[Millions of long tons]

	All cargo			Commercial			AID			Defense		
	Total	United States	Percent	Total	United States	Percent	Total	United States	Percent	Total	United States	Percent
1959:												
Exports and imports.....	48.0	15.6	33	42.9	11.7	27	3.3	2.1	63	1.8	1.7	98
Exports.....	29.3	9.5	32	24.5	5.8	24	3.1	1.9	64	1.6	1.6	98
Imports.....	18.8	6.1	33	18.4	5.8	32	.2	.1	49	.2	.2	99
1960:												
Exports and imports.....	49.9	16.2	32	44.4	12.1	27	3.9	2.4	63	1.6	1.6	98
Exports.....	32.8	10.6	33	27.7	6.9	25	3.6	2.3	62	1.5	1.5	98
Imports.....	17.1	5.5	32	16.7	5.2	31	.3	.2	67	.1	.1	98
1961:												
Exports and imports.....	48.3	14.5	30	42.5	10.1	24	4.0	2.7	66	1.8	1.7	98
Exports.....	32.2	10.1	31	26.6	5.9	22	3.9	2.6	66	1.6	1.6	98
Imports.....	16.1	4.4	27	15.9	4.2	26	.1	.1	81	.1	.1	99
1962:												
Exports and imports.....	49.0	15.1	31	41.7	9.2	22	5.3	4.0	77	2.0	2.0	98
Exports.....	32.6	10.5	33	24.7	4.8	19	5.1	3.9	77	1.8	1.8	97
Imports.....	17.3	4.6	27	17.1	4.4	26	-----	-----	72	.1	.1	99

NOTE.—Figures are not additive because of rounding.

American lines gained more than proportionally in the 3 million ton increase in commercial exports between 1959 and 1960, but they absorbed almost the whole \$1.1 million decline in 1961, while picking up the entire gain in the government cargoes. We do not know the exact meaning of these figures, or whether they have the same meaning for subsidized lines as for unsubsidized. As usual, the long ton scale is demonstrably deceptive, for we have seen that in 1961 the subsidized lines very slightly increased their cubic utilization (see table 11) while they sustained a loss of about 3.5 percent in long tons carried. (See table 14.) We should say these lines held steady, and it is probable that if they increased their government lift, it displaced commercial cargo. So long as tonnage is limited, government cargoes may to some extent deter achievement of our natural competitive level in commerce because they are high rated, easier to solicit, and allocated in rotation. Since the Agency for International Development pays freight on American liners only, foreign operators receive about a third of the liner aid traffic, probably allocated chiefly to the flag of the recipient country or its nominee, but it is a much smaller proportion of their total carryings and we cannot say the normal competitive impact is the same. But from one point of view these programs, though not strictly commercial, are an additional support for the fleet we consider necessary. Even in the absence of preferential legislation there is no reason why our carriers should not procure a share proportioned to their space; with the preference they should be able to use their allocations as a springboard for expanded commercial operation: a guaranteed core of cargo is really a further government contribution to the cost of penetrating the world market. Instead of fearing that these programs imply competitive incapacity on the part of American lines, we think they should be exploited as a base for expansion. At present, with insufficient vessels, they compete with instead of supplement commercial cargo.

TABLE 14.—Exports carried by subsidized lines

[Thousands of long tons]

	1959	1960	1961
Latin America.....	1,584	1,643	1,516
Europe.....	2,589	3,099	2,913
Far East.....	2,992	2,272	2,299
Africa.....	438	529	600
Australasia.....	145	185	127
Total.....	7,748	7,728	7,455

The circumstances recited, static capacity over a period of years, fully utilized outbound and substantially so inbound, a declining relative participation in a constantly growing foreign trade, and a tendency to distortions of operations in order to concentrate on the most profitable outbound movements including Government shipments, all seem clearly to reflect insufficient space in the face of rising demand, and to establish the commercial basis for the liner trades to provide and sustain a considerable part of the added tonnage required in defense.

## 2. FINANCIAL ABILITY OF THE LINER TRADE TO ABSORB ADDITIONAL TONNAGE

### (a) *The subsidized lines*

These impressions are much reinforced on examining the financial situation of the subsidized lines, which is among the most encouraging features of the problem. In almost every constituent their record reflects substantial and rapid growth, of which a condensed account is given in table 15. In only 7 years since 1954, their net worth has risen 50 percent, and since paid-in capital is small, the growth ingredient has been earned surplus, up 56 percent; total assets have increased 73 percent. These are real increases; probably not more than 15 percent of the growth in assets is represented by additional companies subsidized since 1954, of which the largest, States Steamship, is not entirely an addition since it absorbed a preexisting subsidized line. There is, of course, an uneven distribution: in 1960, a single line owned 20 percent of the total assets of about \$1.3 billion; six lines (with the subsidiary of one of them) owned 77 percent. But only two had assets of less than \$10 million; one more had less than \$20 million, but it is a joint subsidiary of two of the largest lines. Four lines ranged



between \$30 and \$40 million, one fell between \$50 and \$60 million, no fewer than four between \$100 and \$150 million, one between \$150 and \$200 million, and one over \$250 million. The distribution of net worth is also uneven, but taken as a group only one seems at the beginning of its growth, and all the rest show the remarkable relation of a threefold or fourfold increase in capital entirely from earnings. One leading company has original capital of less than \$2.5 million and an enormous earned surplus of \$83 million; with another, \$7 million has earned \$46 million; with a third, \$4 million has grown to \$23 million, and with a fourth, \$5 million to \$30 million.

TABLE 15.—Selected balance sheet items, subsidized lines

	1961	1960	1959	1957	1954
Net property and equipment.....	595	504	431	427	284
Vessels (including construction).....	455	395	419	418	277
Other.....	140	109	12	9	7
Reserves.....	341	380	415	323	253
Investments.....	16	17			
Current assets.....	225	229	204	209	182
Total assets.....	1,313	1,262	1,106	1,061	757
Long-term debt.....	236	229	199	180	109
Paid-in capital.....	179	178	167	162	110
Earned surplus.....	646	579	562	493	413
Net worth.....	785	787	729	655	523

These very large earnings are to a great extent in cash or equivalent, for it is evident on inspection of the data in table 15 that current assets (chiefly subsidy receivables, cash and marketable securities) and funded reserves from year to year represent 50 percent to 60 percent of total assets. This is certainly remarkable. Equally remarkable, although the net investment in ships has grown by 64 percent since 1954, and the reserves by only 35 percent, the relation of ships to total assets has actually declined from 38 percent to 37 percent.

These extraordinary cash accumulations are the harvest in all probability of real operational success husbanded in light of the requirements and opportunities of the Merchant Marine Act. The 1934 investigations of the Black committee revealed that shipping companies, like many others, had engaged in financial speculations and manipulations that in several instances had weakened and undermined them; it was a major object of the 1936 law to prevent lines enjoying the public bounty from engaging in similar practices. There were, moreover, two central themes of the act: to maintain the power of the subsidy holder to repay the liberal construction loans it was receiving, and to perpetuate its service by timely ship replacement, and in addition to assure conservative management and operation that might enhance the possibility of its repaying the operating subsidy.

Accordingly, the subsidized line is required to deposit stated proportions of earnings in funds jointly controlled by the Government, and from which no withdrawals may be made without its consent; earned depreciation and proceeds of ship sales are deposited in a capital reserve fund, from which withdrawals may be made primarily for principal payments on ship mortgages or to purchase additional or replacement ships; earnings above a return of 10 percent of capital are deposited in a special reserve to fund recapture of subsidy and to act as a support against operating losses. In case of normal operating success, these funds are therefore likely to grow, simply because the deposits are calculated to exceed normal withdrawals; thus, a full year's depreciation must be deposited if earned, but the withdrawal against it is only the amortized proportion of a mortgage not exceeding 75 percent of the cost, for 25 percent will have been paid down; at the end of the life of the ship, an amount equal to the 25-percent down payment will remain in the capital reserve fund. This part is calculated. Since payments of accrued operating subsidy have, since the war, been net of recapture accrual, the special reserves have only residual utility for their original purpose of funding recapture. They are, therefore, available for transfer to the construction reserves or, at the end of a 10-year recapture period, to general funds for distribution to shareholders upon payment of tax. Only one company has ever invoked the latter privilege, we are told. The reason is obvious. The act provides important tax advantages for keeping as much money in these

reserves as possible; payments of dividends from so-called free funds are subject to tax at the regular corporate rate, but deposits in the reserves are tax deferred while there, and merely reduce the tax basis of new vessels in which they are ultimately invested. There are thus strong incentives for voluntary deposits. In the 5-year period ended December 31, 1959, all subsidized lines paid taxes of \$91 million on net income of \$368 million; dividends were, of course, about the same amount as the taxes; during the same period, over and above mandatory deposits of \$123 million, the lines made voluntary deposits of \$64 million, a proportion of practically 2 to 1. In 1958 alone, the two classes of deposits were almost equal at respectively \$20 million and \$19 million.

Statutory rigor and company tax prudence thus combine to produce large reserves, which at the end of 1961 remained at the high figure of \$341 million, up \$88 million from 1954 though the lines had in the meantime purchased \$178 million worth of new ships (and, it would seem, \$133 million of other property and equipment).

While the main object of the law has been achieved, to erect a solid shipping structure, the extreme caution exercised by the Government and the industry alike has some undesirable effects. The structure is topheavy with cash and low interest securities that are neither working for the country and the investors nor even maintaining their relative value in an economy that has gradually inflated over the years; a funded depreciation geared to original cost will probably not, for instance, 25 years later replace a property on the same basis, and excessive reserves long held for that purpose or to defer taxes have the appearance of a worse waste of earning values. The whole burden of earning a return on the total investment is cast upon the real working assets; and the fewer working assets there are, as compared with hoarded liquid assets that meet no immediate need and earn very little, the more difficult to make the return reasonable. In 1959 net vessel property and funded reserves were practically equal at a little over \$400 million each, but the vessels produced gross earnings of not less than \$600 million, and the reserves only \$10 million; on a net basis, after throwing on the ships all expenses before taxes, and assuming the reserve earnings were net, the proportions were still 4 to 1 on net earnings of about \$50 million, or 10 percent against 2½ percent. It is evident that the industry has not realized its potential growth.

Apart from the uneconomic aspects of such distributions, they present other dangers to the purpose of the act. Publicly held companies with such liquid accumulations invite raids by speculators who can acquire them for a fraction of their realizable assets. A combination of conservative dividend policy and historic unsoundness has made shipping shares among the most undervalued on the market, so that such raids are by no means impossible; nor is joint Government control of the reserves necessarily a deterrent to partial or complete liquidation. One famous subsidized line followed this route in a stripping process that deprived the merchant marine of an important element. More closely held lines are in equal danger, since family considerations may force sale of controlling interests for tax or other reasons; at least one such case recently occurred and some of the largest companies appear to be in the same situation, where aging stockholders or their estates may dispose of control. A technique for creating a market for family enterprises is to sell limited blocks to the public, so that the physical possibility of disposition now exists. The danger is not limited, of course, to subsidized lines, and has been known to occur to others; but it is obviously most deleterious to the public interest where large Federal funds have been invested in building up an operation. We cannot say the maritime agency has always been alert to this problem, or that it has exhibited the financial sophistication to deal with it.

We are convinced that the proper use for these funds is investment in a much enlarged fleet. The real theory of the act is to build the merchant marine, but at present the companies are tied to a policy limited to mere replacement, and the Government is dependent on the appearance of new companies for genuine expansion. The result is accumulation of cash instead of the ships to carry the trade or to serve in war. A double injury results: the commercial and military economy sustains a grievous though hidden wound in the ships that are not built, and the companies find themselves heavily weighted with nonproductive assets, and diminished earning power. For it is the simple fact that in a growing economy ships usually earn better than money which moreover tends in many cases even to waste in principal, while ships adjust their values to the market.

The natural business trend in comparable industries is quite different. In 1959 70 percent of the net assets of the combined transportation industry were depreciable property, and 77 percent of the related group consisting of transportation, communications, electric, gas, and sanitary services; only 39 percent of the assets of the subsidized lines in that year consisted of property and equipment. In 1960, it shrank somewhat (see table 16), with the vital vessel component, which was the comparable element with the prior year, diminishing to only 31 percent. Acquisition in 1961 of \$60 million worth of new tonnage only raised the proportion to 34 percent. No line in this compendious figure has a conspicuously greater relation: at December 31, 1960, only the smallest and newest company had a figure as high as 56 percent; one rose as high as 46 percent, another to 44 percent, and two to 39 percent; but proportions of 6 percent, 11 percent, 12 percent, and 16 percent also appear. We cannot say the related industries cited indicate a necessary rule; but the disproportion is highly suggestive.

TABLE 16.—Selected balance sheet items, transportation, communication, electronic, gas, water and sanitary services, and subsidized lines, 1959, 1960

[Billions of dollars]

	Total transportation, etc.		Transportation		Subsidized lines	
	1959	1960	1959	1960	1959	1960
Total assets.....	128.7	137.1	45.7	47.2	1.1	1.3
Depreciable assets.....	102.7	108.9	32.5	32.5	.4	.5
Paid-in capital.....	41.5	42.2	11.2	11.7	.2	.2
Earned surplus.....	21.2	22.8	13.2	13.2	.6	.6

NOTE.—Figures for subsidized lines are calendar year; other figures are fiscal year.

From every point of view, the present condition seems unnatural. The ships are full, and their capacity is a declining factor in relation to the growing demand; the lines which one would expect to find planning more tonnage are content with a slow-paced program that will replace their already insufficient ships only over a period of 20 years; the Government, perhaps misled by statistics that consistently report failure where there has been gratifying success, is content to compel and permit accumulation of topheavy cash positions. Possibly both parties have developed, along with the conservative attitude of the established, a political timidity that leaves them satisfied with what they have and an anxiety to make that seem after all not too much. Hence the agency (rather unclear as to the exact state of the industry) does not drive the lines to greater efforts in whose cost it may have to share, and the lines do not ask for help for fear of killing the goose that lays the golden eggs. Both point to the protracted hearings required under the law before any significant expansion is permitted. This way lies the mediocrity that the Secretary of Commerce has feared we may be subsidizing. A space scarcity results.

How many ships could these lines purchase under present law? The analysis is in outline simple. If the average freighter be assumed to cost \$10 million, which represents recent experience, a downpayment of \$1.25 million acquires it, with 25 years to pay an additional \$3.75 million. This assumes a 50-percent construction subsidy, and a purchase money mortgage either directly taken back or insured in full by the Government, all likewise in accordance with recent practice. We recognize of course that needs vary from trade to trade, and we by no means assert a dogmatic requirement in each; the same qualification must be understood as to the ability of each line to undertake expansion. Nor do we expect the whole of a desirable program to be laid down at once. Our principle is based on a general view of trade and of the financial structure of the lines. Refinement of the conception to fit the individual case and to plan the phases of the delivery cycle is the duty of the Department of Commerce. With these reservations, we venture to express an opinion on the main question.

The reserve funds are distributed among the lines in characteristically uneven amounts. At the end of 1960, when they totaled \$380 million, \$120 million belonged to the one line whose dominant financial positions we have noticed, and almost \$58 million to another line; two lines therefore controlled nearly half the total. They were, however, the two largest vessel owners, with more

than 100 cargo ships between them, and though respectable opinion holds that a moderate company size is best suited to provide flexible and fully-controlled management, we do not consider that these scales have exhausted the possible economic savings from size; the two lines in question are clearly among the most successful and aggressive of the group. Accordingly, we should merely look to them for an especially vigorous lead in expansion, and as a matter of fact, they have since 1955 purchased or contracted for 41 replacement vessels, representing a price to them of over \$200 million, and altogether, we presume, of double that amount. One of them has used its very large reserves to pay its portion of the shipyard price in full, thereby saving interest charges on a construction loan. Presumably the vessels will ultimately be financed with mortgage insurance. The replacement commitments of the two lines include an additional 57 ships in this decade.

From 1955 through 1961, the subsidized lines as a group purchased or contracted for 110 replacement ships, including 4 combination passenger ships; 27 were already-built Mariners, and under the freighter replacement program, which began in 1958, 88 vessels were contracted for by mid-1962, the first deliveries having commenced in 1960. Existing operating subsidy contracts required orders for an additional 135 in the period 1963-67. (See table 17.) Though there seems to be no doubt the lines can buy these ships, the Maritime Administration plans to spread their construction over about 8 years, that is, to contract from 27 to 18 per annum. We would propose that instead the plan be expanded to 200 vessels in the 5 years, or 40 per annum. Accepting the replacement scale as 18 per annum, the plan would be 1 ship for replacement, 1 added ship to repair our deficiencies in commerce and defense, and a little over to match the growth of trade. Assuming average cost of \$10 million per unit (a cost that the larger volume of orders might help preserve), the gross price of \$2 billion would be divided in equal shares between Government and operators, the downpayment by the latter amounting to \$250 million, at the rate of \$50 million per annum. But the present agreements already call for 70 percent of this sum, and the financial ability of the lines to meet it seems scarcely open to question.

TABLE 17.—*Contractual commitments for replacement of subsidized tonnage*

Year	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	Total
Cargo.....	27	18	37	26	22	9	22	2	13	8	2	2		188
Passenger.....			2				2						1	5
Combination.....		3					3							6
Total.....	27	21	39	26	22	9	27	2	13	8	2	2	1	199

The Maritime Administration estimates that as of December 31, 1961, the lines had replacement commitments for about 285 ships, including 8 passenger and 12 combination ships. That was somewhat in excess of actual contract commitments, for it assumed ultimate replacement of all ships in being, including 26 delivered in 1960 and 1961 under the present program itself as to which no contract requirement exists; it also assumes replacement in kind of superliner passenger tonnage, which has now been drawn so far in question that we have adjusted the estimates to eliminate 2 other proposed superliners. Thus the calculated requirements are on the high side. The operators' total downpayment for the 285 vessels, of which 53 were then on order, comes to about \$400 million at current prices, of which about \$75 million is assignable to those on order. As the contracts are now written, about two-thirds of the costs falls in the next 5 years, during which 135 ships are scheduled; only 64, of which 3 are passenger ships and 3 are combinations, are planned for the 8 years beginning with 1968, an average of 8 per annum, and in fact only 7 freighters. The main financial thrust therefore comes at the beginning. This is, of course, an incident of the block obsolescence of a fleet built before and during the war. Against the cash requirement, the Maritime Administration attributes funds available to the operators of nearly \$950 million, including (in addition to the reserves and accrued mandatory deposits outstanding) excess working capital of \$26 million.

A conservative forecast of earnings, based solely on future mandatory deposits of depreciation in the capital reserve, reaches the considerable figure of \$450 million for ships in being at year end, and about \$130 million more for

those then under construction. The Administrator of course offsets against these visible cash assets the amount of present and foreseeable long-term debt, including mortgages and accrued liabilities for construction in progress, reducing the net funds available to \$700 million. But this represents an excess very nearly \$300 million over all replacement forecasts which, as we have mentioned, are rather above contractual commitments and to that extent look further (almost a quarter-century) into the future than the utmost providence would deem practical to command. (See table 18.)

TABLE 18.—Funds available for replacement as of Dec. 31, 1961

[In millions]

FUNDS AVAILABLE	
Capital reserve	\$116.2
Mandatory accrued depreciation	43.8
Special reserve (over 5 percent CNF)	105.0
Mandatory accrued special reserve deposits	24.5
Escrows and letter of credit	9.2
Special deposits	19.4
Net book value, ships	451.9
Construction in progress	128.9
Trade-in allowances	2.9
Projected income from reserves	21.0
Excess working capital	25.9
<b>Total</b>	<b>948.7</b>
FUNDS REQUIRED	
Mortgages	\$219.1
Notes	18.2
Accrued liabilities, ships in progress	17.9
<b>Total</b>	<b>255.2</b>
<b>Net funds available</b>	<b>694.0</b>
25-percent downpayment	72.6
53 ships in progress	325.2
230 others	397.5
<b>Total</b>	<b>397.5</b>
<b>Excess over requirements</b>	<b>296.8</b>

NOTE.—Figures are not additive because of rounding.

We have remarked that 70 percent of the operators' downpayments under our proposal for expansion in the next 5 years are already included in this calculation, which was based on present subsidy contracts without adjustment for the present stretchout in construction; instead of \$180 million in the 5 years, their first cost would be \$250 million. Less than 25 percent of their excess funds need be diverted to procure the enormous benefits of a subsidized cargo fleet whose numbers would thereby be enlarged by 110 units above the reduced scale of replacements, and probably substantially more in effective capacity. Nor would the additional tonnage really be a drain on these funds, since even on the administrator's deliberately restrained assumption that ships will only earn their depreciation, it yields a flow into the capital reserve of \$44 million per annum. Of course, that assumption is designed as a measure of minimum earning power, and in no way corresponds to the operating experience of the last quarter century or to reasonable current expectations. There are cycles, including sharp drops, in shipping, whose more volatile branches have indeed, like the Grub Street poets described by Macauley, often suffered the alternating pang of gluttony and starvation; but although the financial direction is not straight up, the liner industry has developed satisfactorily, and seems to us likely to fluctuate in broad harmony with the favorable trend of foreign trade.

We conclude that the subsidized lines have adequate resources to join with the Government in a program that will likewise help meet the requirements of their commercial trades. It may be noticed that the present would be a good time to commence because the shipyards are in a comparatively depressed state, and are offering attractive prices in the short run. One of the peculiarities of shipping has been the tendency even of established lines, whose vessel requirements are not of the moment, to defer their building when their business is poor, as if they could scarcely visualize a better market, and to rush in to build when their business booms though delivery will be 2 or 3 years or more away; hence it is common to build when prices are high and the ships will come too late for the boom's peak, and never to build when business is poor but prices low and delivery more prompt. Here is the time to work profitably against the trend.

We recognize that beyond contract requirements the cooperation of the lines will depend on their business judgment of the undertaking. We have no doubt that their patriotism will be fully stirred by the country's manifest need for a more adequate fleet, but despite the heavy contribution the Government would make, we have assumed from the outset that they would participate only to the extent the enterprise showed reasonable prospect of profit. We also said we were far from certain the Government itself would be willing to build ships on the scale necessary for defense unless their commercial utility should prove high enough to bear a substantial part of their initial and operating cost. If that be true of Government, there is no occasion to demand more of private citizens. As the test is the same for both, we are gratified that the practical conditions appear to meet it. Particular lines may judge cautiously from their local experience; their immediate circumstances may not admit of rapid development; given trades may show unfavorable trends of more than temporary duration; all these special circumstances will command administrative sympathy in individual cases. But we cannot doubt the meaning of a fully utilized fleet in a growing foreign trade, and of an obviously high degree of profitability over the years. In the sequel, after discussing the position of the unsubsidized lines, we shall set out reasons that encourage expectation of even higher profitability through direct reductions of costs to operators and Government alike; even on the present basis, however, enlargement of the fleet will in our opinion measurably enhance profit opportunities.

(b) *The unsubsidized lines*

The problem of the unsubsidized line in foreign trade is rendered less complicated by recent developments. We have been much interested to understand how such lines have maintained their viability over the years when others have required subsidies in order to face foreign competition. The implications would be at once promising and portentous if their success flowed from the ingenuity and efficiency that our traditions hold to be national characteristics; the disquieting feature would be the failure of others to meet the same challenge; the hope would lie in knowing that it could be met, and we should not be disposed to discount their accomplishments because all the major unsubsidized lines have now applied for subsidy and been declared conditionally eligible. In fact, both traits of the American genius evidently have figured significantly, and it is a question whether their effect has not simply been accentuated by fortuitous conditions of which they have taken advantage. The four largest companies, constituting at least 75 percent of the unsubsidized liner trade, exhibit marked flexibility of operations, readily shifting vessels about in wide-ranging services. It is a characteristic that three of the four have round-the-world or equivalent routes. Yet a narrow range of ports may be served on a single voyage, reducing relative port costs and increasing directness. All provide intercoastal service. Some practice, and may even be said to have originated, the system of concentrating on the more profitable outbound leg, frequently returning in ballast to speed turnaround.

