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DISCRIMINATORY OCEAN FREIGHT RATES AND THE BALANCE OF PAYMENTS

HEARINGS

BEFORE THE

JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES

EIGHTY-EIGHTH CONGRESS

SECOND SESSION

MARCH 25 AND 26, 1964

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DISCRIMINATORY FREIGHT RATES IN OCEAN SHIPPING AND THE BALANCE OF PAYMENTS

WEDNESDAY, MARCH 25, 1964

Congress of the United States,
Joint Economic Committee,
Washington, D.C.

The joint committee met, pursuant to notice, at 9:05 a.m., in room AE–1, U.S. Capitol Building, Hon. Paul H. Douglas (chairman of the committee) presiding.

Present: Senators Douglas and Pell, Representatives Griffiths and Curtis.

Also present: Thomas H. Boggs, Jr., economist, and Hamilton D. Gewehr, administrative clerk.

Chairman Douglas. The hour of 9 o'clock has arrived and passed. The committee will come to order.

Before we begin today, I would like to briefly summarize past events which led to this hearing. On June 20 and 21, 1963, the Joint Economic Committee held its first hearing on discriminatory ocean freight rates and the balance of payments. These hearings were initiated as a result of earlier testimony which indicated that ocean freight rates were a contributing factor to the $800 million decline since 1955 in U.S. steel trade.

Prior to these hearings, it had been my firm belief that every agency of the Federal Government was striving to redress our balance-of-payments deficit which exceeded $2.6 billion in 1963. Much to my surprise, I learned that policies of the Federal Maritime Commission and the Maritme Administration were operating in direct opposition to the Trade Expansion Act and other programs to eliminate this deficit. In brief, the Federal Maritime Commission testimony indicated that:

1. It costs American exporters more to ship many American-made products to Europe or Japan than it costs those countries to send comparable products to the United States.
2. It costs more on a per-ton-mile basis to ship U.S. exports to third market areas of South America, South Africa and India than it costs to send comparable products from foreign ports to these same markets.
3. Ocean freight rates in U.S. foreign commerce are set by steamship conferences—associations of foreign and domestic steamship lines—which are dominated by foreign-flag lines and, by bloc voting, can maintain higher rates on American exports than on foreign exports.

4. The FMC had sufficient statutory authority to disapprove ocean freight rates if they are unreasonably high or low but it had never exercised such authority.
5. The FMC had not initiated an investigation of ocean freight rate disparities or of malpractices of the steamship conferences although it had been directed to do so by the Merchant Marine Act and by a congressional committee in 1962.

Testimony received from the Maritime Administration indicated that it was the policy of that agency to require American steamship lines to belong to shipping conferences or agree to their rates, rules, and regulations in order to receive operating subsidies. This policy forced American lines to remain in conferences and charge conference-established rates even though such rates appeared to be detrimental to U.S. exports.

It was the belief of the Joint Economic Committee that the testimony of the Federal Maritime Commission and the Maritime Administration revealed their failure to enforce existing laws and to use their statutory authority to protect American exporters and to promote the foreign commerce of the United States. As a result of this hearing, the Joint Economic Committee unanimously recommended specific corrective action to the FMC and the Maritime Administration.

The committee received responses to its recommendations which indicated that corrective measures would be taken. However, similar assurances were given to the House Antitrust and Monopoly Subcommittee upon issurance of its March 1, 1962, report but no action was taken. Consequently the committee asked that a progress report be submitted early in 1964 by these two agencies.

On November 19 and 20 representatives of the American steamship companies testified before this committee that:

1. Outbound-inbound rate disparities were not harmful to American exporters.
2. Many of the outbound-inbound disparities result from "paper" rates.
3. Any U.S. exporter making a "reasonable" rate reduction request to the conferences would, in almost all cases, be granted a reduction.

Elaborate statistics were presented to back up these conclusions. An evaluation of these statistics indicates they are inconclusive and in no way disprove the allegations made at previous committee hearings. I ask unanimous consent to insert in the record a staff memorandum dated March 6, 1964, entitled "Ocean Freight Rate Disparities," which evaluates these statistics.

(The memorandum is as follows:)

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
March 6, 1964.

MEMORANDUM

To: Senator Paul H. Douglas, Chairman.
From: Thomas H. Boggs.
Subject: Ocean freight rate disparities, trade route 12.

Mr. Donald F. Wierda, appearing before the Joint Economic Committee on November 20, 1963, as spokesman for the American Steamship Traffic Executives

Committee (composed of traffic executives of U.S.-flag liner companies), concluded:

"* * * that it is not true (that U.S. export rates are higher), because we are showing you with these tables that of the cargo which actually means something and moves, the export rates, which are usually negotiated with shippers * * * are actually lower * * *" (p. 487, pt. 3).

Prior to this statement, the ASTEC spokesman presented to the committee a series of tables showing that outbound rates were lower than corresponding inbound rates on 300 of 395 major moving export commodities. On the basis of these statistics, the ASTEC group reached their conclusion. It is the purpose of this memorandum to evaluate such a conclusion and the statistics on which it was based.