A considerable amount of frank or quasi-tramping is done, often with chartered ships. Ore carriage and tanker operations are other adjunct functions in the enterprising variety of their interests, as well as extensive agency management for lines of all flags. Proprietary cargo is a factor, and Government cargo a large one. All show definite independence in ratemaking, one being the famous and not unformidable foe of the conferences in a long struggle to prevent them from exacting exclusive patronage from shippers by means of dual rates; it has always charged rates measurably below the conferences. The others, though they have generally been conference members or associates, are well known for resisting rate or other actions they deemed disadvantageous or unfair; a considerable part of their cargoes is probably more or less free of conference juris-

diction. Probably all pay the highest brokerage commissions and agency fees in their trades. Much of their floating equipment was originally purchased, like that of the subsidized lines, from the war-built surplus of the United States, so that initial capital outlay was equal on that score. Apparent techniques by which they reduce average operating costs are concentrated and flexible service, employment by some of varying amounts of foreign tonnage, and tight management demonstrated in low overheads.

The accounts of the four lines as at the end of 1961 show that as with the subsidized lines the relation of ships to their total assets is low, 25 percent, with one line having only 12½ percent and the highest of the group just short of 50 percent. Long-term debt is smaller in proportion than with subsidized lines, only about 10 percent of assets, although 44 percent of the ships themselves. There is very little working capital as a group, one line having in fact a negative figure; this is offset by the strong position of another. Funds and investments are about 22 percent of assets, but at \$23 million would obviously be insufficient, when added to \$16 million in net vessel equity, to replace the 86 ships they owned at that date. (See table 19.) Without operating subsidy, all their ingenuity has not built up the reserves that would solve this recurrent problem. Though they report gross waterline earnings, these 4 companies, equal to a third of the gross earnings of all 15 subsidized lines, about 24 percent higher per vessel than the latter, they yet sustained a net loss of over \$4 million in 1961, and only 2 showed a profit. From one point of view, they did better; since they do not find their depreciation, of course, that is only a bookkeeping deduction, so that in fact they earned \$4.5 million on a cash basis. This is a better relative showing than that of the subsidized lines, whom a similar treatment of depreciation would leave still \$100 million in the red.

TABLE 19.—Comparative condensed balance sheets and income statements at Dec. 31, 1961

[In millions]

	4 unsub- sided lines	15 sub- sided lines
<b>ASSETS</b>		
Current assets.....	\$44.1	\$225.2
Special funds and deposits.....	.2	340.7
Investments.....	22.7	16.1
Property and equipment, net:		
Vessels.....	27.5	455.2
Other.....	3.3	140.3
Other assets.....	8.2	135.5
<b>Total assets.....</b>	<b>106.0</b>	<b>1,313.0</b>
<b>LIABILITIES</b>		
Current liabilities.....	43.6	118.0
Long-term debt.....	11.5	235.7
All other.....	22.3	174.9
<b>Total liabilities.....</b>	<b>77.4</b>	<b>528.6</b>
Net worth:		
Capital stock.....	4.0	138.8
Surplus.....	24.5	645.6
<b>Total.....</b>	<b>28.5</b>	<b>784.3</b>
<b>Grand total.....</b>	<b>106.0</b>	<b>1,313.0</b>
<b>REVENUE, EXPENDITURES, AND PROFIT</b>		
Waterline operating revenue.....	216.6	613.5
Net waterline operating expense.....	221.5	578.4
<b>Gross profit from shipping.....</b>	<b>(4.9)</b>	<b>35.1</b>
Other income.....	3.0	12.2
<b>Total.....</b>	<b>(1.9)</b>	<b>47.3</b>
Deductions, including interest.....	2.3	9.7
<b>Net profit from shipping.....</b>	<b>(4.2)</b>	<b>37.6</b>

NOTE.—( ) signifies red figure. Figures not additive because of rounding. "Net waterline operating expense" includes, for the subsidized lines, a deduction of \$168,000,000 as operating differential subsidy.

It may also be observed that while the four companies have average overhead of 8.3 percent of gross revenue, the subsidized lines average 12.7 percent, though this includes passenger services. These companies have not stood still in growth, of course, but the method has been by acquisition rather than new construction, for none has built an American-flag vessel since the war: two of the four are connected by common ownership, one was taken over by a trucking carrier, and the fourth has acquired stock control of one of the great subsidized lines, with which it has merged its shipping operations. It is the problem of replacement that over the last several years has induced each of the four to apply for subsidy. They do not abandon the flag because of the importance of Government-sponsored cargo, but they cannot replace their tonnage without help. We do not know whether their problem has been complicated by an apparent Government policy in recent years to refuse construction subsidy to lines that do not also hold operating subsidy. There seems to be no legal requirement for such a discrimination, the law and precedent being perfectly clear, and we should have thought public policy would decidedly prefer lines that can subsist without asking all the Government might give; it may have been feared that industrial carriers would invoke the precedent, but even if that distinction be sound, it should not be extended to debar common carriers. Mortgage aid should also be granted on the same terms as to others. Reversal of this rule, if it has been a factor, would come, perhaps, too late now. One of the four has already signed its operating subsidy contract and then merged with the subsidized line mentioned; a favorable award to another is pending reconsideration by the Maritime Subsidy Board on direction of the Secretary of Commerce; the coalesced third and fourth can qualify by meeting certain financial prescriptions of the maritime agency.

Should all conclude by signing contracts, the replacement of their ships and expansion of their interesting operations will fall within the principle we have proposed for the subsidized fleet. Above the 40 ships per annum we have discussed, this powerful department of shipping should be able to absorb an additional 5 ships, or 20 in the 5 years, beyond what may be imposed as scheduled replacements. For those who do not sign, we should be very ready to urge the award of construction subsidy and mortgage aid at least to replace their aging fleet in an orderly way.

### 3. PROBLEMS IN ADMINISTRATION OF THE SUBSIDY PROGRAM

#### (a) *Some aspects of inherent costliness*

What is instructive in the history of the unsubsidized lines is its illustration of theoretical principles that tend to be obscured or artificially suspended by a whole complex of Government aids. It is thought that, free to choose, capital will seek the area of most fruitful returns; and when less fruitful fields are worked instead, a degree of economic waste occurs. This conception is relative, and we suspect that its application in a given instance is rather inferred than demonstrable. In the case of shipping, it remains a constant question for the public authority whether there would be any under our flag if capital were to judge its attractions solely on their merits in competition with other fields of investment. In the long range of a half century the answer, which is not fundamentally contradicted by the experience of the unsubsidized lines, has been deemed so far obviously negative that the social benefits from preserving a merchant marine have been deliberately added to the balance, and the economic attractions of shipping have been enhanced by reducing its costs to a point where capital might reasonably expect to earn an acceptable return. Serious students have considered, however, that the social benefits are overvalued or, to put it in terms an appropriations committee might use, that their cost is too high. The issue is not simple, and there is always a certain uneasiness that a clear view is clouded by argument from vested interest, whether of the lines themselves or of an agency appointed to promote and develop them: Is it the vested interest or an aloof and uninhibited judgment that attaches so much importance to defense, or to the economic advantages of a flag fleet? We have already adverted to the spasms of public feeling that have been a recurrent symptom of this uneasiness.

For ourselves, we have considered the problem of defense in light of the objective criteria of war experience and the probability that our future needs may be on the same scale. It has seemed to us that the cost of a wrong decision to build ships on that scale (in itself not very great) will be immeasurably less than the cost of a wrong decision not to build them.



But a national conviction of this truth is not incompatible with determination to procure the object at the smallest reasonable outlay. It was on that account that, while willing to recommend the necessary construction at direct Government expense, we cast about to see whether the commercial utility of the fleet could bear a significant part, or even all, of the cost of the building and peacetime operation. It has seemed to us a net gain to the economy that the results under the various shipping acts should in general have proved so satisfactory. The gross freighter earnings of the subsidized lines annually exceed \$600 million, twice the Government's gross payments of construction and operating subsidy at present levels; the \$200 million earned by the hitherto unsubsidized lines is perhaps a larger relative contribution, but may be considered partly a recompense for the original low sale prices at which they acquired much of their tonnage from the Government; the difference between these earnings and the direct annual or amortized costs of Government aids may be considered roughly the net savings in freight (for there are some offsets) that might otherwise have been paid to foreign-flag lines. There are also theoretically advantageous effects on rates, with a tendency to depress them if our ships are in addition to the world fleet, which we shall discuss in more detail later. Although the benefits apart from defense seem thus to outweigh the apparent direct costs, and many favorable tendencies portend substantial further savings, it is obvious that these will not be obtained automatically. The sums paid out directly tend in themselves to become inflated, and for that matter are not a complete measure of cost.

A subsidy system has inherent costs that seem to breed on themselves, and even to weigh down the efforts of lines operating outside it. In connection with wages, for instance, it tends to decrease elasticity of demand in face of rising labor costs; that is, the company demand for labor declines much less if the Government is to pay part of the rise. In a sense this is self-evident, since we seem to have proof that without subsidy there would be considerably smaller employment under the American flag; but the effect goes further, for it is obvious (though not universally admitted) that subsidized lines resist wage and manning demands much less sternly. In fact, certain excess manning demands can be directly profitable for such companies, as where extra men or overtime for ship's maintenance at sea result in higher wage costs but also a higher subsidy than would be paid if a shipyard did the work, wages bearing a 75-percent and yard work only a 30-percent rate; the net cost to the ship is lower in such a case though the wages are higher. This is a curious phenomenon. Foreign seamen are applauded for their willingness to do maintenance work that would cost more in a yard, but if Americans do the same work it almost becomes a cause for criticism, as if unions and lines were conspiring to mulct the Government. Such distortions are probably the product of the particular form of subsidy we have selected.

The construction subsidy may have somewhat similar implications, though limited by the 50-percent ceiling on what the Government will bear; the very large increase in American construction costs in the last 15 years, greater than in foreign building centers, could not have been sustained by the American lines unassisted, and this contribution to inelasticity of company demand is a considerable offset to the effects of compulsory competitive bidding. As the estimated foreign cost represents the line's purchase price, any increase by American yards over that level is absorbed by the Government. In such circumstances, the buyer's financial resources are not a principal factor in the bidding: the primary consideration is the current competitive situation, and even that is not the depressant one might suppose. The dispositive factor is that the prices of foreign yards are by the nature of the system translated from a searching competitive standard to a minimum basis, with practically no direct incentive to improve the relation. There is probably no way to measure the influence of this condition, but it is one cause whereby it comes to pass that we pay here for one ship the price of two ships built abroad, though a generation ago the difference was only a third and foreign costs have continually risen.

Some of these effects necessarily wash over into the economics of unsubsidized lines. It must be difficult for a labor union to accept from them conditions inferior to those it has been able to procure from those with subsidy, though we hear of some manning concessions made on just that ground; perhaps the concessions are on a theory of added cost to the unions. In any case, the complaints of the unsubsidized are perennial that their wage costs are determined by those who draw on Government account to pay their own. The construction aspect is not quite so difficult, because the only unsubsidized builders are power-

ful industrial interests or those connected with them whose bargaining positions are further strengthened by having to build only such tonnage here as is necessary for their domestic movements; this aspect will be much affected by pipelines under current study. As for unsubsidized liner tonnage there simply is no market at present; prices are all but impossible with respect to foreign trade, though there is at present a small stir of activity in the domestic trade. We cannot say the subsidy has caused this result; but it has certainly not eased it by muffling the impact on the yards of their own rising prices.

The controls on this sort of cost may never be perfectly satisfactory. The statute is not oblivious to them, and requires that operating costs and construction bids shall be fair and reasonable; but it is hard to say what vigilance might accomplish, and probably there is really no a priori ground for distinguishing in a shipyard bid the amount included because the contract must be placed in this country from the marginal amount necessary to make it worthwhile to continue to devote the company assets to building. The only real limitation is the approach of a point at which the Government itself is in effect priced out, at which costs become so formidable that a measure of elasticity is restored to its demand and it refuses to help build. Something of the sort may be demonstrating itself at the moment, though shipyard prices are relatively depressed. As to operation, to disallow subsidy for excess seagoing personnel will certainly restore company elasticity, since if it hires them it will have to pay them; but the first instance of such a disallowance, as we are informed, has occurred within the last year. In fact, it must be difficult for the maritime agency, with its necessarily limited technical knowledge, to assert its own judgment against the practical operators. The agency does not even participate in labor negotiations, as it does in building contracts. The impending technical revolution in ship manning may, however, modify the situation strikingly and, without at all qualifying the general rule, reduce its costs to smaller proportion.

In one other significant respect the subsidy system seems to entail some waste. We have drawn attention to the 50-percent higher overhead borne by the subsidized lines than by the unsubsidized. It cannot be said that large overhead is a function of large size; actually it should vary inversely with size. That 4 unsubsidized companies we have mentioned are all major entities, with fleets ranging from 14 for 1 to 25 or 26 for each of the other 3, and they have as a group been accustomed to charter and manage many additional ships. Their tighter control must evidently respond to their harder life; a substantial subsidy tends to relax not merely pressure but cost control. This would be especially true if the company happened to be in a recapture position, for then minor administrative luxuries in headquarters or afield are really half-paid for by the Government. This class of expense, which may reflect a pattern throughout a company operation, is watched over by a special unit of the Maritime Administration, which enforces the statutory requirement for economical and efficient operation; probably, however, the standard is set by reference to comparative experience of the subsidized group itself, about which the agency would naturally know most, and it must be considered doubtful whether adequate staff or practical, independent knowledge will ordinarily be available in Washington upon which to predicate judgment. We are led to understand that the techniques of mechanical cost control are on a fairly advanced level in the industry at large. Their diligent practice by the financially largest lines has been so rewarding and so well known that one would naturally have expected their uniform adoption by now, voluntarily or by rule which it is apparently open to the Commerce Department to prescribe. The maritime agency has not led this development because of diffidence in judging their utility for particular lines. Yet their general use should facilitate the Government's task of supervision, which is equally to keep account of costs.

We would not be understood to advocate the sort of supervision that transfers management from the lines, or tends to inhibit their free and flexible judgment. As a practical matter, there is no risk of such consequences; all the knowledge, all the facilities, all the will and incentive to decide a thousand day-to-day problems coming from around the world are concentrated in business offices over which it would not be possible to preside from Washington or its few field installations. What is wanted is comprehending review after the fact in most cases, such as a principal creditor or a board of directors can conduct, in order to assure that the country receives money's worth for its substantial cash contribution.

(b) *Flexible operation of shipping services*

Another lesson should be learned from the experience of the unsubsidized lines. Though some of their practices seem to some degree inconsistent with the kind of common carrier service the Merchant Marine Act aims to underwrite, especially the slighting of inbound cargo and exercise of high cargo selectivity outbound, their flexibility of operation might be emulated by lines with similar broad-ranging trade routes and adequate numbers of ships. This is in fact happening, we believe, to a considerable extent. If subsidy contracts afforded sufficient spread between the minimum required and maximum permitted sailings on a given route, the carriers could, when cargo or rates fell off rapidly, reduce sailings to the minimum necessary to provide adequate permanent service, and shift the excess tonnage to other routes on which opportunities were for the time better. The fleet expansion we recommend would greatly assist such a system, which would restore a measure of the service elasticity sacrificed by a subsidy system founded on a fairly rigid theory of essential trade routes: and this in turn might have favorable tendencies in respect of rate levels based on free market influences rather than on the artificial conference structure.

(c) *Ratemaking by subsidized lines*

This consideration brings us to the most suggestive aspect of the unsubsidized liner operation. We mentioned earlier their comparative independence in ratemaking, noticing that one of them was long the outstanding independent in world shipping, charging rates substantially lower than its conference competitors of all flags, others among them have operated outside the conferences permanently or from time to time, and though most usually within or associated with them are known for asserting their individual interest more or less regardless of conference discipline. To what extent does their success follow from these policies?

In the case of the independent line, there is no doubt that it successfully utilized the conferences as a kind of umbrella beneath which it could more or less comfortably conduct its solicitation for cargo; within the limits of its space, it offered shippers in many trades rates roughly 10 percent lower than its competitors, and even where the latter enforced exclusive patronage by dual rates, it appealed to shippers whose needs for space did not require the more frequent and better rounded services of the aggregated conference carriers. Where there was no exclusive patronage system (and this line fought numerous delaying actions in a long and ultimately successful legal war against it) it usually made impressive inroads into the trade; in the early 1950's it carried a peak 30 percent of Japan-Atlantic cargo though it provided only 2 sailings a month against the massed services of over 20 conference lines. Its lower tariffs were certainly the key to these accomplishments.

The matter is less obvious as to the others, except insofar as some of them have from time to time stood outside the conference structure. One of them joins in some trades but not in others, and as to the former, maintains a grudging and truculently guarded adherence, having a record of notably successful litigation against quite fruitless efforts to exert conference discipline over it; it has several times filed resignations which only with difficulty has it in most instances been induced to withdraw. The threatened resignation of any one of these lines is reported to have considerable effect on conference policy because its apparition on a trade route in an independent role is feared far more than such occasional breaches of regulation as it may perpetrate. On the whole, we may conclude that these lines are not much inhibited by their conference ties, and that they are very ready to end or threaten to end them when a superior convenience is thereby served.

By contrast, all subsidized lines are conference members. This seems to be spontaneous on their part though the Maritime Administration has recently issued a rule, codifying what was long understood to be its tacit policy, in effect requiring such membership. Indeed, the line whose success and fame so long rested on its independence was obliged to abandon this position as an express condition of receiving a subsidy contract. We must now consider the wisdom of this policy which, with short intermissions, has been followed by the whole succession of maritime agencies that each in their turn have briefly presided over enforcement of the Shipping Act. The problem has, of course, the two aspects that Congress has recently sought to disentangle from each other, the regulatory aspect and that of the promotion of an American shipping industry. Both should be understood.

Our consideration proceeds, therefore, in light of the history of these conferences under the Shipping Act, which represents the effort of Congress to achieve a balance between the recognized evils of monopoly and destructive competition. Prior to 1916, the most prominent feature of ocean shipping was the combination of carriers, overwhelmingly of foreign flag, in international cartels or conferences whose business was to fix rates, divide territories, control sailings, and pool cargo or revenues. Competition was stifled by the use of fighting ships, penalty rates, and other direct retaliations against shippers patronizing outside lines, and schemes of deferred rebates to maintain discipline among the compliant.

To the Congress at that date, when the Nation was sensitive to problems of monopoly, it seems clear that the possible choices lay between regulated monopoly and free competition. Unregulated monopoly could not be allowed, and at no time has public policy deviated from this principle. The choice between the other courses was deemed balanced, but as stability of services and rates was considered desirable on the one hand and unattainable on the other under a system of uncontrolled competition, the Congress elected to apply to ocean shipping the theory of regulated monopoly more or less familiar in domestic transportation. Accordingly, the conference system was permitted to continue, but under restraints as to the arsenal it might employ against shippers and rival carriers. The deferred rebate and the various fighting and retaliatory weapons were made unlawful. Conference agreements of every nature were required to be filed with and approved by a Government agency upon findings that they were neither detrimental to commerce, unjustly discriminatory nor unfair, nor violative of any other provision of the law. On these conditions they were entitled to exemption from the antitrust laws.

Broadly, this was a moderate but comprehensive system for controlling what had come to be felt as intolerable abuses while permitting the degree of combination thought necessary to avoid the opposite excess of unrestrained competition.

It cannot be said that the system received a fair test in the almost one-half century following its enactment. By and large the Shipping Act was not enforced by the various Government agencies which succeeded each other on the average every decade, and whose individual membership turned over in a manner even more kaleidoscopic. All authorities seem agreed that the duty of regulation was undervalued in the proportion of the vast program of construction, operation, and sale of whole fleets that were delegated to these agencies during and after both wars, in addition to subsidy and other financing projects that naturally attracted or compelled the attention and interest of officials. The sporadic and on the whole untrained judgement of transient Commissioners passed from time to time on the recommendations of staffs too big for what they could accomplish, too small for what needed to be done, in either case without leadership, neglected alike in personnel and budget, unobtrusive in relation to the industry but comparatively all powerful in relation to their inexperienced and impatient superiors.

When the Supreme Court confirmed a substantial body of State and Federal court decisions striking down the dual rate system, the shipping industry, led by the subsidized lines, at once sought legislation to reinstate it. The House Committees on the Merchant Marine and on the Judiciary conducted parallel hearings extending over a period of 3 years. They at once discovered that almost all the abuses condemned in the Shipping Act were actively flourishing, including deferred rebates, secret and open; systematic rate cutting amounting to fighting ships aimed against independent carriers charging lower rates; and rebates disguised in various ways, from false description of goods to fraudulent on-board bills of lading and currency manipulations. Most conferences refused to exhibit their tariffs to shippers. Worst of all was the prevalence of private agreements not reported to the Government, including the secret organization of superconferences of conferences, functioning through "owners' meetings" in resort towns around the globe and through overlapping and duplicating secretariats and memberships whose existence and proceedings were not known to the maritime agency charged with supervising them.

Likewise exposed was the virtual abandonment of the moderate regulatory scheme of the 1916 act, which we have described as permitted monopoly scrutinized by Government to preclude unjust discrimination and detriment to commerce. The agency early decided that "routine" conference matters need not be reported, including rate changes. Conference minutes, however, in brief, noncommittal sentences that revealed little were received and duly filed. In

the gradual abdication of supervision, there grew up the curious conception that what was required was not monopoly regulated by informed Government, but monopoly self-regulated; the agency became impressed with the idea, obviously founded as much on the wish for stability in administration as in foreign commerce, that the law aimed not at controlling but enhancing conference power. One FMB decision dealing with exclusive patronage enforced by dual rates actually said that the test whether the penalty differential against shippers for noncompliance was reasonable was whether it was large enough to compel shippers to be "loyal" to conferences.

Yet in fact it was found that at most the conferences preserved a precarious internal balance among their members. Rates were maintained so high that few could resist the temptation to cut them in order to steal the cargo. Efforts at internal discipline took drastic forms, with the concurrence and sympathy of the regulatory agency; high bonds to provide security that penalties would be paid; special investigating offices and trial bodies; finally, so-called neutral bodies with visitatorial powers that included absolute and unannounced access to the books of suspected violators and powers besides to assess mandatory and unappealable fines; all in turn were tried, buttressed by schemes of exclusive patronage offering shippers "contract rates" or "fidelity commissions" really designed as much to induce members to abide by their agreed tariffs lest they be expelled and deprived of the patronage of the loyal shippers. None of these techniques can be said to have succeeded completely or apparently even sufficiently. Lately the old conception of the pool has begun to reappear, the ultimate resort to suppress competition, for it practically eliminates incentive to carry the cargo itself; there are cases on record in which carriers have been admitted to pools in order to induce them not to serve a trade which it was feared they would penetrate too deeply; on the other hand, it has sometimes been necessary to bring pressure on members to carry their required share.

The amendments to the Shipping Act adopted by Congress within the last year have strengthened the powers of the new Federal Maritime Commission to deal with violations of law, but have not departed from the original theory that these cartels should in certain cases be allowed exemption from the antitrust laws; and they have restored under restrictions the power that the Supreme Court had struck down of exacting exclusive patronage from shippers by penalty rates. There is no reason to suppose that any important changes in the situation found by Congress have occurred in the short time since the amendments, especially since the new Commission has scarcely as yet been able to commence its labors.

It is easy to perceive that what the conferences aim at is a condition of stability in which the rate structure is agreed at the highest feasible level, a level that can obviously be higher to the extent that internal and external competition can be eliminated. Their problems of internal discipline generally arise in situations of overtonnage, and this can be true even when cargo levels are rising. The most common cases have usually been in the inbound trades, particularly from Japan and the Mediterranean. We have previously remarked that our outbound trades are in general larger in quantity and value of cargo, and in consequence determine the amount of service offered; this means that the inbound trades are likely in many instances to be automatically overtonnaged. In a free market, the difficulty would be approached, if not solved, by reducing rates in order to increase the movement or by withdrawing some of the supply of vessels, steps depending on the elasticity respectively of demand and supply. The rate action is feasible because the inbound leg in our trades is really on an out-of-pocket basis: All costs except cargo handling are incurred merely in placing the vessel on berth outbound; hence rates can quite properly be adjusted on the lean leg with only added marginal costs as the minimum base.

The second course can take different forms, including outright withdrawal from service or reduction in the number of sailings; when the outbound leg needs maximum service, however, it is usual either to serve contiguous areas homebound or to follow the plan of the lines we have described as hurrying home even in ballast in order to speed turnaround on the profitable outbound leg on which they are undertonnaged. From the point of view of commerce, the price reduction may seem the better plan, provided it stimulates demand at a profitable level. Some combination of the two would be predictable if normal market forces were free to operate. It is the purpose of conferences to suspend or arrest the operation of such forces; the downward movement of prices is deemed by them rate chaos. Their economic theory, like that of all cartels, is high profit on low volume, without painful competition over prices and markets. Yet the market forces are inexpugnable: Under the surface of

conference unity they continue to find expression. Precisely where rates are highest above cost, the temptation becomes greatest to fill an empty ship by a quiet rebate of which the other members are instantly informed either by the suspicious resemblance to their own methods or by avid shippers shopping for the best bargain. All this has been helped along by the absence until recently of any law forbidding such practices unless they were discriminatory in a special technical legal sense. The virtual absence of litigation attests that law was no hindrance to them. The temptation has been all the greater if an outside line was doing well by systematic rate cutting.

It is an interesting question why a government agency should have taken so to heart the wranglings of a certain number of carriers in some trades over their mutual helplessness to resist the consequences of the economic contradiction between their high-rate policy and their continuing overtonnage; and why it should have supported and sponsored numerous devices to preserve conference power over shippers and carriers. One might have thought that within reasonable limits rate competition could be a very good thing for commerce, especially in our inbound trade, since we should naturally like to procure our imports as cheaply as possible, and since the volume of trade might thereby be stimulated as well.

The explanation is also interesting. It argues the inherent desirability of stable conditions, and insists that the level of rates is less important—even if high—than predictability over a sufficient forward term. But it is obviously based on the underlying belief that American carriers, with their high costs, would be driven out of business if obliged to compete in rates with low-cost foreign operators. This implies that high rates are the price we are willing to pay the foreign lines for their permitting us to retain a flag fleet. If this be indeed the case, we have discerned a hidden cost of such a fleet that may have important bearing on our willingness to pay it: for the whole principle and object of the subsidy system is to equip our carriers to meet foreign competition. The operators nominated and their ships are explicitly required by the act to be competent to that end, and it is on that account that the subsidy is calculated to equalize their costs with those of their principal foreign competitors. It is, therefore, disquieting if the statutory plan of meeting—and surmounting—competition is a failure, and if the survival of our lines, supported as they are in addition by preference cargoes, depends on their joining in cartels that will admit them on condition of high tariffs; it is the more disquieting when it is considered that the rates of a fleet brought into being primarily for defense might in theory be fixed at levels equal to the marginal cost of commercial operation (which includes profit) or at the level necessary to procure full employment, if that should be desired. Conference rates, of course, are not fixed by reference to cost in any direct sense, but by what the traffic will bear. Thus, the preliminary economic basis for successful rate competition would appear to exist.

The suggestion that our subsidized lines are unable to compete does not seem to be borne out by the experience of the unsubsidized carriers, the success of which was limited by their inability to accumulate capital replacement funds, but which at the operating level appeared strong. Nor is it borne out by the experience of some of the lines themselves during a full-fledged rate war in the inbound Japan trades extending from 1953 to 1958. During that time, one principal subsidized company, newly equipped with Mariners, then the finest ships afloat, achieved a large increase in profits though it was said to have charged the lowest rates in the trade. The House Antitrust Subcommittee found in the files of this company pleas from the Japanese lines that it should agree to limit its carryings per sailing. This result was surely the intended, the probable, result of the law: A competent line with superior equipment and no cost disadvantages taking due position in trade.

The possible services of a flag fleet to the economy include direct trade development at reduced cost of transport, and the mitigation of foreign monopoly power. The mere existence of the fleet exerts some downward pressure on rates, and it is probable that conference membership does not entirely dissipate that effect; but it is certainly diluted. There is a theoretical possibility that the rates are pitched at the level of full American cost, which would entirely contradict the assumptions of the subsidy laws, but the evidence for that would have been that the lines made profits before subsidy; we see no such evidence. Yet the power of our carriers to effect a positive downward thrust is largely sacrificed by their membership in foreign dominated cartels.

This sacrifice tends to be the more unrewarding because it seems to be unilateral. Conference discontent has appeared acute, as in the inward Japanese

trades, where there has been extensive violation of the agreements by the foreign lines, principally the resurgent Japanese fleets reclaiming by any means the dominating position in their commerce. Admittedly, our lines have not been behindhand in the same sharp practices, but if they had, they would have been the victims of a chimerical stability. Why should they hold the umbrella under cover of which their competitors simply abscond with the business?

We are not, of course, giving countenance to violations of law, and we altogether approve the measures by which Congress has strengthened the administrative organism. We cannot, however, help feeling skepticism whether the Federal Maritime Commission should add to its very heavy duties the gratuitous burden of enforcing conference agreements against recalcitrant members. It is doubtful that this can in any case be done efficiently, considering the foreign seats of the inbound conferences and the distant places at which the violations occur, often in obscure and sophisticated forms assimilated, to local trade practices; it will be quite hard enough to police the statute itself in such circumstances without undertaking to enforce the economically unenforceable. But our doubts on this score approach positive conviction that the Secretary of Commerce should not oblige the lines supported by Federal money to maintain high paper rates that their competitors systematically disregard. Rates no one respects are obviously unrealistic; the sound course is to lower them nearer their real levels rather than to invent new and more oppressive instruments for discipline. The Secretary should ponder deeply whether, instead of a compelled membership, the right role for American shipping may not be an independent station on our great trade routes from which, by the tremendous leverage of the finest ships afloat and a competitive cost structure that it is the whole purpose of the Merchant Marine Act to afford, it can largely assure that ocean rates respond more freely to the play of economic forces without undue monopoly inhibition. Our fleet would thus be a controlling factor on monopolistic tendencies, and might be more successful in that function than the difficult scheme of Government regulation. And if stability be a really desirable end, their formidable competitive power would be equally available to sustain it.

We recognize special arrangements may be needed in special situations; for instance, where other governments compel use of their flag tonnage, but admit our ships into the preference because of their historic place and continuing utility in the trade. It has generally been held that in such case we must accept the assigned limitation because we really have no choice. An analogous situation is government flag-preference by currency regulations. These practices bear resemblance to some of our own. The case of so-called shipper-controlled cargo does not seem to belong to this class; however, since even proprietary owners employ outside tonnage when it is significantly cheaper, it would appear that shippers, including large industrial buyers with established carrier ties, would in the long run be susceptible to the combination of superior service and competitive rates that our lines might readily offer, as in the rate war mentioned. That is the true role for American shipping.

#### 4. IMPENDING DEVELOPMENTS IN DESIGN AND MANNING

We have several times in this report referred to impending developments in ship design that promise impressive savings in cost both to operators and Government as concomitants of genuine advances in efficiency and productivity. We are not concerned here with entirely new conceptions of propulsion or with ships that may float above or below the stormy waters at the equivalent of land or even airspeeds. We deal only with advances of existing vessel types with long proved commercial value. These involve mechanization of vessel components to permit major reductions of crew, and changes of loading and discharging technique to reduce port time drastically.

We are informed that in the present state of knowledge within a year from an order to proceed, plans can be drawn by the Maritime Administration and by practically any shipyard for ships manned by crews half the size required for the present fleet. There is discussion of reductions by 75 percent, but we understand that these are further away. As the first step is enormously valuable in itself, and as there is no incompatibility with logical progression of the conception for later programs, we should certainly not be inclined to await them. The reduction by half, with little or no increase in capital cost, means an annual saving on the Mariner of \$650 thousand per vessel in wages and subsistence alone—and the Government's subsidy saving per vessel is about 75 percent of that amount. Thus, if a 55-man crew costs \$1.3 million at present,

of which the Government bears practically \$1 million, the adjustment cuts the Government's bill in half. But more, it stretches each operating subsidy dollar to cover two ships instead of one in the fleet expansion we have recommended, and allows us, within reasonable limits, to entertain the extraordinary expectation of this large expansion at no additional cost in operating subsidy. There can be few similar instances in the history of ocean shipping of the beneficent interplay of economic and scientific forces.

We have assumed that foreign lines will simultaneously mechanize their fleets, and that there will be no change in the differential of wages. In fact, parallel developments abroad probably cannot happen at once on the same scale because we are at the beginning stages of a major retooling, and it seems to us quite probable that we can achieve the result here with a definite time advantage. It is not necessary to assume this, however, in order to be drawn to the program, since even if the opposite occurred, the subsidy saving is very great at the lower aggregate expenditure.

In addition to cost savings derived from manning developments, large increases in vessel productivity impend in respect of cargo handling. Operators on short hauls incur cargo handling costs that rise as high as 50 percent of total costs, and the median in all trades nearly approaches one-third of total cost. We have been furnished estimates that improved cargo handling operations could reduce mariner costs by approximately \$1 million a year per vessel. This considerably exceeds the savings on crew from vessel mechanization. The primary techniques involve the preloading of containers of standard size so that they can be rapidly stowed aboard ship; the same process operates in respect of discharge. Years of practical experiment already confirm the reasonableness of these forecasts. The time has clearly come for application of the new techniques on the broad-scale.

Of course, there are offsets in the savings, which will arise partly out of the human aspect of the matter, and partly out of the certainty that unit costs do not stand still in any case. Wages may be expected to rise both in the ordinary course and so that labor can participate proportionately in the great increase foreseen in productivity per man, practically 100 percent. But because the savings are so great, the offsetting costs may be accepted, and the net savings should hold in the indicated proportions at least during the proposed 5-year program.

We gather indeed that the anticipated impact on labor has been a deterrent to the rapid adoption of changes ready for some time. In the long run, the changes would have been made in any case, since even the absolute hostility of the labor movement could not have held off the necessity for choosing at last between them and the logical outcome of the deteriorating competitive position or, what comes to the same thing, the unwillingness of Government to bear constantly rising and uneconomic costs. Even if they had meant fewer jobs, therefore, the improvements must have come. We have been at pains to test the current atmosphere, and are satisfied that there is no such absolute hostility now, if there ever was. In fact, indignation is expressed to us that labor should be though backward in espousing technological advancement, and special resolutions to that effect have been adopted in the light of our inquiries. What seem to us legitimate anxieties are nonetheless felt concerning the future of displaced personnel and the reasonable distribution between management and labor of the gain in productivity. Such anxieties can only be allayed by the inclusion of labor at the ground level of all developments and all negotiations, and by a forthcoming attitude by Government and management in respect of retraining the displaced and ungrading the skills of the retained men. We believe the expansion of the fleet should minimize most of these difficulties.

It will be a grave error for the Government to remain aloof from these proceedings. It has the largest financial stake in the matter, for it pays 75 percent of the wage bill; it has, moreover, power to decline to subsidize ships that do not meet the new standards; yet it tends to be the most disinterested party. With its powerful help all will move forward. Without its friendly intervention, the whole process may be delayed, and benefits that are incalculable if procured in a block can be dissipated in dribbles of sporadic and spasmodic effort. It bears repeating that past advances have required active Government leadership to break the industry out of a sort of technological trance. The conditions exist for a rational conversion on terms acceptable to all. The prospect seems, in fact, excellent for a fruitful partnership in a concerted and beneficent accomplishment of which the Nation can be made proud. It will be a calamity if all this should be attenuated and diminished by mutual distrust operating in the narrow range of traditional rivalry.



## 5. THE PROBLEM OF THE BULK TRADES

We have dealt thus far with the common carrier branch of shipping, in which we found encouragement for a commercial contribution to the cost of the defense arm. That branch, moreover, provides a definite public service, as a carrier for all shippers without discrimination, in the development of trade. The cooperation of lines and Government in that case promises benefits alike to the civil and military economy which may reasonably be deemed to justify their respective expenditures.

We now approach realms of shipping quite different in formal organization and function and as to which Government expenditure wears a different aspect. These are the bulk trades, dry and liquid. The defense utility of a carrier of bulk commodities is not in question: iron ore, copper, chrome, manganese, bauxite, and petroleum have as yet their self-evident importance, and the demands upon us for grain and coal will not abate in war, if we are correctly advised. Nor is it in respect of their ordinary commercial usefulness that the carriage of these articles presents a problem. The commodities are essential in war and peace, and it would seem that their carrier must be so, too.

The difficulty arises when their importers are great integrated industries which carry their own property in their own ships, and rarely if at all make space available to others for the same movements, although they occasionally act as common carriers on the light leg of a voyage. The public bounty is scarcely required for the survival of such industrial carriers, which include some of the world's largest corporations; their willingness to build or operate under the American flag is strictly a matter of marginal economics; they would not, unlike a carrier whose sole business is the sale of space, be crippled or endangered by costs that exceeded waterline income; the saving of shipping expense rather than the earning of shipping income is their object. If it be significantly cheaper to build and maintain a fleet under foreign register, if besides very large tax benefits flow from doing so, the economic determinants of their action are settled. There is one exception, where the movement is in a protected trade and required therefore to be carried in American ships. This exception has been important, and is, for example, the basis for the substantial fleet of modern U.S. tankers. Probably this is an unexpected by-product of the coastwise laws, which were really designed to protect common carriers against foreign competition, and not to compel industrial carriers to remain under the flag.

*(a) The industrial carrier*

There is an obvious public resistance to subsidizing an industrial giant to carry its own raw materials. Thus, the Merchant Marine Act aims to equalize carrier costs against foreign lines competing to lift the same goods; but an industrial carrier suffers no such direct competition, because it controls the cargo itself; the practical question for it is whether to use its own ships under U.S. or foreign flag, or more remotely, whether in certain market conditions to charter outside tonnage as a supplement or alternative to its own. It is hard to see through such a transaction to its ultimate public value, or to recognize the sense in which indirect foreign competition may really be said to exist. Accordingly, we are faced with a definite political condition, illustrated by recent denial of a steel company's application for aid in the construction of two ore carriers, which were then placed abroad.

Yet the problem of providing adequate bulk fleets also remains. Our proposal in this field, advanced with some diffidence, will undoubtedly solve the problem. It is simply to extend the cabotage principle and to introduce a 50 percent import quota on such commodities that must be carried in American ships. This seems to be the only practicable device short of direct subsidy. It would be a delusion, however, to think that this incurs no economic costs: they would be borne indirectly by the public in the form of higher product prices. We accept it because we think that demand for these products is strong enough to sustain the added cost of a further artificial distortion in the patterns of free trade. Oil imports, for instance, are already limited in order to protect domestic production. This system would not adversely affect the freedom of foreign flags to participate in our trade, since these materials are generally already controlled, and it is usually a question, as we have said, of which of its own fleets an American industry is to use. For example, 82 percent of the American owned tankers under flags of convenience belong to subsidiaries of our major oil companies and, according to our information, the remainder are ordinarily under long-term charter to them, having been built for the purpose.

The heavier cost of American operation will undoubtedly be mitigated by the mechanical developments we have discussed, and of course the loading and discharging of bulk commodities have long been in an advanced state of mechanization. Thus definite crew economies are immediately at hand.

With respect to construction, the excellent ships now in being are freely transferable to American flags in order to participate in the projected quota movements, thereby greatly reducing the capital burden. Nothing in present law precludes the same process with respect to future construction. Though the ships would not be eligible for coastwise trading, that would not be a fresh disability, since they are in any case excluded at present. A peripheral advantage would be the pressure on American shipyards to reduce their prices nearer to the level of foreign competition.

Probably the chief disadvantage of this system to the industrial operator would be the loss of tax savings from registry under flags of convenience. This will have to be accepted in the first instance as an added cost that will finally fall upon the buying public. Since the saving was an accident of the tax systems of the register-states, and might disappear in due course, we think the higher needs of the country must be accorded primacy.

(b) *The tramp*

Not all the same considerations apply to the dry-cargo tramps, which are neither industrial nor common carriers. From the point of view we have been considering, however, they are much nearer to the latter, since they hold themselves out to carry for all bulk shippers large enough to utilize the economies of full shiploads. A volatile worldwide market for tramps exists, whose movement is of marked consequence in foreign trade.

We have already observed the significant change from prewar expectations respecting tramping. Not only has this branch of shipping continued to grow instead of disappearing, but its place in our own export trade has expanded fivefold. Yet of over 107 million tons of tramp carryings in 1961, our ships carried only 7 percent, of which in turn 70 percent (on the export side 92 percent) was Government preference cargo. Here would seem an important direction for our fleet expansion.

The failure of American tramping flows directly from its own high costs in relation to the very great degree of elasticity of supply and demand that characterize the field. Prices move with extraordinary velocity in response to marginal changes in these factors and by the nature of the business there is remarkable flexibility in tonnage adjustments. It is obvious that in such circumstances a relatively slight decline in demand causes steep drops in rates, so that the high cost operator almost at once is priced out of the market.

This condition is much aggravated by the obsolescence of our ships. Experience has confuted the old conception that speed and efficiency do not count and that the ideal tramp is a secondhand ship of uncertain vintage and minimum state of maintenance: the *Liberty* can no longer compete even under foreign flag. Competitive vessels of 22,000 tons and upward of 17 knots demonstrate the relevance in bulk movements of large capacity to low unit costs; the case becomes impossible when against such ships are arrayed a fleet not alone physically deficient but burdened with the world's highest out-of-pocket operating costs.

Despite a number of approaches to consideration of direct subsidy, we are not advised of any serious steps in that direction. We seem to discern not merely the influence of strong prewar judgments in this field but a lack of confidence in the general run of operators. A 1961 study by the maritime agency "question[s] the integrity and purpose of this industry as presently composed, and whether the present operation does in fact work toward the goal of helping to obtain for America such economic, political, and military security as can be achieved through a strong merchant marine." The study conveys an impression that a thread of mere speculation runs through American tramping, with stress on tax devices evidenced by quick formation and collapse of corporate fronts; between 1955 and 1960, 112 such companies were dissolved and 86 formed; operating failure is not always the cause of dissolution, for the new companies are frequently only fresh shells for the same interests. There are numerous bankruptcies, however.

We agree that under the circumstances caution is required in distributing Government aid. Yet this branch of shipping should not be neglected. Upon its old and reliable interests and upon new groups that may be attracted will rest responsibility for improving conditions. The agency itself will no doubt exercise discretion in selecting instrumentalities for effectuating the program proposed.

This program is in two parts. The Maritime Administrator has recently conceived the idea of converting and enlarging the size of the military Victory ships of which he has a large stock in the reserve fleet. These ships had only wartime use, and their machinery is accordingly comparatively new. As engaged they would be about 14,000 tons and 17 knots. The plan is to sell them on mortgage terms at the cost of their conversion which may run \$2 million per unit. If 10 ships could be sold annually for trampng this would be a considerable improvement of the effective fleet, which would be further assisted by a core of cargo which the cargo preference laws guarantee. We endorse this conception as a first step.

We would add to it a somewhat more far-reaching scheme. We propose that, acting under title VII of the Merchant Marine Act, the Department of Commerce should over a 5-year period construct 25 much advanced trampers averaging 22,000 tons and of high speed, designed with equipment that will permit operation with crews of 20 to 25 men. These ships are, of course, simpler than general cargo ships and cheaper. They might, as seems best, incorporate features permitting their use both for dry and liquid bulks. These ships should be sold under existing law at foreign cost or chartered with option to purchase on the same terms within a prescribed period. The statutory charters are practically on a profit-sharing basis. If successful, this program supersedes the Victory conversion plan, and can expand as conditions warrant. If unsuccessful, it can be interrupted after yielding at a modest cost a fleet with a 2.5 million ton lifting capacity per annum. But the full 5-year test should be made.

Pending the results of this experiment, the question of operating subsidy should be held in suspense.

# DISCRIMINATORY FREIGHT RATES AND THE BALANCE OF PAYMENTS

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THURSDAY, OCTOBER 10, 1963

CONGRESS OF THE UNITED STATES,  
JOINT ECONOMIC COMMITTEE,  
*Washington, D.C.*

The joint committee met, pursuant to recess, at 10:15 a.m., in room AE-1, U.S. Capitol Building, Hon. Paul H. Douglas (chairman of the committee) presiding.

Present: Senators Douglas and Jordan and Representative Curtis.

Also present: James W. Knowles, executive director; Thomas H. Boggs, Jr. and Donald A. Webster, economists, and Hamilton D. Gewehr, administrative clerk.

Chairman DOUGLAS. We are very happy to welcome as our first witness Congressman John Dingell of Michigan, a very distinguished son of a distinguished father.

We are very glad to have you testify and lead off this morning, Congressman.

## STATEMENT OF HON. JOHN D. DINGELL, A U.S. REPRESENTATIVE IN CONGRESS FROM THE 15TH CONGRESSIONAL DISTRICT OF MICHIGAN

Representative DINGELL. Mr. Chairman, I wish to express my gratitude to the committee both for the privilege of being here and for the great patience manifested by the committee. I would like also to express my apologies for my tardiness this morning.

As the chairman well knows, I have long been an admirer of his for his ability and his dedication to the public interest. But above and beyond this, I have had a great deal of admiration for him, and I believe all of our people have because of his interest in measures which would benefit the United States.

One of the critical problems, I believe, that our country faces at this time is the balance-of-payments problem. Put very simply we are in the unhappy position of being like the individual who spends more than he makes in this regard.

There we had a number of facets to this problem. The simplest solution to which is simply to stimulate American business enterprise, into the most possible sales abroad.

I believe that our tax structure has not sufficiently clearly offered incentive for sales abroad. I firmly believe that this country has to go into a form of tax subsidy or tax stimulus for sales abroad, as a major approach to the problem.

I was particularly interested in the earlier hearings held by this distinguished committee under the leadership of its very fine chairman with regard to the Shipping Act of 1916, and the Maritime Commission and its failures to disapprove rates where they were detrimental to the water-borne commerce and to the exports of the United States.

This committee did a grand job in terms of analyzing some of the bad economic situations arising from adverse rates to our exporters that offered a severe detriment to American exports.

I have been familiar somewhat with this because of my membership on the Merchant Marine and Fisheries Committee.

As a result of this and as a result of the hearings earlier by this distinguished committee, I held a series of meetings with my committee staff and with the House legislative counsel to make an analysis of the Shipping Act of 1916, to ascertain what could be done in terms of requiring that rates on inbound and outbound shipping be as nearly equalized as possible, so that our shippers would not suffer the kind of detriment that was ascertained and so clearly shown in the earlier hearings by this committee.

It is my opinion that frankly, legislation is not required if the appropriate Federal agency will exercise its responsibility under the act.