The ASTEC statistics covered 13 trades routes. In the limited time available, it was not possible to check each route. However, the largest single trade route (No. 12—U.S. North Atlantic-Far Eastern trade) was selected for study.

The ASTEC statistics revealed that 15 of 25 major moving export commodities on this route have lower freight rates than corresponding import commodities. For example, it costs U.S. exporters $68 per measurement ton to ship airplanes and parts to Japan, but it costs $75.75 per measurement ton to ship Japanese airplanes and parts to the United States. The ASTEC contention was that on "major" U.S. exports to Japan, such as airplanes, 60 percent of the outbound rates were lower than corresponding inbound rates. Is this sufficient proof that outbound freight rates are lower than inbound freight rates? We think not. Quantity shipments will get better rates than rarely traded commodities. On major moving exports, therefore, the freight rates should be low. Furthermore, as the ASTEC witness repeatedly stated, commodities which move in large volume outbound from a country usually do not move in large volume inbound. While the U.S. exports a large quantity of airplanes and parts to Japan, it does not import any. As a consequence, on the 25 major moving export commodities, it would be expected that outbound freight rates would be lower than corresponding inbound rates if no principle of rate equality existed. Before any conclusion of rate levels can be drawn, major moving import commodities should also be examined.

When the committee staff requested such information, the ASTEC group stated in a letter dated January 16, 1964, that:

"We were hopeful of obtaining the same information on inbound commodities, but this would have required a manual check of each manifest over an extensive period from each area and it was simply impossible to do that in the time we had available."

The committee staff was able, however, to obtain from the Federal Maritime Commission the 24 major moving import commodities on trade route 12. The Commission will indicate these commodities and rates before the committee on March 26. But, in summary, the inbound rates are substantially lower than corresponding outbound rates on 23 of the 24 major moving import commodities. Thus if 49 commodities are selected—24 inbound and 25 outbound—33 of the inbound rates would be lower than corresponding outbound rates. Using the ASTEC method of rate evaluation, it appears that when adjusted 67 percent of the outbound rates are higher than corresponding inbound rates on trade route 12. This certainly appears to refute the ASTEC conclusion.

The committee staff feels there are other methods to test the level of freight rates.

First, using a random sample of every 10th commodity from the outbound tariff and comparing its rate with the corresponding inbound rate, and using every 10th commodity from the inbound tariff and comparing its rate with the corresponding outbound rate, 70 percent of the outbound rates are higher than corresponding inbound rates on trade route 12. The Federal Maritime Commission will present detailed statistics of this sample. These samples survey all commodities, including those rarely traded items which might become competitive if freight rates are adjusted. Upon completion of the Federal Maritime Commission's proposed computer system, a comparison of all items in each tariff (1 to 6,000) can be made.

Second, as stated by the ASTEC spokesman:

"Any comparison of the general level of rates in opposite directions must be made between average revenue per payable ton, rather than average revenue calculated on the basis of weight or cubic tons. Freight on some cargo is assessed on its cubic measurement. A 'payable' or 'revenue' ton is calculated in the manner in which freight is charged and collected, whether weight or cubic."

Following this suggestion, the committee staff requested data from the Maritime Administration to make such a comparison. The voyage results of a U.S.-flag operator on trade route 12 for the years 1962 and 1963 reveal the following:

TABLE 1.—*Excess of export rate over import freight rate of U.S.-flag line on trade route 12* [1]

	Outbound	Inbound	Percent
Year 1962: [2]			
Total payable tons	381,906	315,274	
Freight revenue	$15,594,517	$11,240,850	
Revenue per ton (average freight rate)	$40.83	$35.65	
Excess of outbound rate over inbound rate			14.5
Year 1963: [3]			
Total payable tons	204,309	189,178	
Freight revenue	$9,053,685	$5,998,967	
Revenue per ton (average freight rate)	$44.31	$31.71	
Excess of outbound rate over inbound rate			40

[1] Data submitted by Maritime Administration from voyage reports of U.S. operator.
[2] 35 voyages, or all of the 1962 voyages are represented.
[3] 20 out of 38 voyages are represented.

Table 1 illustrates that U.S. shippers in 1962 and 1963 paid much more for steamship service than their foreign competitors. However, as the ASTEC spokesman brought out, the fact that average freight rates are higher outbound than inbound does not prove that U.S. exporters are necessarily at a cost disadvantage. They are only at a disadvantage if the freight rate is higher for cargo of similar value.

Table 2 illustrates that the import value is higher than the export value per payable ton on trade route 12. This fact proves that the American exporters are at an even greater disadvantage than table 1 reveals. The exporter is paying more to ship cargo worth less whereas the importer pays less to import cargo worth more. Once value is accounted for, the significance of the freight rate disadvantage becomes glaringly clear.