I am familiar with the fact that shipping agencies find that carriers can assert many reasons for fixing a rate at one particular level or another, and it is always to be alleged that in order to avoid bringing ships in in ballast, of course, that carriers will cut rates.

In my opinion, the public policy of the United States is sufficiently clear, and in the economic danger of our country are sufficiently plain that this should not be a persuasive factor in any hearings on any rate.

I think the criticism properly leveled at the appropriate Federal authorities by this committee has been very well taken. I think that really, there is great need for significant improvement in this regard.

The legislation which I introduced earlier is H.R. 8719, which would amend the Shipping Act of 1916 to require that the Federal Maritime Commission exercise to the fullest its authority to disapprove any rate or charge of any common carrier by water in foreign commerce and of any conference of such carriers which is detrimental to the commerce of the United States.

The amendment simply makes a very slight change in the law so that where the Maritime Commission finds the rate to be detrimental to the foreign commerce of the United States, it shall disapprove such rate.

I am sure the committee is well familiar with the problem of gold outflow which is intimately tied in with the problem of the balance-of-payments problem that this country has. A continuing and a significant deficit in the imbalance of payments by the United States, is in part a result of our Maritime Commission's failure to protect our exports.

I am sure the committee is well aware that in 1949, the United States had a gold stock of \$241½ billion. The figure is now down to \$15½ billion and still falling.

I might add that there is a projected substantial deficit in our foreign trade balance this year, according to what I am able to ascertain, and that is pointed out by many reputable students of the subject that in all probability, we are going to face grave problems in backing our

currency unless something very significantly is done to prevent a continuation of this situation.

\$12½ billion of the \$15½ billion stock is frozen by the 1945 amendments to the Federal Reserve Act of 1914, so that remaining to meet our dollar commitments around the world are only about \$3½ billion.

At this moment, we owe the outside world in excess of \$25 billion, callable on demand on relatively short notice, in gold. We lost \$395 million in gold, or something like that, this year and I understand that the prospects are not bright that this situation will substantially improve.

If our present rate of loss continues, we can run out of gold, sometime, I think, in late 1965.

In this climate, a study by your committee characterized the activity of the Federal Maritime Commission as, "inadequate shocking, disgraceful, and giving every indication that the Commission has been grossly negligent and gravely derelict in their duty to protect American industry, the public interest, and the United States national interest."

Specifically, the reason for the introduction of this legislation is the fact that ocean freight rates established by international shipping conferences are often much lower from ports in Europe, in Japan, to the United States ports than from United States ports to Europe and Japan.

I think this is an important contributing factor to our unfavorable balance of trade.

Steel exported from the United States is an outstanding example. Your distinguished committee found that the rates on beams, angles, and girders, in March 1962 were \$28.50 per ton on U.S. exports but only \$19.75 on U.S. imports. On bolts, the rates were \$31.25 per ton on exports but only \$24 on imports for a difference against the American importer of \$7.25 a ton.

Conference rates on castings and forgings ran \$14.25 on exports and \$29.25 on imports, a difference of \$15. The difference of rates on screws was \$22, or 90 percent higher on exports than on imports.

A table published by the Joint Economic Committee on steel generally for three major trade routes shows that ingots, blooms, billets, and slabs rates on exports were 86 percent higher than on imports; on wire rods, 71 percent; on nails, the differential against American exports ran 34 percent, on pipe and tubing, 45 percent, and on barbed wire, 34 percent.

So, Mr. Chairman, we have here a very serious situation. As a matter of fact, one of the things that has concerned me greatly is that it costs less to send a Rolls Royce automobile from England to the United States than it does to send a Chevrolet from the United States to England.

The cost of shipping a bicycle is three times as much from the United States to Europe as it is from Europe to the United States.

Cotton goods costs almost twice as much to ship from the United States to Europe as it does to the United States.

In the case of shipments to Japan, a study of selected conference rates shows that the cost of shipments on angles, beams, and steel girders is \$31.10 from United States to Japanese ports and inbound to the United States only \$15.50 or about twice as much for our exports.

Bolts and nuts cost \$33.25 to export and \$25.25 to import.

Barbed wire costs \$36.60 to export and \$18.75 to import, or about half the export charge.

Machine tools cost \$76.50 to export and \$45.50 to import into the United States.

Now, I will not say that these are the only factors that are adversely affecting our balance of trade and adversely affecting our balance of payments. But I think it has to be pointed out that if an individual in Japan or in Germany or in England is able to pocket this level of difference, he is able on the same cost to simply drive an American producer out of our domestic market.

I would point out that we have a significant excess capacity in this country in almost every area of manufacturing—steel, automobiles, machine tools. I would point out that this adversity against our American exports results in a substantial hurt to American industry. It has a significant impact upon the labor force. I am not able to prophesy or even to compute how much of a loss in terms of our American employment this means or how much of a drop in our gross national product it means.

But I would point out to this committee that it is a serious one. And I would point out that on the basis of the few facts that so far have been developed, almost exclusively by this distinguished committee under the leadership of its very fine chairman—

Chairman DOUGLAS. The staff does most of the work.

Representative DINGELL. I am familiar with the excellent staff this committee has. I am also familiar with its distinguished chairman and its very fine membership.

I have been concerned with this for a number of years because of legislation which came out to exempt the so-called conferences from the antitrust laws.

It was originally my intention to try to eliminate the exemption from antitrust laws for conferences where rates were fixed in such manner as to be adverse to the American exporter.

A study of this indicated to me that this might not be the most expeditious, although it still seems to be a highly desirable way of meeting the problem.

For this reason, I chose the somewhat more simple device of permitting these rates to be set aside where they are adverse to the American exports and to the interest of the American exporters.

Mr. Chairman, you will note that my statement has also a table of selected conference ocean freight rates effective March 1962 on iron and steel products for three major U.S. foreign trade routes, which I will submit, which I think will also be useful to the committee, although I am sure the committee files are much more extensive and much more useful than my statement.

In conclusion, Mr. Chairman, I have asked for a hearing at an early date on my legislation before the Committee on Merchant Marine and Fisheries of the House of Representatives which we will have as soon as we are able to expedite reports from the appropriate Government agencies. Let me tell the Chair, I intend to be vigorous in seeking the reports on my legislation at the earliest possible moment.

I am sure that the committee is well aware of the points that I have covered this morning.

I am equally sure that this committee is equally, or perhaps a great deal more vigorous in seeking to look out for the interests of American industry and American labor, who are very seriously hurt by this situation.

I do ask that the committee consider my approach. I am sure all are aware this device embodied in my bill is far from perfected as a method of handling this problem legislation, and I am well satisfied that it could be improved upon.

But at least, this is legislation which is before the Congress now, which the Congress can consider, which I believe will offer a mechanism and a vehicle for contributing to the solution of a problem which frankly threatens the United States and which in endangering the United States jeopardizes the whole free world.

Chairman DOUGLAS. Thank you, Congressman. It was suggested yesterday by one of the witnesses that instead of the Maritime Commission assuming the burden of proof that export rates should be reduced, or that differential should be eliminated or greatly reduced, that the burden of proof be thrown upon the lines as to justification which they might have for these differentials in rates.

Representative DINGELL. I would support this approach. I would support it particularly in the case of conferences. And I would point out to the chairman that the U.S. members of conferences are really more or less captives of the conference. A conference could fix rates at such a low level that American carriers could literally not afford to stay in it in many circumstances, to the ruination and destruction of the American-flag carriers.

This being so, the rates are fixed at a level which is profitable for the U.S. carrier, but which is unbelievably profitable to the foreign-flag carrier, who has lower construction costs, much lower labor costs, and subsidies in most instances in the case of most countries, which, while not approximating the level of American subsidies, are significant contributing factors.

I would point out that the American carrier also faces flag preference laws of various kinds in these various countries, currency limitations and difficulties, and a number of other factors which, for all intents and purposes, makes the American-flag carrier almost unable to have any real impact on the level of conference rates.

This has a further adverse effect on the United States. I would point out that these conferences are at the very best cartels, are clearly violative of our American antitrust laws, so much so that we had to afford them, and I say it very reluctantly, an exemption from our American antitrust laws a few years ago through an act of Congress.

Chairman DOUGLAS. Senator Jordan?

Senator JORDAN. Congressman, you have made a very fine statement. With respect to your bill, H.R. 8719, do you think that it will accomplish the remedies that you are requiring in this case?

Representative DINGELL. I will not say that it will meet all the problems. As a matter of fact, I would rather surmise that it will



only meet a portion of the problems that beset us with regard to ocean freight rates. I would point out that ocean freight rates are only a small portion of the problems which afflict this country with regard to our balance-of-payments problem.

So this is really only an approach to a portion of a portion of a very large problem.

Senator JORDAN. Yes. My question was not intended to say that this was a remedy for all of our difficulties with respect to balance of payments, but you think it is a move toward correction of these inequitable ocean freight rates that plague us now?

Representative DINGELL. Yes, sir; I do. I would say this:

This is a rather weak device in the sense that while Maritime can probably, on its own motion under the legislation that I have offered, enter into and correct the unjust situation that prevails. But probably it is a device which would be available to American shippers and that the American shippers would be the principal exercisers of the prerogatives that would exist under H.R. 8719, and I would hope that that would be so. But I would point out that frankly, I think American exporters are much to be criticized for not having used the mechanisms that are available to them under existing law.

Senator JORDAN. Yes.

Representative DINGELL. I think this is something where the American exporters, really, I think, have gotten rather fat and lazy. I think they have been used to a very large, you might call it, common market at home, a very prosperous and a very happy one.

They have been able for a number of years, up until the middle 1950's, or even the late 1950's, to have almost the only large supply of goods like steel and large, heavy manufactured goods, available around the world and they have had almost exclusive access to these markets because they have had no competitors.

During this time, they became indifferent to many competitive factors that they should have paid attention to.

For example, they did not really, in my opinion, engage in collective bargaining in many of the industries that they should have. The railroad strike we had here was a good example of this. They did not engage in vigorous market penetration, activity in the many countries around the world.

I was in Europe very briefly about 21 years ago. I saw very few American businessmen engaged in exports. But I did see German, Japanese, French, and British businessmen going all around Europe and selling most vigorously. This is something I did not see Americans doing.

I noted something else over there that I have not had time to follow up on, and that is that despite GATT, the General Agreement on Trade and Tariffs, there is a tremendous tax subsidy offered by almost every European country to their exporters. They do it by sundry devices, turnover tax being one of them, wherein exemptions on turnover taxes are given so they cannot call it a specific tax subsidy. In France, you pay 20 percent less because of the tax situation on anything you

send out of the country. So they have this advantage which we have not made available to our people. I believe this rate problem is really only a very small part. We will have to go to tax subsidies.

We are going to have to do this, Senator, or we are going to find the economic situation and our balance of payments is going to be a good deal worse than it is. And by the way, I have sponsored legislation on this point. But the administration, I think frankly, should be criticized for not having gone out and looked at the device of tax subsidy for our business so that we can sell in the same fashion abroad; so that we will make these businessmen get out and sell the way they should. They should be peddlers and hucksters and not just advertisers on radio and TV at home.

Senator JORDAN. Thank you, Congressman.

Chairman DOUGLAS. Thank you very much, Congressman.

Representative DINGELL. I am grateful to the committee.

(Following are the tables referred to by Congressman Dingell:)

*Selected rates*

U.S. GREAT LAKES, BORDEAUX, HAMBURG RANGE—WESTBOUND AND U.S. GREAT LAKES, BORDEAUX, HAMBURG RANGE—EASTBOUND

Cargo	From—	Eastbound		Westbound		
		To Amsterdam, Rotterdam, and Antwerp	To Hamburg and Bremen	Cleveland	Detroit	Chicago
Iron and steel plates and	{Chicago.....	\$18. 75	\$18. 75	\$15. 00	\$15. 00	\$16. 00
	{Detroit.....	17. 75	17. 75	15. 00	15. 00	16. 00
Automobiles.....	All U. S. ports.....	21. 00	22. 00	20. 00	20. 00	20. 00
Automobiles boxed.....	do.....	16. 00	17. 50	17. 00	17. 00	17. 00
Beer.....	do.....	48. 25	52. 75	28. 50	29. 50	30. 50
Bicycles.....	{Chicago.....	44. 00	48. 00	15. 00	15. 50	16. 00
	{Detroit.....	41. 75	45. 75	15. 00	15. 50	16. 00
Cotton piece goods.....	{Chicago.....	68. 25	74. 25	42. 00	42. 50	43. 00
	{Detroit.....	63. 75	70. 75	42. 00	42. 50	43. 00
Agricultural machinery....	All U. S. ports.....	20. 25	22. 25	30. 00	31. 00	32. 00
Radios.....	do.....	57. 25	59. 25	28. 00	28. 00	28. 00
Iron and steel bars and beams.	{Chicago.....	37. 50	39. 75	15. 00	15. 00	16. 00
	{Detroit.....	33. 50	35. 75	15. 00	15. 00	16. 00
Iron and steel bolts and nuts.	All U. S. ports.....	38. 50	40. 75	24. 00	25. 00	26. 00
Barbed wire.....	-----	( <sup>1</sup> )	( <sup>1</sup> )	19. 00	19. 00	19. 00
Netting and field fence.....	-----	( <sup>1</sup> )	( <sup>1</sup> )	24. 75	24. 75	27. 00
Plain and galvanized wire..	All U. S. ports.....	33. 50	35. 50	-----	-----	-----
Wire (not otherwise specified).	do.....	68. 25	76. 25	-----	-----	-----

<sup>1</sup> No specific rate in tariff.

## Selected rates

NORTH ATLANTIC CONTINENTAL FREIGHT CONFERENCE—WESTBOUND AND  
NORTH ATLANTIC CONTINENTAL FREIGHT CONFERENCE—EASTBOUND

[Dual rates eastbound]

Cargo	Eastbound from Atlantic--				Westbound
	To Amsterdam, Rotterdam, and Antwerp		To Hamburg and Bremen		
	Contract	Non-contract	Contract	Non-contract	
Agricultural implements and machinery.....	\$15.00	\$16.75	\$16.50	\$18.25	\$22.00
Automobiles.....	17.50	( <sup>1</sup> )	19.25	( <sup>1</sup> )	<sup>2</sup> 13.00
Brass bolts and nuts.....	45.50	50.50	50.00	55.50	<sup>3</sup> 150.00
Brass tubing.....	65.50	72.75	72.00	80.00	28.00
Cameras.....	57.25	63.50	63.00	70.00	44.60
Coffee, roasted, in bags.....	62.00	69.00	68.25	75.75	20.25
Cotton linters.....	43.50	48.45	47.75	53.00	43.00
Diesel engines.....	18.00	20.00	19.75	22.00	<sup>3</sup> 150.00
Internal combustion engines.....	27.00	30.00	29.75	33.00	<sup>3</sup> 150.00
Fabrics.....	32.00	35.50	34.00	37.75	52.50
Wheat flour, in bags.....	14.75	16.50	16.25	18.00	39.00
Nails.....	24.00	26.75	26.50	29.50	17.75
Barbed wire.....	25.75	28.50	28.50	31.25	16.25
Wire (not otherwise specified).....	57.25	63.50	63.00	70.00	<sup>4</sup> 17.75 <sup>5</sup> 19.75
Wire, plain or galvanized.....	24.75	27.50	27.25	30.25	21.75
Metalworking machinery.....	33.00	36.75	33.00	36.75	21.00
Motorcycles.....	33.75	37.50	37.25	41.25	16.50
Heaters.....	48.75	54.25	53.75	59.75	41.00
Radios.....	35.50	39.50	39.00	43.25	18.50
Tobacco, manufactured (not cigars or cigarettes).....	57.25	63.50	63.00	70.00	34.00
Tobacco, unmanufactured, in bales.....	37.25	41.50	37.25	41.50	19.00

<sup>1</sup> Open minimum.<sup>2</sup> Weight or measurement to next dollar.<sup>3</sup> Cargo rate not otherwise specified.<sup>4</sup> Black wire.<sup>5</sup> Barbed wire.

## Selected rates

PACIFIC WESTBOUND CONFERENCE, TRANS-PACIFIC FREIGHT CONFERENCE OF  
JAPAN

Cargo	Outbound from Pacific coast to Japanese ports	Inbound to United States
Angles, beams and girders.....	\$31.10	\$15.50
Bolts and nuts.....	33.35	25.25
Wire, barbed.....	36.60	18.75
Electric motors.....	59.75	33.25
Machine tools, excluding electric.....	76.50	45.50
Trucks, unboxed.....	50.75	23.00

## NOTE

Rates on cargoes outbound from the United States are figured on a long ton of 2,240 pounds or 40 cubic feet measurement.

In general, the weight or measurement rate is used which will produce greater revenue.

Inbound from Europe the basis is the metric ton or cubic meter.

The difference between this and the outbound measurements are not sufficient to affect the above figures.

TABLE 1.—Comparison of conference ocean freight rates effective March 1962, on iron and steel products for three U.S. foreign trade routes

[Amounts in dollars]

Commodity	U.S. North Atlantic ports and West Germany <sup>1</sup>		U.S. gulf ports and North Atlantic French ports <sup>2</sup>		U.S. Pacific ports and Japan <sup>3</sup>	
	Freight rate on U.S. exports	Freight rate on U.S. imports	Freight rate on U.S. exports	Freight rate on U.S. imports	Freight rate on U.S. exports	Freight rate on U.S. imports
Angles, beams, girders (structurals).....	31.25	19.75	28.50	17.00	28.10	15.50
Bolts.....	31.25	24.00	28.50	20.50	( <sup>4</sup> )	( <sup>4</sup> )
Castings and forgings.....	44.25	29.25	40.25	34.00	( <sup>4</sup> )	( <sup>4</sup> )
Billets and blooms.....	( <sup>4</sup> )	( <sup>4</sup> )	13.25	17.00	30.35	15.50
Rails.....	37.75	19.75	33.50	17.00	( <sup>4</sup> )	( <sup>4</sup> )
Rods, wire, plain.....	29.50	18.25	( <sup>4</sup> )	( <sup>4</sup> )	( <sup>4</sup> )	15.50
Screws.....	46.00	24.00	( <sup>4</sup> )	( <sup>4</sup> )	( <sup>4</sup> )	( <sup>4</sup> )
Pipes, iron and steel, 6 inch diameter.....	( <sup>4</sup> )	( <sup>4</sup> )	( <sup>4</sup> )	( <sup>4</sup> )	30.35	21.00
Wire, barbed.....	28.50	23.00	28.50	19.00	( <sup>4</sup> )	( <sup>4</sup> )
Bars, reinforcing, up to 40 feet.....	( <sup>4</sup> )	19.75	( <sup>4</sup> )	( <sup>4</sup> )	28.10	( <sup>4</sup> )
Oil well casings.....	( <sup>4</sup> )	( <sup>4</sup> )	( <sup>4</sup> )	( <sup>4</sup> )	33.60	21.00
Shapes, plain, not fabricated.....	( <sup>4</sup> )	( <sup>4</sup> )	( <sup>4</sup> )	( <sup>4</sup> )	28.10	( <sup>4</sup> )
Rods.....	( <sup>4</sup> )	( <sup>4</sup> )	( <sup>4</sup> )	( <sup>4</sup> )	28.25	15.50

<sup>1</sup> North Atlantic Continental Freight Conference tariffs.<sup>2</sup> Gulf-French Atlantic Hamburg Range Conference—Continental-U.S.A. Gulf Westbound Conference.<sup>3</sup> Pacific Westbound Conference and Trans-Pacific Freight Conference of Japan.<sup>4</sup> Freight rate is either not available or the commodities are included in another class.<sup>5</sup> Not available.

NOTE.—Freight on exports on ton basis—2,240 pounds; freight on imports on ton basis—1,000 kilos=2,204.6 pounds (except Japan where import freight is on the long ton basis—2,240 pounds).

Source: U.S. Federal Maritime Commission, Division of Foreign Tariffs.

Chairman DOUGLAS. We have been somewhat puzzled by the failure of many shippers, many big shippers particularly, to come forward and testify on this matter.

But we are very happy to have three shippers here this morning who will testify:

Mr. Thomas Arnholz, president of the Chemoleum Corp.; Mr. Robert R. Clark, vice president of chemical sales of FMC International; and Mr. Arthur Dodge, president of the Dodge Cork Co.

If these gentlemen will come forward and sit at the table, we will be very glad indeed to welcome them.

I want to praise your public spirit in testifying in this fashion. It is still something of a mystery, though I think I am beginning to see some of the reasons why many of the big shippers do not testify.

Now, perhaps we should start off with Mr. Arnholz.

**STATEMENT OF THOMAS A. ARNHOLZ, PRESIDENT OF CHEMOLEUM CORP., NEW YORK, N.Y.; ACCOMPANIED BY ROBERT R. CLARK, VICE PRESIDENT OF CHEMICAL SALES OF FMC INTERNATIONAL; AND ARTHUR B. DODGE, JR., VICE PRESIDENT OF THE DODGE CORK CO.**

Mr. ARNHOLZ. My name is Thomas A. Arnholz, president of Chemoleum Corp., 15 Moore Street, New York, N.Y.

Chemoleum and its affiliated companies specialize in the export of fertilizers, chemicals, steel, and raw materials. Our annual export volume is of the order of \$12 million.

Since Congress enacted Public Law 87-346, there has been a growing awareness of the extent to which U.S. exports are affected by ocean freight rates. In fact, export volume is very often a mere function of these rates.

As these rates are almost exclusively determined by steamship conferences, it follows that the conference system as such affects directly export business, and, as a logical corollary, U.S. foreign trade, the present imbalance of payment situation, and the gold outflow.

In my testimony before the Bonner committee in 1959, I cited concrete examples of the interrelationship between ocean freight rates and the flow of exports.

Chairman DOUGLAS. I wondered if you would cite some of these for the benefit of this committee so as to reduce the difficulty which we would have in looking up the testimony before the Bonner committee and so forth, so that it could be made a matter of current record as well as past record.

Mr. ARNHOLZ. I have brought some of these examples along.

Chairman DOUGLAS. Would you be willing to put them into the record?

Mr. ARNHOLZ. Yes, certainly.

The concrete examples are mainly in the supplemental statement of July 23, 1959.

Chairman DOUGLAS. What you are saying, I take it, is that after the shipping rates on potash were increased, the exports of that commodity to Brazil which had previously averaged around 2,100 tons fell to an average of 800 tons, or a decrease of approximately 16 percent?

Mr. ARNHOLZ. That is right.

We had a similar experience on another commodity, caustic soda, where the exports from this country to Brazil declined by almost 50 percent, following a freight increase imposed by the conference. This is on page 3 of my supplementary statement.

Chairman DOUGLAS. And did the same thing happen on triple superphosphate?

Mr. ARNHOLZ. To some extent, but I believe not quite as much as it affected single superphosphate.

I deal with that in my prepared statement, where, following the increase in freight rates by the conference, exports from this country dropped by almost 40 percent and prior to the increase, there was a monthly average of 5,900 tons shipped to Brazil. This dropped to a monthly average of 3,000 tons afterward.

Chairman DOUGLAS. These are conference rates?

Mr. ARNHOLZ. That is right.

Chairman DOUGLAS. There are 14 active members of the conference?

Mr. ARNHOLZ. That is right.

Chairman DOUGLAS. Two were American lines, eight were European, and three were Latin American lines?

Mr. ARNHOLZ. Yes.

Chairman DOUGLAS. And seven of the lines had a competitive service from Europe to Brazil and therefore, had an interest in building up European exports interest and diminishing American exports; is that correct?

Mr. ARNHOLZ. That is what we assumed, because otherwise, it would not have sense for the freight rates to be increased at that particular time.

I offer for the record my statement of April 8, 1959, as well as a supplementary statement submitted July 23, 1959, containing the examples we have been discussing.

Chairman DOUGLAS. Those will be incorporated in the record at this point.

(The material referred to follows:)

STATEMENT OF THOMAS A. ARNHOLZ, PRESIDENT OF CHEMOLEUM CORP., NEW YORK, N.Y., BEFORE THE SPECIAL SUBCOMMITTEE ON STEAMSHIP CONFERENCES OF THE HOUSE COMMITTEE ON MERCHANT MARINE AND FISHERIES, APRIL 8, 1959

My name is Thomas A. Arnholz. I am president of Chemoleum Corp., 15 Moore Street, New York, N.Y., and I reside at 393 West End Avenue, New York City.

Chemoleum Corp., is a medium-sized export company, largely specialized in handling heavy industrial chemicals and fertilizers for shipment to Latin America.

We are volume shippers, and we move an average of roughly 75,000 to 100,000 tons of cargo annually.

We feel that we have a vital stake in the present considerations by Congress bearing on the exclusive patronage conference system. Freight rates have an essential bearing on our business. Unreasonably high rates tend to place our business in jeopardy; the very existence of our business is predicated on reasonable freight rates being available to us. Our dealings with conferences in general, and the River Plate & Brazil Conferences in particular, have not encouraged the belief that they will be.

While we feel that the interests of shippers and conferences ought to coincide, it has been our experience that this coincidence in interests is not generally recognized by the conferences. Rates are established without reference to overall competitive conditions and without due consultation with shippers. This policy has often had extremely unfavorably repercussions on our business. Let us cite two specific examples:

1. Up to 1954 we were moving substantial tonnages of potassium muriate, a fertilizer, to Brazil in the face of keen European competition. Coinciding with a decrease in European prices on potash, the River Plate & Brazil Conferences in 1955 increased their rates on this fertilizer by several dollars per ton. Overnight, our potash export business to Brazil ceased, and the business went to Europe, not 75 percent, not 90 percent but, so far as I know, 100 percent.

There was no warrant on the part of the conference to increase rates in a manner calculated to destroy a specific segment of American trade, particularly as the conference had been placed on notice by the shippers as to the effect the rate increase would have on future business. Whether their action was determined partially by the fact that this particular conference is controlled by European lines with a stake in shipments from Europe to South America, we have no way of knowing.

2. Similarly, we have moved substantial tonnages of caustic soda, a standard industrial chemical, to Brazil. In 1957, the conference arbitrarily increased this rate by \$3 per ton. By dint of this increase, American trade on caustic soda was substantially reduced. Naturally, the prime beneficiaries of this move by the conference were the Europeans.

To the best of our belief, these are by no means isolated incidents. They are symptomatic of conference policy which, to a sometimes frightening extent, has ignored the best interests of American shippers, and has been evidently and chiefly concerned with charging whatever the traffic will bear.

Here I should like to interpolate that, obviously, I am not opposed to rate increases as such. Steamship lines are entitled to making a profit, as any other business, and cost increases will necessarily be reflected in higher rates. However, if the lines claim specific exemption from antitrust law, and pretend to operate much the same way as a public utility, it stands to reason that rate increases must be decided upon in a judicious and nondiscriminatory way. If the obvious and foretold result of such increase is to make totally impossible the

maintenance of exports of a specific commodity from this country to an area serviced by a given conference, such increase should be held in abeyance. Increases should be selective, and careful consideration should be given to the effect of such increases. Conferences have generally failed to do this. Furthermore, there is little if any substance to the contention that overall cost increases require an across-the-board increase in rates. When you operate a ship, you cannot parcel out costs against each individual item carried. You are chiefly concerned with total revenue versus total costs. It is commonsense that a carrier will be better off handling a given commodity at a low rate than not carrying it at all—provided of course that the rate charged exceeds the cost of stevedoring and incidentals such as dunnage, etc. This is particularly true when an overtonnage situation persists, as it does now.

We know of very few instances where Latin American conferences agreed to reduce rates voluntarily at shippers' requests unless they felt compelled to do so to meet independent competition. If shippers cannot secure reasonable cooperation from conference lines to assist them in meeting foreign competition, but must rely on independents to unfreeze the rate structure, we contend that the conference system inherently restricts U.S. foreign trade. Hence, any legislation that curbs independents and encourages arbitrary ratesetting on the part of conference lines will reflect unfavorably on U.S. export business.

The argument has been advanced that the conference system tends to prevent detrimental rate wars. I believe that rate wars have taken place rarely when there was a reasonable balance between supply of ships and supply of cargo. Furthermore, it is our contention that the dual rate system, by its very nature, is apt to set off a vicious cycle which the conference lines have chosen to call rate wars and which they have attributed solely to the operations of the independents. We must recognize that there may be many reasons why a shipper will give preference to a specific carrier, independent or otherwise; a more convenient sailing date, or any number of reasons that, in a free economy, results in one firm favoring another with its business. The existence of the dual rate system prevents these common considerations from becoming operative as the shipper fears retaliation from the conference under this system. Hence, the independents have no option but to offer shippers a more powerful inducement—namely a lower freight rate. If the conference elects to fight this competition by reducing rates to the independent level, the independent operator in its turn may again reduce rates to maintain the only practical inducement that the dual rate system permits him to offer. It is this chain of events which brings about rate wars—thus largely precipitated by oversupply and the dual rate system. If the dual rate system were not operative, and shippers were in effect free to ship in accordance with their best convenience and preference, independent competition need not lead to unnecessarily low rates, and rate wars.

This is perhaps a good opportunity to stress one salient point in this controversy. The advocates of the conference system tend to convey the impression that the main issue is stable rates versus unstable rates and resulting rate wars. The truth of the matter is that what spells out stability to the lines does not necessarily represent stability to shippers. A stable rate may well mean a rate at which export business from this country ceases to be possible. It is instructive to look at a tariff and note the array of high rates which have become meaningless because no cargo moves on this basis. It is impossible to divorce the interests of the shipping industry from the overall interests of American foreign trade. One cannot function without the other. Independent competition may indeed in some instances be bad for the shipping industry geared to operate under the protective umbrella of the dual rate system; but this competition is vital for American exporters who, without it, would stand in danger of losing traditional business in traditional markets as has already happened in many instances in the past.

The American Steamship Committee on Conference Studies has stressed many advantages that accrue to shippers under the dual rate conference system. If these advantages were real and substantial, they would be readily appreciated by exporters who would then consistently support the conference system. Surely there would then be no need for the conference lines to be apprehensive about isolated independent competition. The point is that these advantages are largely illusory, and exporters are obliged to support independent operators to insure competitive rates on an overall basis.

We also challenge the contention of conference lines that stability of rates is inherently guaranteed for long periods of time under the dual rate system, and that the interests of small and large shippers alike are equally protected.

Through such devices as opening specific rates for limited periods of time, the larger shipper can often negotiate a lower rate than the small shipper and, as there is little if any prior consultation between shippers and the conference, the former are severely hampered by not knowing for how long the lower open rate will be maintained.

We contend that, if the dual rate conference system has worked in the past, it is not because of the system itself, but largely because the courts have refused to uphold it, thus depriving the conferences of powers of enforcement, and because independent competition has acted as a curb on conference rates. Legislation that will largely eliminate independent competition will certainly prove the prejudicial effects of the dual rate system on American export business—but only after a good deal of ground will have been lost to competition from abroad. If this is to be prevented, it would be necessary to substitute another check for that now exercised by independent competition. Such a check might be constituted by greatly increased supervisory and regulatory powers to be vested in the Federal Maritime Board which, in consultation perhaps with advisory committees formed by interested exporters, would have a very clearly defined role in approving or disallowing rate increases. However, it would seem far more in line with our basic concepts of free enterprise to let the shipping industry find its own solution rather than privilege it in a special way and make it subject to strict Government control. Yet, unless either stringent Government control or independent competition exists, the dual rate conference system must inevitably result in irreparable harm to the U.S. exporter.

In all these considerations, the importance of the exporter's role cannot be minimized. After all, it is he who provides lines with cargo; without him there is no export business, and hence no shipping business. If there is to be legislation to protect the interests of an industry that cannot operate successfully in a free market, such legislation might well detract from the exporters' ability to maintain, in foreign markets, the kind of competitive position that they have created with the help of independent shipping lines. It seems logical and equitable to suggest that, if the exporters' ability to compete is curtailed by legislation assisting the shipping industry, provisions should be made to subsidize exporters thereby affected. I do not believe that this is by any means a desirable alternative. Yet by moving away from our basic principles of free enterprise we help open the door to continuing requests for exemption and Government assistance that will undermine the structure as a whole.

To conclude our argument, we should like to cite a specific case which indicates the extent to which an exporter's business can be placed in jeopardy if the dual rate conference system were legalized on a permanent basis. The record will show that conference rates from this country to Latin American ports are substantially higher than conference rates from Europe to the same ports.

Since we are concerned, and vitally concerned, with competition from Europe, it follows that reliance on conference rates very often is tantamount to abandoning export business to the sole benefit of European suppliers.

In self defense, our company has been obliged to engage in relatively large scale charter operations to South America. We have also carried cargo for other exporters to reduce our own transportation costs, and, in this way, we have acted as independent ship operators on a very limited scale. We emphasize that, without having initiated these charter operations, we would have been unable to maintain the flow of American merchandise to traditional export markets in Latin America. In this connection, it is significant to review the reaction of the conference to such chartering action as our company was obliged to take to protect our stake in the export business. The River Plate and Brazil Conference have written us, stating that we have been in violation of our contract with the conference and they go on to state:

"This is to advise you that in view of the above circumstances you are liable to the conference lines for dead freight in the amount of \$96,523.17 for the shipments made on the SS *Fru menton* and the SS *Huallaga* in violating of your contract with the conference.

"Until these dead freight charges are paid to the conference, you have no further right to contract rates and all shipments made or controlled directly or indirectly, by you, your agents, subsidiary, associated or parent companies carried by member lines of the conference will be carried at regular tariff (non-contract) rates until such time as you have paid the dead freight due and owing."

We believe that these circumstances clearly indicate the ruinous consequences in store for exporters in this country if the exclusive patronage and dual rate



conference system were to be permanently legalized. Our position is that, without chartering, we cannot maintain lawful export business from this country to Brazil. Based on the provisions of the dual rate system, the conference desires to deprive us of the possibility of so maintaining our export business.

It may be pointed out that one of the peculiar features of the dual rate system is that it actually works to the detriment of the lines themselves, certainly of the American lines. If Congress legalizes the dual rate system, in a case such as the one indicated above, a firm such as ours would have no option but to resign from the conference in order to be able to continue to route our shipments on chartered vessels. In the past, we have moved about 60 percent of our tonnage on chartered vessels, the balance going on conference vessels. If we were obliged to resign from the conference, it stands to reason that we would be forced to seek ways and means of routing an even greater percentage of our shipments on chartered vessels. The net result of such action would, of course, be a loss in freight and revenue to the conference lines themselves.

In conclusion, it is our contention that the dual rate conference system, apart from the damage it causes to conference lines themselves, deprives the American exporter of the weapons needed to maintain his position in markets where competition from Europe is becoming fiercer from year to year.

By its very nature, export business—particularly in bulk commodities—is an excellent example of the working of the free enterprise system. It requires in large measure flexibility, ingenuity, improvisation and alertness. Conditions are subject to constant shifts in emphasis because of foreign competition. The exporter must be constantly responsive to these changes. As the dual rate system is the antithesis of our free enterprise system, the former has become virtually incompatible with the interest of American export trade.

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SUPPLEMENTARY STATEMENT OF THOMAS A. ARNHOLZ, PRESIDENT OF CHEMOLEUM CORP., NEW YORK, N.Y., TO THE SPECIAL SUBCOMMITTEE ON STEAMSHIP CONFERENCES OF THE HOUSE COMMITTEE ON MERCHANT MARINE AND FISHERIES, JULY 23, 1959

I am reluctant to add to what must be a very voluminous record bearing on your investigation of the exclusive patronage conference system. However, I believe that the statement made before your committee on July 15, 1959, by Mr. George F. Foley requires some comment on my part. Mr. Foley's statement is so full of factual inaccuracies that I consider it necessary to refer to that portion of his statement bearing on my testimony of April 8, 1959, before your committee.

### I

In an attempt to disprove my statement that the conference increase in potash rates virtually destroyed our export business to Brazil, Mr. Foley cites annual figures published by the Bureau of Census, when evidently only monthly figures could tell the true story in the light of the fact that the increase went into effect in the middle of the year. Parenthetically, I should like to mention that an error had crept into my testimony of April 8, 1959, when I referred to an increase in the year 1955. The increase to which I had reference was the one which took place in 1956.

Specifically, Mr. Foley quotes figures to show that Brazil imported the following tonnages of potash:

	<i>Tons</i>
1955.....	24, 847
1956.....	19, 605
1957.....	18, 342
1958.....	56, 144

He draws the conclusion that, since the freight rate was increased in 1956, the increase did not prove detrimental to exporters in that the 1956 figures failed to show any significant change in comparison to the 1955 figures. I should like to submit monthly statistics as published by the very same Bureau of Census quoted by Mr. Foley in order to show the actual impact of the freight increase in question on potash exports to Brazil.

This increase went into effect on August 6, 1956. In the period from January through 1956, Brazil imported 14,836 tons of potash from this country. This

works out roughly to a monthly average of 2,100 tons. The Bureau of Census figures reveal the following potash exports to Brazil after the increase :

	<i>Tons</i>
August 1956.....	301
September 1956.....	602
October 1956.....	962
November 1956.....	1439
December 1956.....	1465

Thus the average for the 5 months after the increase is 800 tons monthly. This, of course, represents a substantial decline in exports.

Let us now see what happened in 1957. As pressure built up through independent freight competition, the conference reduced the potash rate on July 17, 1957. The monthly figures for 1957 show the following: In the 7-month period running from January through July 1957, this country exported a total of 9,660 tons of potash to Brazil according to Bureau of Census statistics. However, out of this total 5,500 tons went forward on a chartered vessel outside the conference. Hence, conference vessels carried 4,160 tons for an average of slightly less than 600 tons monthly, i.e., less than one-third of the 1956 monthly average of 2,100 tons carried prior to the freight increase.

Rates on potash were successively reduced in direct proportion to increased competition from independents. On July 17, 1957, the rate was reduced from \$22 per ton to \$20 per ton. On November 20, the rate was further reduced to \$17. On December 23, the rate was again reduced to \$16. On April 18, 1958, another decrease took place, this time to \$14 per ton. Later on in 1958, the rate was finally adjusted to \$13 berth or \$7 f.i.o., shipper's option. What was the effect of this decrease? This country exported 56,144 tons of potash to Brazil in 1958 or roughly three times the 1956 and 1957 tonnages. Put in different terms, the monthly average went up to over 4,600 tons, compared with 600 tons which was the monthly average for the first 7 months of 1957 when the conference maintained an arbitrarily and unrealistically high rate. This represents practically an eightfold increase in exports.

I think Mr. Foley's highly biased treatment of this matter is misleading in the extreme and is in itself symptomatic of what I have emphasized in my previous testimony: the general and vast indifference on the part of the conference to recognize the just needs of American exporters. The potash industry in this country is of considerable importance to the economic welfare of this country. It depends on export business to an appreciable extent. A conference policy that virtually impedes exports of potash is obviously injurious to this industry in particular and to the U.S. economy as a whole.

## II

Mr. Foley's reference to caustic soda is no less misleading. The freight rate on this commodity was increased on March 18, 1957. According to Bureau of Census figures, this country exported to Brazil 31,500,000 pounds of caustic soda in the first quarter of 1957, i.e., prior to the freight increase. The figure for the balance of the year is 52 million pounds, or 17 million pounds per quarter. Hence exports declined by almost 50 percent following the freight increase in question.

It may be significant to point out that Mr. Foley stated in his testimony that as a result of competition from tramp vessels, the conference subsequently reduced the freight rate from \$24 to \$18.90 and later on to \$16. This fully supports the theme that is basic to my previous testimony when I stated that without independent competition, the conference would maintain rates at arbitrary and excessive levels. The Bureau of Census figures substantiate the loss to American industry resulting directly from the March 18, 1957, freight increase on caustic soda. Equilibrium of sorts was brought about by the subsequent freight reductions which, as Mr. Foley, himself, admits, resulted from independent competition. If the dual rate system were permanently legalized, thus eliminating independent competition, rates would be maintained at excessive levels—as inferentially admitted by Mr. Foley—to the detriment of American exporters and American industry as a whole. In this particular example, it stands to reason that had it not been for independent competition, American exporters would still be penalized today with a freight rate, the net result of which is tantamount to a 50-percent reduction of U.S. exports of caustic soda.

## III

I am afraid that Mr. Foley's treatment of Mr. Robert W. Peabody's testimony is no more accurate. As the conference of which Mr. Foley is chairman has carried tens of thousands of tons of Smith-Douglass superphosphate, he must be fully aware of the fact that Mr. Peabody's reference was to single superphosphate for the very simple reason that Smith-Douglass is a producer of single superphosphate only. In citing his statistics, Mr. Foley adds single superphosphate figures to triple superphosphate figures, thus coming up with figures that may have suited his purpose, but certainly created a less-than-factual picture. Mr. Peabody was exclusively concerned with the impact of the freight increase on single superphosphate. Mr. Foley, by combining single and triple superphosphate figures, attempts to convey the impression that exports of superphosphate actually increased in spite of the freight increase. Let us take a little closer look at these statistics. The Bureau of Census figures show the following exports of triple superphosphate to Brazil for the years to which Mr. Foley refers:

	<i>Tons</i>
1955-----	29, 782
1956-----	45, 876
1957-----	68, 612

Hence the increases in exports was applicable to triple superphosphate. On the other hand, the picture on single superphosphate exports to Brazil is as follows:

	<i>Tons</i>
1955-----	49, 033
1956-----	59, 886
1957-----	51, 421

In order to evaluate properly the above figures on single superphosphate, we should like to cite some additional figures. The rate on single superphosphate was increased on August 6, 1956. Mr. Peabody testified correctly that this increase was prejudicial to the movement of American superphosphate to Brazil. The Bureau of Census figures show that in the first 8 months of 1956; i.e., prior to the increase, American exports of single superphosphate to Brazil totaled roughly 47,000 tons, for a monthly average of about 5,900 tons. In the last 4 months of 1956, i.e., after the freight increase had gone into effect, total exports were 12,000 tons, for a monthly average of 3,000 tons. Hence exports were practically halved as a consequence of the conference freight increase.

## IV

In my April 8 testimony, I had suggested the possibility of undue influence on conference decisions brought about by lines with a stake in service from European to Brazilian ports. Mr. Foley takes issue with my testimony by declaring that only 4 out of the 16 members of his conference are European lines maintaining service from Europe to east coast South American ports. Let us look at this statement a little more closely:

The membership in the East Coast South American Conference is actually 17 and not 16 as indicated by Mr. Foley. However, to the best of our knowledge, two members do not actually maintain any service at all, namely Northern Pan American Line and Osaka Shosen Kaisha. The third line, Dovar S. A., merely maintains a service to and up the Amazon River, and thus have no stake in service to the main ports of Brazil with which we are concerned. Thus the actual membership, i.e. members that maintain regular service, reduces to 14. Of these 14, the following lines maintain a competitive service from Europe to Brazil:

The Booth Steamship Co., Ltd.	Flota Mercante del Estado
Columbus Line	Holland Interamerica Line
Flota Argentina de Navegacion de Ultramar	Lamport & Holt Line, Ltd.
	Lloyd Brasileiro

Thus not 25 percent as Mr. Foley states, but 50 percent of the conference membership has a definite and demonstrable stake in cargo movement from Europe to Brazil. Moreover, it should perhaps be pointed out that it is extremely difficult to trace possible interrelationships between European carriers. It is at least possible that some of the other European lines operating from here to Brazil may have some connection with lines operating from Europe to Brazil ports. An investigation along these lines might perhaps be indicated.

At any rate, it is certainly instructive to note that out of 14 active members in this conference, there are only 2 American lines, while we have 9 European and 3 Latin American lines. It seems at least open to doubt whether a conference showing this kind of membership composition is the best guardian of the interests of American exporters and of American industry.

## V

Lastly, I should like to comment briefly on Mr. Foley's statement that my company has violated its contract with the River Plate and Brazil Conferences. It seems to me that Mr. Foley might be wise to heed the admonition that people who live in glass houses shouldn't throw stones. As chairman of the conferences, Mr. Foley must be very well acquainted with the fact that the courts have refused to uphold the conference interpretation of what represents violation of a contract agreement. In fact, it is my understanding that the courts have held (*Vide River Plate and Brazil Conferences v. Pressed Steel Car Company*) that it is the conference that is in violation of section 15 of the Shipping Act of 1916. In the light of these facts, it seems neither fair nor reasonable on Mr. Foley's part to impugn the position that my company has taken in this matter.

I shall be pleased to enlarge on this statement or provide the committee with any further information that may be germane to this matter.

Mr. ARNHOLZ. Further examples along these lines can be adduced without difficulty.

The example to which I referred in my 1959 testimony dealt with a group of products that are representative of what, for the sake of simplicity, may be classified as basic or bulk commodities. This classification will help convey an important distinction. On the one hand we have a wide range of items the sale of which is not predominantly determined by price but such other factors as quality, workmanship, performance, brand, and servicing. On the other hand, we are concerned with what I term basic commodities such as but not limited to raw materials on which the price factor alone is decisive. These commodities are sold according to specifications that, on the whole, are uniform the world over. Aspirin, whether produced here or in Europe or in Japan, is essentially the same thing.

Chairman DOUGLAS. Not always called the same thing, though, is it?

Mr. ARNHOLZ. Not always, but chemically, I think it is.

This is true also of chemicals, fertilizers, steel products, and a host of other items.

I intend to focus primarily on these basic commodities in that it is in this sphere that unreasonable or uncompetitive freight rates have a direct and demonstrable bearing on the very feasibility of export business, and as such on U.S. foreign trade.

On these basic commodities, the foreign importer is logically concerned solely with price, and by this I mean the delivered price. This evidently includes ocean freight. As illustration, I will use the following example: An importer in Brazil at this time has the option of buying potassium muriate, a basic fertilizer, from this country at a price of say \$31 per ton f.o.b. or at \$32.50 from Europe. The conference freight rate from this country to Santos, Brazil is \$14.85; from Europe to Santos it is \$12. This means the delivered Santos price from this country is \$45.85 as against \$44.50. This relatively small differential is decisive and the importer will buy in Europe.

Chairman DOUGLAS. What about the comparative distances, Mr. Arnholz?

Mr. ARNHOLZ. The distance from this country to Santos, Brazil, for instance, would be certainly less than from Europe.

There is no question about that.

Chairman DOUGLAS. Mr. Boggs, do you have figures on that?

Mr. CLARK. You can take it from that table I submitted. It is on the bottom of page 3. It is 5,143 from Europe versus 4,770 from the United States.

Chairman DOUGLAS. 5,100?

Mr. CLARK. 5,143 from Europe; 4,770 from the United States.

Chairman DOUGLAS. Or 400 miles shorter from New York than from Europe.

Thank you.

Mr. ARNHOLZ. If I may digress from this statement for a minute, you will find this to be particularly true in the case of shipments to Colombia, for instance, where the distance from here to Colombia is a fraction of the distance from Europe, evidently.

On most basic items, I would say that the freight rate from this country to Colombia is almost double the rate from Europe to Colombia. So I think there you have an even better illustration of this point.

Chairman DOUGLAS. It is the distance to Baranquilla?

Mr. ARNHOLZ. That would be to Baranquilla or Cartagena. That would be a steaming distance of 5 days, and over 2 weeks from Europe.

Chairman DOUGLAS. Yet you say the rates on American exports will be double?

Mr. ARNHOLZ. In many instances, it will be double; yes.

Chairman DOUGLAS. These are conference rates?

Mr. ARNHOLZ. I am talking about conference rates; yes.

Senator JORDAN. For about half of the distance?

Mr. ARNHOLZ. I would say it is probably a third.

Mr. CLARK. I have one on Venezuela, if that will help you. From the United States, 1,800 miles; from Europe, 4,070. That would be roughly a third.

Mr. ARNHOLZ. It is as simple as that.

The ocean freight is not only important; it is all important and determines the issue between selling and not selling. I have purposely chosen this example where the freight rate from this country is per se reasonable; however, in the context of a lower rate for the same commodity from Europe, it becomes unrealistic and, as it leads to loss of U.S. export business, unreasonable.

Another peculiarity of basic commodities is that the freight will amount to a significant percentage of the delivered price. In the example given above, freight amounts to about 35 percent of the delivered price. In the case of rock phosphate it will be close to 50 percent; in the case of sulfur about 30 percent; in the case of steel very often close to 20 percent. These are just some obvious examples.

It is in relation to these basic commodities that the dual rate system fails to provide what is needed to stimulate export business. Stability of rates—as extolled by the conference system—is a poor substitute for the flexibility that is needed to meet the constant encroachments of aggressive foreign competition. This loss of flexibility be-

comes obvious if we consider the Hobson's choice with which the exporter is confronted under the prevailing system :

(a) To be a signatory to a conference dual rate agreement in which case he is effectively prevented from utilizing more competitive freight arrangements such as nonconference or charter vessels that may be available from time to time; or

(b) Not to sign the conference agreement in which case any shipments made on conference vessels are subject to a premium—or more aptly a penalty—which, most of the time, renders CIF quotations uncompetitive.

Under this alternative, loss of business and committant decline in U.S. exports is inevitable.

On these basic commodities, where the exporter is confronted daily by the challenge of foreign competition, he should be totally free to seize any opportunity that enables him to meet this competition instead of being placed in the position where the dual rate system limits the scope of his effectiveness, and thus leads directly to loss of export business.

If U.S. exporters' efforts to expand sales abroad on these basic commodities are not to be permanently restrained, remedial action is urgently required to remove from the purview of conference dual rate agreements the broad range of items that I have classified above as basic commodities. While I admit that such classification presents a serious problem, it can no doubt be resolved by a joint committee consisting of members of the shipping industry, the export community, the Department of Commerce, and the Federal Maritime Commission.

My recommendation need not be equated with an indictment of the conference system as a whole. I repeat, I am focusing on one specific area where the effect of the dual rate system, without the shadow of a doubt, is detrimental to the foreign commerce of the United States.

In fact, the exclusion of what I term "basic commodities" from conference dual rate contracts would be substantially consistent with certain conference policies in the recent past. Under existing contracts, dry cargo loaded and carried in bulk without mark or count is excluded from the scope of these arrangements. This constitutes a constructive forward step, and if these exclusions were to be broadened to include all basic commodities, regardless of whether carried in bulk or not, I believe one of the most serious objections to the dual rate system would be removed.

As your committee is evidently concerned also with the broader aspects of practices affecting our balance-of-payments situation, I would like to submit that the following areas are suitable subjects for further investigation :

(1) In increasing measure, flag restriction is practiced abroad. This situation is faced in countries such as Brazil, Colombia, Chile, the Argentine, etc. In bringing up this matter I wish to refer to it only

insofar as it exacerbates the freight disadvantage to which the U.S. exporter is subject. Two examples will suffice to illustrate this point:

(a) Conference freight rates to Colombia are unreasonably high. In consequence, the U.S. exporter has lost a great deal of ground to European competition. In an effort to overcome the freight disadvantage that we faced, my company explored possibilities of developing lower freights by resorting to chartering.

Chairman DOUGLAS. That is tramp ships?

Mr. ARNHOLZ. These will be tramp ships; yes.

We found that our lower freights were nullified by discriminatory taxes imposed by Colombia on all cargo shipped on vessels that did not belong to the conference. Flag restriction here was equivalent to espousal and protection of the conference system by a foreign government to the point where shipments outside the conference were virtually impossible. Thus flag restriction equaled conference system which equaled high rates which equaled reduced U.S. exports.

Chairman DOUGLAS. In other words, the Colombian Government imposed discriminatory tactics in order to increase the prices of the commodities purchased and imported by Colombian citizens.

Mr. ARNHOLZ. In essence, that is what it boiled down to. The method that they used, or rather the device, was to have dual rates of currency exchange. Any items shipped on a conference vessel would take a lower rate of exchange than the items imported on a tramp vessel.

Chairman DOUGLAS. Now, they were more interested in the earnings of the members, shipping members of the conference than in the welfare of their own people?

Mr. ARNHOLZ. Well, no; I think the real reason is this: Gran Colombiana, that is a member of the conference, is government-owned.

I think the idea basic to it was that they were more interested in the welfare of Gran Colombiana.

Chairman DOUGLAS. That is only 1 of 14, isn't it?

Mr. ARNHOLZ. No; this is to Colombia. I am not sure of the number of carriers in that conference, but it is considerably less than 14. I would imagine it would be more like four or five.

Chairman DOUGLAS. But in protecting their own shipping line, they are also protecting the other shipping lines which are members of the conference?

Mr. ARNHOLZ. That is precisely it. One led to the other.

Chairman DOUGLAS. Do you know offhand how many lines were members of the conference?

Mr. ARNHOLZ. I should imagine that there would be four or five in that trade. But I can check that very easily.

Chairman DOUGLAS. In other words, because they were cut in on a quarter of the benefits, to get a profit that would hold up their own citizens and businesses on other goods.

Mr. ARNHOLZ. That is what was actually done; yes, sir.

(b) In 1960 the Brazilian Government decreed that certain basic commodities must move on Brazilian-flag vessels—I am sorry—this was actually in 1959.

I have since looked up the records.

The Brazilian Government decreed that certain basic commodities must move on Brazilian-flag vessels.

Chairman DOUGLAS. Would this be coffee?

Mr. ARNHOLZ. No. This would be fertilizers—petroleum products—and any items imported by the Brazilian Government. This effectively required shipments on Lloyd Brasileiro, a Brazilian Government-owned line that is a member of the River Plate-Brazil Conference.

Prior to that decree—known as SUMOC 181—some of these commodities had been exported from this country to Brazil on chartered vessels—a practice necessary to meet competition from Western Europe, Russia, and East Germany. This decree prevented further charters. The conference thereupon began imposing a series of rate increases which progressively weakened the competitive position of U.S. exporters in the Brazilian trade. The loss of substantial U.S. export business is directly attributable to this situation which, as in the analagous Colombian case, represents an unholy alliance of the conference system and flag restriction working to the detriment of U.S. foreign trade.

Specific joint action by the FMC and the Department of State to redress this situation is urgently required.

(2) Any assessment of high freight rates from this country is incomplete without a reference to the fantastically high loading; i.e., stevedoring costs in this country. The cost of loading 1 ton of general cargo in New York or on the west coast amounts to about \$10 per ton. Costs in Europe or Japan amount to a mere fraction of this figure. In fairness, it should be admitted that if ocean carriers from this country are to meet competitive rates from abroad, they are entitled to some measure of relief in this particular area.

Chairman DOUGLAS. Mr. Arnholz, is there an error in your table at the bottom of the page? There you have loading costs listed as 90 cents.

Mr. ARNHOLZ. Yes. I am gald you brought that up, sir. When I referred to general cargo, I meant packaged goods. The examples which I use at the bottom refer to bulk cargo, on which practically no stevedoring is required.

Chairman DOUGLAS. On the loading costs, that is not a real factor?

Mr. ARNHOLZ. Not on bulk commodities, which are loaded into the vessel by means of an elevator.

Chairman DOUGLAS. Are there other examples besides potassium muriate?

Mr. ARNHOLZ. I have another example.

Chairman DOUGLAS. I believe it was on the basic commodities that you complained most.

Mr. ARNHOLZ. Yes.

Chairman DOUGLAS. And here it would seem that loading cost is the least.

Mr. ARNHOLZ. No; it depends on whether we are talking about bulk or packaged goods. You do have basic commodities which are shipped in bags or in drums. To take an example, caustic soda. Now, if you will move caustic soda through the port of New York, the stevedoring or loading costs will be very close to \$10 per ton. Now, if, for instance, you ship this through Baltimore, the cost might be about \$4 per ton.

What I actually had in mind was, I believe, that under the current FMC regulations, a carrier cannot maintain varying rates from dif-



ferent ports. Now, I think that is where some relief would be welcome because there is really no point in penalizing shipments through the ports of Baltimore or Norfolk, because the cost of loading in New York is excessively high.

But this is what it actually involves.

Chairman DOUGLAS. You mean the charges are the same, irrespective of the port?

Mr. ARNHOLZ. No. I mean the actual loading costs will be substantially different as between, say, New York and Baltimore. But the rate, the conference rate that would be maintained from the east coast as a whole would be the same. So the rate would not reflect the actual difference in costs.

Chairman DOUGLAS. The rate after the freight was put on board. But who would pay for the cost of loading? Would that be—

Mr. ARNHOLZ. The steamship company would.

Chairman DOUGLAS. That is included in the freight rate?

Mr. ARNHOLZ. That is included in the freight rate; yes, sir.

Chairman DOUGLAS. So that there is no advantage in shipping out of Baltimore?

Mr. ARNHOLZ. There is not under the present system.

Chairman DOUGLAS. This maintains the high cost at New York?

Mr. ARNHOLZ. Yes, sir; the high cost in New York would actually, in a sense, be passed on to the shippers by means of the rate.

Chairman DOUGLAS. And conversely, then, there is no pressure upon New York to reduce its costs?

Mr. ARNHOLZ. That would follow, too, whereas if the lines were permitted to charge different rates, then I think there would be some indirect pressure brought to bear to redress the situation in New York.

Chairman DOUGLAS. Would you continue?

Mr. ARNHOLZ. (3) What I have said about the importance of ocean freight rates in the context of U.S. foreign trade is, of course, equally true of inland freight rates. A low cost at the factory plus a competitive ocean freight rate are inadequate if the rail or truck rate to the port of exit is excessive. The following breakdown of the delivered price of two typical fertilizers will illustrate my point:

*Potassium muriate*

Cost f.o.b. carload, New Mexico.....	\$20.40
Inland freight to Houston.....	9.70
Loading.....	.90
Ocean freight.....	14.85
	<hr/>
Delivered, Santos, Brazil.....	45.85

*Ammonium sulfate*

Cost f.o.b., Youngstown, Ohio.....	\$21.30
Inland freight to Baltimore.....	9.00
Loading.....	.70
Ocean freight.....	14.85
	<hr/>
Delivered, Santos, Brazil.....	45.85

In the case of potassium muriate, inland freight amounts to roughly 50 percent of the factory price; in the case of ammonium sulfate, it amounts to roughly 40 percent.

The effect of inland freight rates on exports—as these examples demonstrate—is immediate and obvious. In the chain of costs—factory price, inland freight, ocean freight—each link is almost equally significant.

Machinery should be set up whereby excessive inland freight rates could be adjusted to meet the needs of U.S. exports.

(4) The matter of export financing has been given scant attention in any discussions of efforts to expand U.S. exports. Foreign credit insurance as made available through Export-Import Bank and FCIA represents a fragmentary answer only.

There are a great number of small- and medium-sized export firms that have made valuable contributions to U.S. foreign trade. Under present circumstances, extended terms of payment must be afforded to importers abroad to meet foreign competition. A capital structure that, some years ago, could support an export volume of say \$1 million might today, as a result of these extended terms, support a volume of half that magnitude. These companies have the expertise precedent to developing markets for U.S. goods and expanding exports as a whole, but their role is acutely circumscribed by the increasing financial demands made on them by virtue of these competitive conditions.

It seems to me that in the Small Business Administration a vehicle exists that could extend financial support to such companies as could demonstrably play an important role in fostering U.S. exports. It seems almost illogical that a service that is available to domestic business should be denied to exporters who are in the forefront of implementing administration policy to expand exports of U.S. goods.

(5) The AID and DIF procurement program could be handled in a more imaginative way to acquaint and indoctrinate U.S. firms with export business. Logically, a firm that heretofore has refrained from exporting could be induced to gradually expand into this field through initial participation under this program.

Unfortunately, this program is beset by so many complications and pitfalls that it is likely to discourage U.S. firms from venturing into foreign fields. The amount of paperwork alone that is required is monumental. The basic requirements for participation are forbidding and frustrating. Exposure to grave losses is ever present through insistence on illogical and unreasonable procurement conditions.

Expansion of exports, viewed as a cure of the present imbalance of payment situation, should be the sum total of a variety of factors all closely interlinked with one another. An intelligent and imaginative program of coordination could go far to implement this goal.

Chairman DOUGLAS. Senator Jordan?

Senator JORDAN. Mr. Arnholz, on page 4, you talk about basic commodities and the fact that under existing contracts, dry cargo loaded and carried in bulk without mark or count is excluded from the scope of these agreements. That is the dual rate contracts.

And you go on to say :

This constitutes a constructive forward step and if these solutions were to be broadened to include all basic commodities, regardless of whether carried in bulk or not, I believe one of the most serious objections to the dual rate system would be removed.

What steps are necessary to implement that recommendation?

Mr. ARNHOLZ. I think initially, an attempt should be made in conjunction with the Department of Commerce and the Federal Maritime Commission to come up with a general classification of which items would fall in this category. I can see where there would be some difficulties in establishing this category, but I think these difficulties could be overcome fairly easily. And then the dual rate contracts of the conference should contain a specific exclusion of all these items in that category, just as now dry cargo loaded and carried in bulk is excluded. The exclusion would then be extended to the list of what I call basic commodities.

Senator JORDAN. Where would objections to such a revision originate?

Mr. ARNHOLZ. I believe from the conference carriers.

Senator JORDAN. Thank you, Mr. Arnholz.

Chairman DOUGLAS. Mr. Curtis?

Representative CURTIS. Can you tell us why the loading costs in New York City are so much higher than Baltimore, for example? Why is there this differential?

Mr. ARNHOLZ. I am not really sure what the reason is. I have puzzled about that myself, why you should have this tremendous difference between, say, Baltimore and New York.

Representative CURTIS. Does that kind of variation exist in other ports?

Mr. ARNHOLZ. Well, comparing loading costs, say, on the gulf and the east coast with costs on the Pacific coast, that would be true.

I think the Pacific coast ports and New York are on this high plateau and that costs drop down quite steeply in the other ports.

Representative CURTIS. Now, one other matter. This is somewhat speculation, and possibly I am getting you out of your realm, but you point out the impact that the different freight rates have on our exports. Is this factor sufficiently important to play a part in the decision of many of our companies to establish plants in Western Europe, for example, or other countries as a method of getting around the difficulties existing in the ocean transportation?

Mr. ARNHOLZ. Well, it could be part of the reason that it is difficult to compete by virtue of these high freight rates. But I should imagine that that would be just a very small part.

Representative CURTIS. In our recent considerations of the balance-of-payment problem, great attention has been directed to the amount of investment capital that has been flowing out of this country, as well as the reinvestment of capital already abroad in expansion of our operations. You have answered what I wanted to know. You feel that it would be a factor, but it would not be such a major factor that it would produce this kind of decision. In your judgment, is that right?

Mr. ARNHOLZ. That is right. I should be inclined to think that it would be a very minor consideration.

Representative CURTIS. Thank you.

Chairman DOUGLAS. Mr. Arnholz, I would like to turn to this potassium muriate illustration if I may.

You say that the low European rate from Europe to Santos of \$12, as compared to the rate from this country to the same port of \$14.85 is sufficiently great as to make it almost impossible, or certainly extremely difficult to sell that chemical in Brazil.

But later, after you have been talking about loading costs, you point out that the loading costs on potassium muriate in the United States are only 90 cents a ton. So in this case of a bulk commodity, the difference in loading cost between the United States and Europe certainly cannot be a factor.

Mr. ARNHOLZ. No; as a matter of fact, not at all, because on bulk commodities it is generally true, and it is true in this instance, that the conference rate is what is known as FIO, which means that the loading and unloading costs are paid by the shipper or the receiver.

Chairman DOUGLAS. Now, let me get that straight. Does the \$14.85 include the 90-cent loading cost?

Mr. ARNHOLZ. No, sir; it does not include it. We would differentiate between two types of rates.

Chairman DOUGLAS. Does the European rate of \$12 include it?

Mr. ARNHOLZ. No; it does not, either.

Chairman DOUGLAS. So that the differential here is \$2.85 a ton. The differential on loading cannot be very great.

Mr. ARNHOLZ. No; on bulk commodities, if anything, our loading costs are lower. On bulk commodities, I should imagine they are at least as low if not lower.

Chairman DOUGLAS. That is very valuable testimony. Thank you.

After we get through, there will be certain questions which I will address to you collectively.

But I appreciate this testimony.

Our next witness is Mr. Robert R. Clark, vice president of chemical sales of FMC International.

#### STATEMENT OF ROBERT R. CLARK, VICE PRESIDENT, FMC INTERNATIONAL

Mr. CLARK. My name is Robert R. Clark. I am employed by FMC International, a division of the FMC Corp., formerly Food Machinery & Chemical Corp. I wish to thank Senator Douglas, as chairman, for his invitation of September 24 to appear before the Joint Economic Committee on the matter of ocean freight rates.

Chairman DOUGLAS. I want to thank you for your acceptance.

Mr. CLARK. Thank you.

Our Government, the shippers, and the steamship lines have a common goal in desiring additional exports—since neither the shipper nor the lines can go it alone, we must redouble our efforts to cooperate in our own self-interest.

During the past year I have made several talks on the subject of ocean freight rates and the balance of payments. I find in review, that after removing all the excess verbiage from these talks, my underlying theme was that noncompetitive ocean freight rates are not only restraining and preventing trade expansion, but are diluting profits. This situation is not conducive to encouraging exporting and expansion by many companies at a time when the United States needs newcomers in the field and trade expansion most.

In retrospect, while there are other factors that have contributed to the unfavorable freight rate situation, it is my considered opinion that the deep-seated reason lies mainly in the unconscious lack of support over the years of the American-flag lines by U.S. shippers. I

am also under the impression that Government agencies in the past may have offended in this same area. Along with this lack of support, restrictions by the Maritime Subsidy Board, foreign line domination, Maritime Commission regulations, and frequent jurisdictional and other strikes, I am amazed that the lines continue to survive. It appears that they have very little control over their own destiny.

Chairman DOUGLAS. We had testimony yesterday which indicated that they have been doing very well in the last 7 years.

Mr. CLARK. We could take a page from the books of the Scandinavians, the Dutch, Germans, English, and other maritime nationalities whose dependence on exports over the years automatically and naturally finds them offering their own flag lines first option on cargo.

I am not advocating, even if it were possible, that we aspire to shipping all of our cargo on American-flag lines, but we should be able to do considerably better than 9 percent of our annual foreign trade volume of 250 million tons. A gradual long-range climb to 40 percent to 50 percent would be more in keeping with our position in international trade—would make us less vulnerable in world crises—and would materially assist our balance-of-payments position, since it has been reported that 73 cents of the freight dollar leaves the U.S. economy when a foreign-flag line is used.

With exports becoming increasingly important to our economy, the merchant marine should be increased in size as insurance against the possibility that some of the foreign lines might have to absent themselves from our shores for one reason or another. Incidentally, Russia, who has her own ratemaking conference, has about 250 vessels being built or on order in 1963 compared to our 50.

Furthermore, until American-flag lines increase in size, in tonnage carried, and what appears on the surface to be their practically non-existent voting and bargaining strength in the freight conferences, I cannot visualize that there will ever be that solid, safe foundation so necessary for confident continuous penetration of world markets.

Our pseudoforeign-trade activities, where we overwhelmingly depend on others to finish the job for us, may be necessary in emergencies—but is not sound judgment for the long pull. It is, therefore, my opinion that we will soon have to fish or cut bait.

On the matter of rates I offer the suggestion that the conferences might do well to overhaul their freight tariffs for I feel sure that there are some industries where freight is not such a vital part of price as other industries—this may also include some areas in the chemical industry—and rates could be increased without losing business to offset reductions in rates to other industries who are losing business. Some industries have been able to withstand the across-the-board percentage freight increases over the years, or pass them on to the customer; whereas this is very difficult to do in the chemical business—so it has been common practice to absorb the increases up to a point.

To further substantiate what the committee has already revealed about freight matters, I have submitted a report as part of this statement which embraces 138 different rates on 7 chemical commodities to 10 third countries from the United States and Europe. The study was intended to embrace 25 chemicals but unavailable or incomplete rates to all 10 areas dictated the size of the study.

Table 1 of this study shows that the average rate from Europe to 10 countries to be 154 cents per 100 pounds, whereas the average rate from the United States is 233 cents per 100 pounds.

Table 2 of this study shows on a cents per 50 tons per nautical mile basis that the average rate from Europe to 10 countries is 23.7 and from the United States, 50.6.

Table 3, using the information developed in table 1, plus certain assumptions, I have sought to give an example of the estimated impact of these rates on our balance of payments, U.S. revenue and profits.

At the completion of this statement I would appreciate the opportunity to comment further on the charts submitted.

Chairman DOUGLAS. Are these FIO rates, too?

Mr. CLARK. These are straight conference rates. It has nothing to do with bulk commodities. Everything is included in the freight rate.

Chairman DOUGLAS. Loading costs are included?

Mr. CLARK. Right; everything is included.

Anticipating that the committee might ask why hasn't industry complained sooner, the following background may be of assistance:

Generally and chemically speaking, at the end of World War II the need for exporting was not of top priority, as it is today. This was caused by a lack of plant capacity and difficulty in keeping up with domestic requirements, plus the fact that profits on exports were not as good as selling direct to domestic consumers. An individual within a company who advocated exporting under these circumstances was looked at with a certain amount of skepticism.

Any exporting that was done happened when excess tonnages were available and was usually accomplished by the domestic sales organization selling to an export agent on a 5-percent commission basis. Because there was a worldwide shortage of chemicals these export houses could demand letters of credit which in effect meant they did not need much capital to operate on. Additionally not much attention was paid to freight rates as these were passed on to the customers.

At the same time that the United States was rebuilding Japan and Europe we were also increasing our plant capacities and for a few years the U.S. merchant marine exporters began to flourish to the point where their export volume became of such a size that producers began forming their own small export departments. In time, when other nations got on their feet the world market changed to a buyer's market and selling really became competitive; consequently, the majority of chemical export agents gradually disappeared when they couldn't keep up with the extended credit terms that were being offered and in competition with the direct-selling efforts of world producers.

While all this was going on, the foreign trade of the United States was gradually doubling. But American merchant marine participation in our foreign trade was going in the opposite direction as our standard of living increased and costs of marine transportation were being increased with every maritime or longshoremen's strike. Comparatively speaking, the foreign-flag lines which moved cargo from these shores were not affected by rising costs to the extent of American-flag lines, but enjoyed the benefits of the increasing rates.

I think the excessive cost of transportation belatedly became apparent to firms who formed international divisions. Our international

division was formed in 1958 by consolidation and for centralization of efforts; thus for the first time we became acutely interested in freight costs, since as a division we perform as a separate profit center and thus it became known that excessive rates were impinging on our profit performance and, in some cases, were sufficiently high to price us out of markets. Since I heard rumblings from other people in the industry, I started to talk about the subject to try to learn how the United States had "painted itself into such a corner."

I should mention at this time that chemical export sales are not usually as profitable as domestic sales and generally will be the first to be reduced or eliminated during a short supply position.

One of the reasons they are not so profitable is because of the ocean freight situation.

With reference to part I of these hearings, I think the Federal Maritime Commission or its predecessors would have been forced to act if business people had started filing complaints instead of just talking. I am also sure that there was a good reason why there has not been an abundance of complaints to the Federal Maritime Commission, one being that business, particularly the new and smaller unit, did not know that they could complain to someone, or felt that the Federal Maritime Commission only handled major maritime policy matters.

In short, if all the complaints about freight rates had been sent to the Commission, or they had been copied in, perhaps the picture on marine transportation conceivably would be better than it is today. A similar occurrence can be alleviated in the future if some directional publicity to exporters appears in Department of Commerce publications, and which in effect states that if you don't speak up, don't expect our assistance.

Chairman DOUGLAS. You mean that is the present policy?

Mr. CLARK. I didn't follow you, Senator.

Chairman DOUGLAS. You say: "Which in effect states that if you don't speak up, don't expect our assistance."

Is that what you would have appear, or that which you say does appear?

Mr. CLARK. That is what I would advocate, that that happen.

Chairman DOUGLAS. Well, that throws a very heavy responsibility on the shippers. We have tried to maintain the position that the Maritime Commission has a responsibility under the basic statute to act on its own initiative, not to wait for complaints from the shippers.

Mr. CLARK. Well, I have a recommendation here, Senator, which I think may possibly be a solution to it.

Chairman DOUGLAS. Very good.

Mr. CLARK. I say that my recommendation may have a lot of rocks thrown at it. But unless the regulatory bodies are kept under pressure and kept constantly informed by the public we may have a reoccurrence of the present situation. Thus when a rate reduction request is sent to a conference by a shipper is should be filed in duplicate with the conference.

Chairman DOUGLAS. Do you mean the conference, or do you mean the Commission?

Mr. CLARK. The conference. It is sent to a conference now, but only sent in a single copy. I am recommending that it be sent in duplicate to the conference and if there is a denial of the rate application, the conference should send a copy of the reasons for denial—

Chairman DOUGLAS. I see.

Mr. CLARK (continuing). With the duplicate of the rate reduction request to the Federal Maritime Commission and, if possible, how the member lines voted on the request in order to determine the extent of "bloc voting." Upon direction of the committee I will offer an illustration as to why I think the reasons for denial of a rate reduction are important to the regulatory bodies.

Chairman DOUGLAS. We would be very glad to have you do so.

Mr. CLARK. I would like to finish the statement first.

Chairman DOUGLAS. Yes; very good.

Mr. CLARK. One other suggestion is that the Federal Maritime Commission be kept informed by the lines to what extent American-flag lines are taking on ballast with perhaps particular emphasis on subsidized lines. If they are taking on considerable ballast, while we need, but do not get, better rates to export more and make an acceptable profit on what we are exporting, then the taxpayer, our Government, and the shipper are being taken advantage of.

Chairman DOUGLAS. I am a little puzzled by this paragraph. What do you mean, "taking on ballast?" Do you mean by that nonpaying—

Mr. CLARK. They are taking on water because of the fact that they do not have enough cargo. To sail a ship properly, you have to take on ballast.

Chairman DOUGLAS. Is that on inbound voyages?

Mr. CLARK. Outbound. I am talking outbound. I have heard—I do not have the facts, but I have heard that quite a few American-flag lines sail in ballast.

That means that they did not get enough cargo. If they did not get enough cargo, why cannot something be done about getting rates which will allow them to fill up the ship so that they do not have to take on ballast?

Chairman DOUGLAS. Well, could they, full in measurement, in cubic feet, but not full in weight?

Mr. CLARK. I imagine that they could. They usually do take on some water, I understand. I know nothing about vessels, but they take on some water for the proper balance of this and the balance of that.

In summary we should—

1. Promote the idea that, everything else being equal, shippers should give the American merchant marine first option on cargo until such time as they carry a respectable percentage of our foreign trade volume.

2. Request conferences to overhaul their tariffs and reduce the spread between the U.S. rates and competition rates to third countries.

3. Provide the regulatory bodies with an accumulation of formal complaints by conferences and product lines to act upon and make it obligatory that at least denials of rate reductions by conferences be filed with the Federal Maritime Commission.



That last recommendation, Senator, I think would give the Maritime Commission a series of complaints that might come in against a particular conference or against a particular industry.

And when they get a sufficient number of these denials, they can look over both sides, they can look over the shipper's request and the denial that is given to the shipper, and if there is a preponderance in any conference, if there is a preponderance for any product line or any particular industry, then they can go to the conference and say, "Well, look here, we have received a hundred complaints" or "We have a hundreds denials," and something must be done about this.

I think if you do this, it will take a lot of the mystery away from this rate problem and the commission will have something to work on.

I do not think the whole load should be on them.

Chairman DOUGLAS. May I ask you about some figures which you give in table 2 of your appendix?

Here you have comparative rates from the United States to 10 countries, India, Peru, South Africa, Pakistan, Venezuela, Japan, Brazil, Australia, Chile, Mexico, reduced from cents per ton to rate per nautical mile.

Do I understand that average rate per nautical mile of 50 tons is 50 cents and sixty-three one-hundredths of a cent?

Mr. CLARK. It is 50.63 per—

Chairman DOUGLAS. Yes; whereas from Europe, it is 23.70 cents; whereas the rate per nautical mile from Europe to these 10 countries is less than half the American rate?

Mr. CLARK. That is correct; right.

Chairman DOUGLAS. This is on chemical products?

Mr. CLARK. These are chemical products and these are also the commodity field.

The products range from 2 cents a pound to 15 cents a pound.

I would like to bring your attention to table 1. Under Venezuela, under product E, that should be changed—well, it can be changed if the committee wants it changed. But the rate there instead of \$1.25 should be \$1.12.

I have a letter from Caracas which, in effect, says that we understand that the conference is giving a further rebate of 10 percent on this price to the shippers at the end of the calendar year. This is a European conference that is giving a 10-percent rebate.

(The letter referred to is as follows:)

JUNE 12, 1963.

Re freight rates, phosphates.

FMC INTERNATIONAL, LTD.,  
NEW YORK, N.Y.

GENTLEMEN: For your information your tripolyphosphate rate from Europe after the recent increase is \$27.30 per 1,000 kilos. For lots of 1,000 tons in one shipment or more, the rate would be \$23.80 per 1,000 kilos. The rate for other phosphates is \$35.70 per 1,000 kilos.

We understand the conference is giving a further rebate of 10 percent on this price to the shippers at the end of the calendar year.

As you can see, this freight is appreciably lower than the \$26 rate per 2,000 pounds quoted by you from the United States and therefore an equal f.o.b. European offer works out lower.

Very truly yours,

Chairman DOUGLAS. So that brings up a point that was touched on yesterday; namely, that the European and the Japanese conferences are on inbound freight to this country or on freight to third countries; normally have a rebate at the end of the year. So that the actual differences are greater than the published differences; is that right?

Mr. CLARK. That is right. And a very good illustration of that is under Brazil, under product E, you have a rate from Europe, and this is a phosphate, of \$1.79. That rate should be 90 cents.

Chairman DOUGLAS. 90 cents?

Mr. CLARK. Yes.

Chairman DOUGLAS. You mean that is after the rebate?

Mr. CLARK. This has nothing to do with the rebate.

Chairman DOUGLAS. Nothing to do with the rebate?

Mr. CLARK. No; a letter from Rio de Janeiro, which says that the rate from Europe is \$20 per thousand kilos. Now, putting it on a short-ton basis, that would mean about \$18 a short ton, or 90 cents a hundred pounds. Now, I do not know whether this 90-cent rate is a European conference offering it at 90, or whether it is a nonconference vessel. But the rate is 90 cents.

Now, when we got this information, we applied to the conference for a rate reduction. This is why I wanted to described why denials are important. On this important particular product to Brazil the rate from the United States is \$44 a long ton—

Chairman DOUGLAS. United States to Brazil, \$44 a long ton?

(The letter referred to is as follows:)

RIO DE JANEIRO, *October 2, 1961.*

Re sodium tripolyphosphate, tetrasodium pyrophosphate.

FMC INTERNATIONAL, LTD.,

*New York, N.Y.*

DEAR SIR: We have today been approached by the local agents of ——— (France), who offered us tetrasodium pyrophosphate, packed in 50-kilo jute bags with paper inlay (this packing is superior to yours) at a price of US\$183 free alongside ship, and US\$203 cost, insurance, and freight.

At the same time, they offered us sodium tripolyphosphate, with the same packing, at US\$180 free alongside ship, and US\$200 cost, insurance, and freight.

You will note that their cost, insurance, and freight price is lower than yours, but your free alongside ship quotation is better, on the other hand, than theirs. Their ocean freight and insurance charges amount to US\$20 per 1,000 kilos.

If you could obtain an identical freight from your shipping board, we can assuredly wipe out the market with your quotation (free alongside ship).

Yours faithfully,

SOMAPI S/A COMERICO INDUSTRIA, \_\_\_\_\_

Mr. CLARK. A long ton, so it is about \$40 a short ton. There is about a \$20 differential. We applied to the conference and did not ask them to give us the same rate as Europe. We just asked for some relief, because we told them that our free alongside ship prices were lower than the European.

We were willing to absorb some of the differential. The answer from the conference went like this:

As mentioned during our recent telephone conversation, there is considerable evidence that ship operators from European ports are having the same difficulties experienced by our lines in endeavoring to cover steadily rising cargo handling and ship operating costs, and consequently, their rates are also rising and narrowing the gap between the rates from the two areas.

We are hopeful that the situation will be self-correcting in the not too distant future.

That is from the River Plate & Brazil Conference.

Chairman DOUGLAS. Any name attached to that?

Mr. CLARK. Yes; I will submit this correspondence to you for the record.

Chairman DOUGLAS. Very good.

(The letters referred to follow:)

FMC INTERNATIONAL, LTD.,  
CHEMICAL EXPORT DEPARTMENT,  
December 26, 1961.

Re sodium tripolyphosphate and tetrasodium pyrophosphate rates.

RIVER PLATE & BRAZIL CONFERENCE,

New York, N.Y.

(Attention of Mr. K. D. Thornton).

DEAR MR. THORNTON: As you are undoubtedly aware, we are one of the prime manufacturers and suppliers of the subject two phosphates, which are primarily used in the manufacture of synthetic detergents here and abroad.

We had recently an occasion to quote on both of these phosphates to a potential user in the Rio area. We naturally secured the rates offered by the Conference which at present stands at \$44 per 2,240 pounds for material packed in either six-ply paper bags or in fiber drums.

Much to our dismay we received a reply from our representative in Rio informing us that the local agent of a French manufacturer also offer them quotations on these two items at a much lower cost, insurance, and freight price than ours. They gave us the French producers free alongside ship price and cost, insurance, and freight price on each of these items and we found out that although our free alongside ship price is substantially lower our cost, insurance, and freight is much higher than the competition.

To give you a specific and concrete example here is how the quotations compare between the French producer and ours.

On tetrasodium pyrophosphate—the French producer offered \$183 free alongside ship and \$203 cost, insurance, and freight per metric ton.

Our price compares as follows—\$166.01 free alongside ship, \$210.54 cost, insurance, and freight.

On sodium tripolyphosphate—the situation is equally the same—the French producer offering it at \$180 free alongside ship and \$200 cost, insurance, and freight per ton, while our prices are \$173.72 free alongside ship and \$218.26 cost, insurance, and freight per metric ton.

As you will see from the above, the French producer quoted \$20 per 1,000 kilos for insurance and freight charges, while we quoted \$44.53 per 1,000 kilos for ocean freight and insurance charges.

As you know the distance from Le Harve to Rio is about 520 nautical miles greater than from New York to Rio, and a French producer enjoys a freight rate which is less than half the one we have at present.

We are not asking the conference members to give us the same rate as the French producer or an equalization of rate, but we would like to ask the conference members to give us relief against this great difference that exists between our present rate on these two items and the rate from Le Havre which, as mentioned before, is 520 nautical miles further away from the destination.

We have no concrete indication at present of what the tonnage will be, however, we now have indications that there will be a minimum of 500 tons a year with great hopes of seeing this tonnage increase from year to year as detergent manufacture increases and as detergents themselves become popularized in that country.

As a point of information on the future growth of these two phosphates, we quote below from statistics published in Germany in 1958 on the per capita consumption of detergents. At that time the United States had a per capita consumption of 19.3 pounds, which represent roughly 200,000 tons of sodium phosphate, while the United Kingdom had a per capita consumption of 11.7 pounds, Mexico had a consumption of 3.5 pounds, and Brazil as well as Chile, had a consumption of 0.2 pounds per person. At the same time on this 0.2

pounds per person of detergents used in Brazil, it represented a total phosphate requirement of 1,250 tons.

It is hopefully expected that with the influx of washing machines, as well as dishwashers becoming more and more readily available in Brazil, companies like Procter & Gamble, Colgate-Palmolive, and Lever Bros. would set up detergent manufacturing operations, which would require sodium phosphates, thus increasing the need for these two items within a few years to well over the 25,000-ton level.

Your prompt and kind attention to our request will be greatly appreciated.

Very truly yours,

RENE P. MISSIR, *Traffic Manager.*

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RIVER PLATE BRAZIL CONFERENCES,  
*New York, N.Y., January 8, 1962.*

Re sodium tripolyphosphate and tetrasodium pyrophosphate rates.

Mr. RENE P. MISSIR,

*Traffic Manager, FMC International, Ltd.,  
New York, N.Y.*

DEAR SIR: Please refer to your letter dated December 26, 1961, under the above reference in which you have gone into considerable detail in support of your request for a reduction in our freight rates for the shipment of these commodities to east coast South American ports.

Our member carriers have recently considered similar requests for a reduction in our rates for these commodities and we regret to advise it was decided that due to the fact shipments of sodium phosphates are presently being made and with the constantly rising cost of handling these commodities at ports of destination no reduction in the rates can be made.

As mentioned during our recent telephone conversation there is considerable evidence that ship operators from European ports are having the same difficulties experienced by our lines in endeavoring to cover steadily rising cargo handling and ship operations costs and consequently their rates are also rising and narrowing the gap between the rates from the two areas.

We are hopeful this situation will be self-correcting in the not too distant future.

Very truly yours,

K. D. THORTON,  
*General Traffic Manager.*

(The freight study referred to in Mr. Clark's testimony is as follows:)

The following tables represent a freight study on seven chemical commodities which range in price from 2 to 15 cents per pound. An effort was made to include 25 products into this study to obtain reasonable assurance that the findings could be considered without reservation as representative of the overall picture. At this time we have only been able to get European foreign rates to the countries in the report on seven items, and thus this report offers no assurance that it is representative of the entire chemical spectrum. However, the report is so overwhelmingly contrary to U.S. interests that it can be reasonably concluded that we have a serious problem.

TABLE 1.—Conference ocean freight rates

[Cents per 100 pounds]

Product	From—	To India	To Peru	To South Africa	To Pakistan	To Venezuela	To Japan	To Brazil	To Australia	To Chile	To Mexico	Average rate to all countries, same product
A.....	United States.....	152	95	84	152	95	150	75	117	95	89	110
	Europe.....	59	64	66	59	76	84	93	108	59	83	75
	U.S. overage.....	93	31	18	93	19	66	(18)	9	36	6	35
B.....	United States.....	144	91	99	144	91	107	72	104	91	121	106
	Europe.....	75	62	54	76	77	69	489	95	57	82	74
	U.S. overage.....	69	29	45	68	14	38	(17)	9	34	39	32
C.....	United States.....	572	572	569	572	433	509	109	325	572	218	445
	Europe.....	284	161	134	284	119	238	149	186	161	195	191
	U.S. overage.....	288	411	435	288	314	271	(40)	139	411	23	254
D.....	United States.....	443	207	178	443	186	349	275	200	207	111	260
	Europe.....	106	264	134	106	215	169	112	150	229	103	159
	U.S. overage.....	337	(57)	44	337	(29)	180	163	50	(22)	8	101
E.....	United States.....	271	126	81	225	<sup>1</sup> 131	142	<sup>2</sup> 198	149	126	( <sup>3</sup> )	161
	Europe.....	140	133	72	141	125	117	179	151	133	-----	132
	U.S. overage.....	131	(7)	9	84	6	15	19	( <sup>3</sup> )	( <sup>7</sup> )	-----	29
F.....	United States.....	286	401	233	190	224	351	210	315	401	272	289
	Europe.....	145	313	162	190	247	255	170	253	305	235	228
	U.S. overage.....	141	88	76	-----	(23)	96	40	62	96	37	61
G.....	United States.....	308	237	177	308	272	309	243	185	232	232	250
	Europe.....	238	221	174	238	236	250	237	193	215	149	215
	U.S. overage.....	70	16	3	70	36	59	6	(8)	17	83	35
All.....	United States.....	311	247	204	291	205	274	169	199	246	174	<sup>4</sup> 233
	Europe.....	150	174	114	156	157	169	147	162	166	141	<sup>4</sup> 154
All products to individual countries.	U.S. overage.....	161	73	90	135	48	105	22	37	80	33	<sup>4</sup> 79

<sup>1</sup> European rate lower special conditions.<sup>2</sup> European nonconference rate 90.<sup>3</sup> Border closed—no imports.<sup>4</sup> Average rate all products to all countries. Sum of the 69 rates divided by 69.

TABLE 2.—Conference ocean freight rates

[Cents per 50 tons per nautical mile]

Product	From—	To India	To Peru	To South Africa	To Pakistan	To Venezuela	To Japan	To Brazil	To Australia	To Chile	To Mexico	Average rate to all countries, same product	Overage
A.....	United States.....	15.5	28.2	12.4	21.7	51.4	15.0	15.7	12.1	20.5	45.1	23.76	12.16
	Europe.....	7.5	10.6	10.9	10.1	18.7	6.6	18.1	8.7	8.1	16.7	11.60	-----
B.....	United States.....	14.6	27.0	14.6	20.5	49.2	10.7	15.1	10.7	19.6	61.3	26.91	10.41
	Europe.....	9.5	10.3	8.9	13.0	18.9	5.5	17.3	7.7	7.8	16.5	16.50	-----
C.....	United States.....	58.1	169.8	83.8	81.6	234.3	51.0	22.9	33.5	123.4	110.5	96.89	68.24
	Europe.....	36.0	26.7	22.1	48.4	29.2	18.8	29.0	15.0	22.1	39.2	28.65	-----
D.....	United States.....	45.0	61.5	26.2	63.2	100.6	34.9	57.7	20.6	44.7	56.3	51.07	26.12
	Europe.....	13.4	43.7	22.1	18.1	52.8	13.4	21.8	12.1	31.4	20.7	24.95	-----
E.....	United States.....	27.5	37.4	11.9	32.1	70.9	14.2	41.5	15.4	27.2	-----	27.81	9.74
	Europe.....	17.7	22.0	11.9	24.0	30.7	9.2	34.8	12.2	18.2	-----	18.07	-----
F.....	United States.....	29.1	119.1	35.1	27.1	121.2	35.1	44.0	32.5	86.5	137.9	66.76	31.49
	Europe.....	18.4	51.9	26.7	32.4	60.6	20.2	33.1	20.4	41.8	47.2	35.27	-----
G.....	United States.....	31.3	70.4	26.1	43.9	147.2	30.9	50.9	19.1	50.1	117.6	58.75	25.28
	Europe.....	30.1	36.6	28.7	40.6	57.9	19.8	46.1	15.6	29.4	29.9	33.47	-----
All products to individual countries.....	United States.....	31.6	73.3	30.1	41.5	110.9	27.4	35.4	20.5	53.1	88.2	1 50.63	1 26.93
	Europe.....	19.0	28.8	18.8	26.6	38.5	13.4	28.6	13.1	22.7	28.3	1 23.70	-----
Approximate nautical miles.....	United States.....	9,838	3,368	6,786	7,008	1,848	9,987	4,770	9,692	4,634	1,973	-----	-----
	Europe.....	7,896	6,035	6,069	5,886	4,074	12,654	5,143	12,409	7,301	4,976	-----	-----

<sup>1</sup> Average rate per nautical mile for all products to all countries (69 rates divided by 69).

TABLE 3.—Balance of payments impact and U.S. revenue and profit loss

## Assumptions:

1. Shipping weight.....	10,000,000 pounds (5,000 tons)
2. Products shipped.....	Average mix.
3. Port of entry.....	All illustrated.
4. Average freight rate—All products, all ports.....	\$2.33 per 100 pounds.
5. Freight cost.....	\$233,000.
6. Of our foreign trade volume—American-flag lines carry.....	10 percent.
7. Freight dollar—77 percent stays in U.S. economy via American-flag shipments.....	—23 percent.
8. Freight dollar—73 percent leaves U.S. economy via foreign-flag shipments.....	+27 percent.

## FREIGHT COST DISTRIBUTION

Description	Total	Foreign	United States
Current rate of shipments.....percent.....	100	90	10
Freight cost distribution.....	\$233,000	\$209,700	\$23,300
27 percent inflow from foreign.....	0	(\$56,619)	\$56,619
23 percent cash outflow to foreign.....	0	\$5,359	(\$5,359)
Net retained in economy.....	\$233,000	\$158,440	\$74,560
Rate retained in economy.....percent.....	100	68	32

## AVERAGE FREIGHT COST, U.S. CHEMICAL INDUSTRY VERSUS FOREIGN CHEMICAL INDUSTRY

U.S. cost (10,000,000 pounds×\$2.33 per 100 pounds).....	\$233,000
Foreign cost (10,000,000 pounds×\$1.54 per 100 pounds).....	154,000
U.S. additional cost.....	79,000
U.S. tax revenue loss (79,000×52 percent).....	41,100
U.S. industry loss (79,000×48 percent).....	37,900

Chairman DOUGLAS. Did you apply to the Maritime Commission?

Mr. CLARK. No. Actually, this happened in 1962. I brought it along as an illustration of why I think the reasons for denials should be given to the Maritime Commission. I think if the Maritime Commission got a denial like that, and saw it, and kept getting them, they would say. "Well, this is ridiculous. This type of reply does not do me any good."

I would rather have the line say. "We cannot afford to take it." Why not tell the truth about it? I am not interested in the fact that the European costs are increasing and that eventually, they may get high. We could not sell the goods because of the differential in freight.

Chairman DOUGLAS. This directly cut you off from selling?

Mr. CLARK. This is right. We did not expect the U.S. lines to give us, or the conference from the United States to give us a reduction of \$20, which was the differential. We just asked for relief. We told them what our free-alongside-ship prices were. We told them what the French price was. We just want relief. These are the types of things that discourage people in the export business.

Chairman DOUGLAS. I think in Mr. Arnholz's testimony he gave the composition, or did he, of the Brazilian conference?

Mr. ARNHOLZ. That was in the supplementary statement which I had submitted back in 1959.

Chairman DOUGLAS. That lists seven of the lines—Booth, Columbia, an Argentine line, a Holland line, Lamport, Lloyd Brasileiro, one other I shall not attempt to pronounce.

But this is the line, this is the conference at which the American lines are greatly outvoted?

Only 2 out of 14.

Mr. ARNHOLZ. That is right, sir.

Chairman DOUGLAS. And also, seven of them have overlapping European interests?

Mr. ARNHOLZ. Yes.

Chairman DOUGLAS. Senator Jordan?

Senator JORDAN. Mr. Clark, the recommendation you have made here seems to me to have considerable merit. When a rate reduction request is sent to the conference by a shipper, you suggest it be sent in duplicate, and in case of denial, a copy be sent back to the Maritime Commission with their reasons. What would it take to implement that recommendation?

Mr. CLARK. I guess nothing more than an agreement by the conferences, and this is where they probably will, I would assume, object.

Senator JORDAN. I would assume they would, too.

Mr. CLARK. I would assume, also, they would object to letting anybody know how they vote on a particular rate. But there is always this unknown of not knowing how somebody voted. They say—the conferences say—that there is no bloc voting and there is evidence that there is bloc voting.

If they say there is no bloc voting, why should they not tell you how they voted?

Senator JORDAN. How can we make this more effective? Will the shippers have to get together to get results?

Mr. CLARK. No; I think that perhaps the Federal Maritime Commission can weigh this type of a suggestion and perhaps answer better than I can how the conferences would feel about this. I think it is relatively simple. If we apply for a rate reduction, we just file it in duplicate with a particular conference, and if they decide to deny it, then they send us the denial but give a copy to the Federal Maritime Commission.

The Federal Maritime Commission then gets a history on particular businesses or particular conferences that may be acting in restraint of trade.

Senator JORDAN. Do you think if the Maritime Commission insisted on it, they might receive favorable consideration?

Mr. CLARK. I think the Maritime Commission could probably convince the conferences, in view of these hearings, that they better do something about this situation and this is one of the ways that we have thought of implementing it.

Senator JORDAN. Thank you.

It makes sense to me.

Chairman DOUGLAS. Well, I am informed by Mr. Boggs that section 21 of the Maritime Act gives the Commission the power to make such a requirement; not merely a request, but such a requirement.

Am I wrong on this point?

If I am, would some member of the Maritime Commission or its staff correct me?



**STATEMENT OF REAR ADM. JOHN HARLLEE, U.S. NAVY (RETIRED),  
CHAIRMAN, FEDERAL MARITIME COMMISSION**

Admiral HARLLEE. Mr. Chairman, the Federal Maritime Commission could have proceedings under section 21 to make such a requirement. You are speaking, I assume, of the matter of getting the votes on rate matters from the minutes of the conference?

Mr. CLARK. That is not the most important thing. The most important thing is to get in the hands of the Federal Maritime Commission the denials by the conferences and the reasons for them.

Admiral HARLLEE. Yes. I would like to make a few remarks about that, if I may, Mr. Chairman.

I participated in the White House Conference on Trade Expansion about 2 or 3 weeks ago. At my suggestion, the report on the panel that was concerned with this said that the exporters should be urged to report to the Federal Maritime Commission when they have sought rate adjustments from the conferences and have been turned down for reasons which they do not feel to be adequate.

Secondly, in the only public speech which I have had time to make in the past month, I again urged a group of exporters in New York, the International Executives' Association, to do the same thing. We have in our next budget request a request for an enlargement of our Office of Information from its present three people. I would believe that the most important function of that Office of Information would be to get out to the great number of potential exporters in his country the word which Mr. Clark has mentioned.

And I think that it will be a continuing and major task of ours to see that the small shippers that we hope that the Trade Expansion Act will bring into the picture here are informed of the necessity of letting us know these problems as Mr. Clark has suggested.

However, I do agree with you that we have to get into these matters, whether there is a complaint or not. So I think we will have to approach it from both directions; on the denials that we receive, but also on our own motion with the program.

Chairman DOUGLAS. Admiral, am I correct in understanding that section 21 gives you the power to require from the conferences the denials and the reasons for the denials?

Admiral HARLLEE. It would require a rulemaking proceeding, I think, Senator. I believe that it would. But it would be an adjudicatory proceeding, I think. I believe that the conferences might object to this. But that does not mean we cannot do it. I would mean that it would have to be a rulemaking proceeding to go through hearing processes.

You mean to have the conferences do it rather than have the shippers do it?

Chairman DOUGLAS. That is right.

Admiral HARLLEE. I believe personally, offhand, that we would be in a position to make that requirement, but it would have to be, I think, after a hearing or rulemaking proceeding.

Chairman DOUGLAS. Well, I think Mr. Clark made a very valuable suggestion, very constructive.

Admiral HARLLEE. I agree with you, Mr. Chairman. We will investigate that.

Chairman DOUGLAS. Thank you.

The final witness is Mr. Arthur B. Dodge, Jr., vice president of the Dodge Cork Co.

**STATEMENT OF ARTHUR B. DODGE, JR., VICE PRESIDENT, DODGE CORK CO., INC.**

Mr. DODGE. Mr. Chairman, I welcome the opportunity to participate in this hearing. As a small businessman, I am grateful for the recognition that in the sum of our numbers of small companies there is a sizable, and mostly untapped, export potential.

Our company is vitally interested in foreign trade. Our business is cork and products thereof. Cork is the bark of a tree grown commercially only in the Western Mediterranean countries, and we must import it just as natural rubber must be imported. For years we have thought of ourselves as buyers from abroad, not as potential exporters. Because of products we have recently developed, we have begun to receive inquiries from abroad. Thus motivated, we have begun in a modest way to promote export sales.

In Canada we have had reasonable success. From a volume of zero a few years ago, our Canadian sales today amount to a measurable percentage of our annual total with good prospects for steadily increasing. Elsewhere the response to our sales efforts has usually been that our prices are too high. We have puzzled over this. We have checked our delivered costs versus those of oversea (chiefly European) suppliers. We have learned of the disparity in freight rates but frankly did not know we could do anything about it. When we asked friends more experienced in exporting than ourselves, we received the impression that our volume was so small that it would be useless to bother about freight rates.

However, from general reading of various news media, we slowly became aware this year of the genuine determination by our Government to do something positive about increasing exports. About a month ago, I was so shocked by the high rate quoted us for a shipment to Africa that I wrote to our representative in Congress, the Honorable Paul P. Dague, and my information was immediately transmitted to your committee, resulting in my presence here.

Of great concern to us is the fact that eastbound transatlantic ocean freight rates for products we manufacture are generally higher, by as much as 30 to 40 percent, than the rates for the same products charged for westbound shipments.

The volume of eastbound shipments of cork products is admittedly small and may well not warrant the establishment of special rates. Like many small manufacturers, we are, therefore, generally limited for our export trade to the use of "general cargo" ocean rates. But this in itself poses a handicap. For example, the general cargo rate from Philadelphia to London, England, is \$68.25 per long ton of 2,240 pounds, or 40 cubic feet. The corresponding westbound general cargo rate from London to Philadelphia is 350 shillings, equal to approximately \$49 per same unit by weight or volume.

Chairman DOUGLAS. \$19.25 less?

Mr. DODGE. Correct. For the benefit of small business firms, we feel that of all the freight rates requiring equalization, those for general cargo certainly deserve priority of attention.

In our own particular case, a special provision which we find even more restrictive is the application of the "weight or measurement" provision on eastbound ocean freight rates. Our experience has been that no matter what product—and I am here speaking of cork products—we try to export, we must declare in considerable detail, the measurement and volume of each package; and, because cork products are light in weight, we almost invariably pay on a measurement or volume basis. On westbound transatlantic shipments, volume is never mentioned and as a matter of fact, the provision for volume measurement is not even shown in the papers one fills out to engage westbound steamer space.

Chairman DOUGLAS. This is an extraordinary statement. Nothing is supposed to be lighter than cork. I mean this is the classic figure, floats like a cork, or is as light as a cork. You are measured on volume, they are measured on weight.

Mr. DODGE. Correct, sir. This is in the pier delivery order.

Chairman DOUGLAS. You can prove this?

Mr. DODGE. Yes, sir.

Chairman DOUGLAS. Even though the rate is quoted weight or measurement?

Mr. DODGE. In most cases, Senator, at the European port for westbound shipments, the subject of measurement is never mentioned.

You simply call up and say "I have 5 tons of cork to ship from Lisbon to Philadelphia or Lisbon to San Francisco; what is the current rate," and they say \$38 a ton or \$68 a ton, period.

Chairman DOUGLAS. On your papers, however, is weight recorded or just measurement?

Mr. DODGE. If a supplier of ours applies in Lisbon, Barcelona, Seville, London, and so forth, to ship a cargo of goods to the United States, when the shipper fills out what I understand is a pier delivery order, he merely testifies that he has so many tons of cork, by a description in some cases, for example when it is stoppers or floor tile or insulation. But he has so many tons to ship in so many bags or packages or cartons to ship from one place to another, he fills in the line on weight and that is all there is to it.

Chairman DOUGLAS. But when you export your products, you are judged on cubic content?

Mr. DODGE. Frankly; yes, sir. I would not go so far as to say we are not asked what the weight is, but we must clearly identify the number of packages, bags, or cartons, the size of each one, the cubic content of each one, and invariably we are charged on a volume basis.

Senator JORDAN. This would widen the discrepancy?

Mr. DODGE. As you will see, sir, when I continue, it widens it considerably.

Chairman DOUGLAS. Now, what conference is this?

Mr. DODGE. This, I believe, involves the North Atlantic Conference, or there are several crossing the North Atlantic; one or two which involve the Mediterranean countries to the east, gulf, and west coast ports of the United States, the conferences which would involve the Netherlands to east coast ports, the conference which would involve Great Britain to east coast ports.

Chairman DOUGLAS. I wondered if the representatives of either the Maritime Commission or the Department of Commerce would be will-

ing to give us, at their convenience, the names of the lines which are members of those inbound conferences and also the names of the lines which are members of the outbound conferences.

Admiral HARLLEE. Yes, Mr. Chairman.

Chairman DOUGLAS. Just a minute, Admiral.

Do I understand that you use a specific line?

Mr. DODGE. Yes sir; we, for a number of years, have specified to all of our European suppliers and we are primarily engaged with European suppliers, although to some extent with Morocco and Algeria, we have specified that they will ship on American carriers.

We specify the American Export Line coming out of the Mediterranean and we specify the United States Lines coming out of northern Europe, wherever and whenever practicable.

In other words, if two vessels are sailing within 2 or 3 days of each other and one is a British carrier or a Dutch carrier or a German carrier or what-have-you and the other is a U.S.-flag vessel, we insist that shipments to us be carried on American-flag vessels.

Chairman DOUGLAS. On exporting; what do you do?

Mr. DODGE. On exporting, we follow the same procedure.

Chairman DOUGLAS. I would say you are more faithful to the American Export Lines than they are to you.

Mr. DODGE. I did not want to say that, sir, but thank you; I must agree.

If I may continue: Under the "weight or measurement" provision, cork products frequently take 150 to 300 percent of the rate which they would take if computed on a weight basis only. However, of the 1,200 or more shipments of cork products imported by our company from European ports during the past 10 years, not one have ever been charged to us on a volume rate basis. This special provision which is apparently applied on a one-way basis only, is clearly discriminatory to American manufacturers and exporters.

Chairman DOUGLAS. And practiced by American shipping lines?

Mr. DODGE. Yes, sir. Within the past few months, we have had several specific examples involving shipment of embossed wood-top bottle closures from Philadelphia to London. We paid the general cargo rate of \$68.25 per 2,240 pounds or 40 cubic feet and we paid on the cubic or volume basis. In actual fact this worked out to our paying \$238 per long ton.

This same commodity, moving westward from London to Philadelphia, would be classified under a special provision as "corks" at a rate of 510 shillings per 2,240 pounds, weight basis only, and this would work out to approximately \$72 per long ton.

Chairman DOUGLAS. Let's get this: On an identical quantity, the rate from London to Philadelphia would be \$72 per long ton.

Mr. DODGE. Yes, sir.

Chairman DOUGLAS. From Philadelphia to London, \$238 per long ton?

Mr. DODGE. Yes, sir; in the same package, on the same vessel.

Chairman DOUGLAS. Of the American Export Lines?

Mr. DODGE. No, sir; they do not go to London.

Chairman DOUGLAS. United States Lines?

Mr. DODGE. That would be United States Lines; that would be Cunard Lines; that would be any of the lines operating on that route.

Chairman DOUGLAS. So that even if you did transfer your allegiance, it would not benefit you at all?

Mr. DODGE. No, sir.

We, a U.S. exporter, accordingly, are paying 330 percent of the rate it costs a British exporter to send the same goods from Great Britain to the United States.

Mr. Chairman, I would be embarrassed to concern this committee with the story of a few cartons of cork stoppers were there not a sequel. Within the past year, distilled spirits of European origin; including whiskeys, brandies, and liqueurs, are entering the United States in rapidly increasing amounts packaged in bulk rather than in bottles.

Our company has been quite successful in designing cork closures for these spirits being bottled in the United States and we are today a major supplier to this trade.

By redesigning the closures to be used, we are saving the bottlers as much as \$6 per thousand closures compared to the cost—in Europe—of closures for identical packages. For the first time we can now see a potential market in Great Britain and Europe of over \$100,000 per year for these items. We are in contact with firms abroad who want to buy from us. However, a freight disparity of 330 percent is a major barrier to achieving this potential business.

In conclusion, Mr. Chairman, may I offer the thought that if we, as manufacturers dealing in a material of exclusive European origin, can foresee through a greater equality in ocean freight rates the possibility of over \$100,000 per year increased exports, we can reckon that a thousand other small businesses, likely to be using in large part domestic raw materials, could similarly improve their export sales. Only 10,000 such improvements are needed to reflect a national export increase of \$1 billion. Your committee is doing an excellent job in a vital area. I hope my small contribution will be of some help.

Thank you very much.

Chairman DOUGLAS. That is extraordinarily good testimony; very meaty and to the point.

Senator Jordan?

Senator JORDAN. That was a fine statement. I would like to say that we all realize that many small shippers make a high aggregate volume and our concern is with small shippers as well as the large. You have made a very fine statement.

Mr. DODGE. Thank you, sir.

Senator JORDAN. Thank you, Mr. Chairman.

Chairman DOUGLAS. I would like to address a general question to all three of you.

Each one of you can respond.

Has any of you ever been offered a rebate? Of course, you may take the fifth amendment if you care to.

Mr. CLARK. I do not handle the freight. We have a traffic manager. I have never been offered a rebate.

Chairman DOUGLAS. Has your traffic manager, to your knowledge, ever been offered a rebate?

Mr. CLARK. No.

Chairman DOUGLAS. Do you know of any of your competitors who have received rebates?

Mr. CLARK. No; I do not.

Chairman DOUGLAS. Mr. Dodge?

Mr. DODGE. No, sir.

In my experience, living both in this country and abroad for our company, I have never been offered a rebate of any nature.

Chairman DOUGLAS. Mr. Arnholz?

Mr. ARNHOLZ. No; we have never been offered rebates here.

Chairman DOUGLAS. Does this mean that you have hopes?

Mr. ARNHOLZ. We understand that the practice is probably more widespread abroad. In other words, an importer in a country abroad may be given a rebate.

Chairman DOUGLAS. In other words, there are triple advantages which the foreign exporter to this country receives; lower published rates, general rebates, the 10 percent reduction, plus kickbacks or rebates to individual companies not granted to the general trade.

Is that true?

Mr. ARNHOLZ. Yes, but what I actually meant was it will happen, I think, also on exports to countries where the shipment goes forward on a freight-collect basis.

If I may go back to Colombia, under Colombian regulations, all freight is collect.

We do not prepay the freight on any shipments that we make to Colombia from this country and I believe that rebates are given to the Colombian importers quite frequently.

In fact, some years ago, we submitted two statements to that effect to the Federal Maritime Board, which was still the Board in those days.

Chairman DOUGLAS. Do you know of any evidence to indicate whether export rates from the United States are uniform to all shippers or are there rumors of rebates or differential rates granted to specific shippers?

Mr. ARNHOLZ. There are rumors to that effect; yes, sir.

Mr. DODGE. That is correct. I know of nothing substantial, however, that I could offer in testimony to the effect that this is more than a rumor.

And frequently, in business, one hears rumors that are not true.

Chairman DOUGLAS. I wish we had some of the witnesses who were present yesterday. I thought I understood them to say that they believed this was a practice.

But not so much on outbound as on inbound traffic.

Mr. CLARK. There is quite a considerable—a lesser amount of inbound cargo. There are more people fighting for it and there is plenty of cargo leaving these shores. And I do not think rebates have to be given.

Chairman DOUGLAS. Has any of you ever complained to the Maritime Commission about freight rates?

Mr. CLARK. I have never complained.

Mr. DODGE. I have never complained.

Mr. ARNHOLZ. To the Federal Maritime Board and also to the Commission; yes, I have.

Chairman DOUGLAS. Well, what have been the results?

Mr. ARNHOLZ. No results at all.

Chairman DOUGLAS. Did they answer your letter?

Mr. ARNHOLZ. In some cases I believe yes; in some not. I would have to look up the record on that.

Chairman DOUGLAS. In general, it has not been an encouraging experience?

Mr. ARNHOLZ. That would be particularly true, Senator, in our case, because we were engaged in some extensive litigation with one of the conferences. We asked—that was in 1960 or 1961; and we asked the Board to come into the courts to at least exercise its primary jurisdiction.

We did not ask them to prejudge the case, but we felt that the Board should have considered it before the case was tried in the courts. But we were unable to get the Board to move in that direction. We felt the issues were such that the expertise of the Board was required before the courts could actually hold on the substance.

Chairman DOUGLAS. Which the Board has the power to do?

Mr. ARNHOLZ. That is right.

Chairman DOUGLAS. You are gentlemanly and restrained in what you say. I do not want to put words in your mouth.

But I gather that you might suspect that this failure of the Board to act and in some cases to reply might have been due to the fact that you had taken issue with the Board?

Mr. ARNHOLZ. Well, we have generally considered that it would be very difficult to get any affirmative or favorable action for a shipper before the Board so actually, in the last year or so, we have perhaps been remiss in not going before the Commission because of these past experiences.

Mr. CLARK. I think also that, as Mr. Arnholz and myself deal mainly in the commodity field, you need fast answers. If you do not get answers, fast, why, you have lost the business and you have to wait on the next time around.

As far as complaining just for the sake of complaining, if you have lost the business, there is no sense in doing it.

That is why I think this suggestion that I made on denials being filed with the Maritime Commission will give them a much better picture of the whole area and will take some of the load off their back.

Mr. DODGE. As an indication of attitudes in reviewing the testimony given in June before this committee, I believe that there was an exchange of ideas between the committee and members of the Maritime Commission or Administration.

One thought that was expressed by a member of the Maritime Commission which struck me as a small businessman as the type of individual who says, well, if we are going to do it, we are going to get out and do it ourselves, was an expression of an idea that if a foreign producer sells a commodity in his home market at prices so much lower than the differential in ocean freight rates could possibly explain, then there is no need to do anything about a freight rate because it would not do any good anyway.

I am paraphrasing the thought which I understood or gleaned from reading through the testimony. My reaction was as follows:

That this is a highly negative view, particularly at this critical time, and it denies the U.S. manufacturer an opportunity to start out on

something like an equal basis, so that even though there still exists a disparity, the incentive is provided to the American manufacturer to redesign, to repackage, to do something which can take care of the balance of the difference. But the American manufacturer is not going to go out and devote much time and energy if, as a result of, let us say, being able to develop a product which could be competitive in the European market and reduce his cost by 10 percent, he is still blocked by this freight differential. He is bound to give up right there. He is licked before he starts.

That is why I hope this attitude may be worth an idea to the present members of the Commission that there is a share of responsibility, and let us not slam the door in the face of the American businessman. If it is a question that the Commission, and the idea has been expressed, is understaffed, we certainly have enough large staffs around the various areas, some of which occasionally seem to be surplus, that I think the Maritime Commission could be given adequate support at the present time to fulfill properly their functions as desired and required.

Chairman DOUGLAS. Mr. Arnholz?

Mr. ARNHOLZ. I think in all of these discussions, perhaps the self-correcting device of competition is overlooked. In Mr. Dodge's case, for instance, if he had offered the cork closures to a nonconference carrier, and if he had shipped on a nonconference carrier, I am quite sure the conference rate eventually would have come down to a competitive level. The real trouble, I think, is that Mr. Dodge, if he is, as I assume he is, a member of the conference, is denied that. That is what I tried to bring out in my statement. The members of the conference are reasonable business people on the whole. If they are losing tonnage, they will then meet the competitive rate.

Chairman DOUGLAS. But what lines are not members of the non-conference?

Mr. ARNHOLZ. You have nonconference carriers.

Chairman DOUGLAS. You have tramps?

Mr. ARNHOLZ. No; you have nonconference carriers in most trades, Senator.

Chairman DOUGLAS. In the North Atlantic?

Mr. ARNHOLZ. There are several in the North Atlantic.

Chairman DOUGLAS. Such as?

Mr. ARNHOLZ. The Meyer Line, for instance.

Chairman DOUGLAS. I am told that they are negotiating a pool with the conference lines.

Mr. ARNHOLZ. In that particular trade, there are several nonconference carriers. I would say you have a nonconference carrier to most areas.

Chairman DOUGLAS. What you are saying is, "God bless those who are not members of the conference"?

Mr. ARNHOLZ. No; do you apply that to the shipper or to the carrier?

Chairman DOUGLAS. To the shipper.

Mr. ARNHOLZ. That is not true, you see; because the nonconference lines are, of course, few. They can not provide the same number



of sailings that the great bulk of the conference carriers provide you with. This is what I am trying to focus on in my statement; therefore, the problem that the exporter faces is that either he is a member or a signatory of a conference agreement, in which case he cannot take advantage of lower rates, or he elects not to sign the conference agreement, in which case he is going to lose business because the nonconference service available will not cover all of his requirements. I think that is really at the heart of this problem.

If the dual rate contracts would be modified, I think you would find that you have a self-correcting device here. The rates would come down.

Chairman DOUGLAS. Do you gentlemen have any other comments you would like to make?

Mr. CLARK. Yes; I meant before to give an illustration. If you would look at page 2 of this chart, product "G", which is sodium perborate, until a couple of years ago, the United States—there are two producers—was able to supply the domestic requirements in this country. We now have imports coming in at the rate of about 12 million pounds a year. Both the companies that make this product in the United States therefore have excess capacity now. A duty of 10 percent is even hurdled on these imports.

Now, neither of these companies, one of which is ours, can complain as far as hardship is concerned, on this one product coming in. We naturally are now going to try to export. The rate from Europe to the United States is \$20; going back to Europe, it is \$50.

Chairman DOUGLAS. 150 percent more.

Mr. CLARK. Right. Now, we looked at Mexico, which is in the column there, and we find that the rate from Europe is \$1.49 and from New York it is \$2.32.

So in other words, it costs \$16 a ton more to ship it from New York to Mexico than from Europe.

Chairman DOUGLAS. And the distances are a little less than 2,000 miles from the United States and approximately 5,000 from Europe?

Mr. CLARK. This is right. But here is a case of where we have had to get out and start looking for some export business because of the imports and here we are trying to do something and we have run right up against these rates.

Now, in time, we will get better rates, but this points up the whole picture.

In our exporting, we are working upstream and the Europeans are going downstream.

Everything should be done that is possible to make it easier for the United States to export. But this type of thing is discouraging, very discouraging.

Now, I do not know how many conferences there are. But we will have to apply for a rate reduction, if we want to make a worldwide affair of this; we must contact 60 or 70 conferences on this product.

That is a lot of work. I wanted to give that example as outstanding, as an outstanding differential.

Chairman DOUGLAS. I want to thank Admiral Harlee and his staff for coming to these hearings. I want to thank the Department of Commerce for having its staff here.

On November 19, we will continue hearings and we will invite the steamship lines to testify.

They should have their day in court. I wish we could get at the conferences, but inbound conferences, at any event, are beyond our reach because their headquarters are located in other countries and papers are not available for scrutiny. But we will make do with what we can do.

I want to thank you gentlemen very much for coming.

It was very public spirited of you.

Mr. CLARK. Thank you.

(Whereupon, at 12:15 p.m., the committee adjourned, to reconvene November 19, 1963.)