TABLE 2.—*Excess of export rate as a percentage of value over import rate as percentage of value, trade route 12*

	Outbound	Inbound	Percent
Year 1962: [1]			
Value [2]	$282,000,000	$152,000,000	
Payable tons [3]	1,250,000	625,000	
Value per payable ton	$225.60	$243.20	
Average freight rate [4]	$40.83	$35.65	
Freight rate as a percentage of value	18.1	14.7	
Excess of export rate as a percentage of value over import rate as a percentage of value			23.0
Year 1963: [5]			
Average freight rate [4]	$44.31	$31.71	
Freight rate as a percentage of value	19.6	13	
Excess of export rate as a percentage of value over import rate as a percentage of value			50.8

[1] Data supplied by Maritime Administration.
[2] Value represents total value of cargoes carried on trade route 12, by U.S.-flag liner vessels, 1962.
[3] Payable tons converted from weight tons by following method: 500,000 weight tons of exports multiplied by 2.5=1,250,000 payable tons; 200,000 weight tons of imports multiplied by 3.125=625,000 payable tons. A payable ton=40 cubic feet of space or 2,000 pounds. On voyages in 1962, the U.S. operator surveyed stated that 1 ton occupied 100 cubic feet outbound (100–40=2.5) and 125 cubic feet inbound (125–40=3.125).
[4] See table 1.
[5] 1962 value and tonnage data used.

As table 2 indicates, the outbound freight rate represents 18.1 percent of export value whereas the inbound rate is 14.7 percent of import value. The elimination of the disparity between the outbound and inbound rates by a reduction in the outbound rates would significantly reduce the cost of U.S. exports abroad. The effects on our balance of payments are self-evident. Perhaps if such equality in rates had existed for the past 5 years on trade route 12 we would not have a balance of trade deficit which amounted to $252 million in 1962. The above statistics clearly demonstrate that the conclusion of the ASTEC group that outbound freight rates are lower than inbound freight rates on the commodities that move and that the disparities do not harmfully effect our balance of payments are clearly not true so far as trade route 12 is concerned.

The European shipowners admitted that outbound rates were higher than inbound rates in most cases and attempted to justify these differentials. They brought out that the U.S. exports on liner vessels 1½ times more in long tons than it imports. More ships are required to carry cargoes from U.S. ports than are required to carry cargoes to U.S. ports. Consequently, rates on outward cargoes from this country must be high enough to cover costs and profits of the round trip voyage. As an alternative to sending their vessels to the United States in ballast, owners will accept cargoes 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 cost of proceeding to the United States in ballast. Freight rates to the U.S., therefore, tend to be depressed in relation to freight rates the other way.

Even though it is generally true that more ships are needed to carry outbound cargo than inbound cargo, this is not true on many individual trade services. On these routes the lines can distribute costs to both the outbound and inbound legs and charge rates outbound and inbound which cover these distributed costs. They do not have to charge rates on outbound shipments which are high enough to cover the entire round trip voyage unless they decide to return empty.

Again using trade route 12 as an example, in 1962 the U.S.-flag line surveyed carried 382,000 payable tons outbound and 315,000 payable tons inbound. On 20 of 38 voyages in 1963, 204,000 payable tons were carried outbound and 189,000 payable tons inbound. Not only do the total figures show that there is approximately the same movement in both directions, individual voyage statements in many cases reveal that more inbound cargo was carried than outbound cargo. Nevertheless, on this trade route the average rate outbound is 40 percent higher than the average rate inbound.

Perhaps the balance of trade is the historical reason for freight rate differentials but not the justification. After World War II, ocean freight rates on American exports to Europe or Japan had to be set at levels high enough to cover the entire round trip voyage for there were no European or Japanese products to bring back. From 1945 to 1947 imports from Europe and Japan averaged less than $1 billion per year. Today this is certainly not the case. In 1962, imports from Western Europe exceeded $4.5 billion, and imports from Japan were nearly $3 billion. Even though our imports have risen rapidly since World War II, it appears that the European shipowners' contention that freight rates outward from the United States must be high enough to cover costs and profits for the entire voyage, while no longer justified, is still followed by many lines.

To demonstrate this cost allocation, per ton profit and loss figures are used. Table 3 demonstrates that after all costs and subsidy payments are included, the outbound legs produce a profit which is $7.96 or 375 percent higher than the inbound profit. Table 3 allocates costs between the outbound and inbound legs on a voyage-day basis. During the November hearings the steamship witnesses objected to such a cost allocation and recommended that a ton-mile basis be used. The committee staff maintains that the voyage-day basis is a more accurate measure of costs since most of the expenses, such as wages, are paid by the day and not on the basis of how much cargo is carried. However, the committee staff sought to break down the same 20 voyages contained in table 3 using a ton-mile basis of cost allocation. The steamship operators informed the staff that such a cost allocation would take many months of preparation.

Consequently, an agreement was reached whereby one voyage from each quarter would be used and if the results were substantially different than those contained in table 3, all voyages would be broken down on a ton-mile basis. As table 4 indicates the results are different in that they show the profit derived from outbound voyages exceeds the profits of inbound voyages by $12.08 instead of $7.96 as contained in table 3. Since the results of the ton-mile basis confirmed the committee staff contention that outbound profits substantially exceed inbound profits, no further research was required.

These individual voyage reports provide a guideline for adjustment of outbound-inbound rates. Operators could raise their inbound rates to a level which would return a reasonable profit and thereby increase their revenue. As a result they could reduce their outbound rates so that they would continue to receive the same revenue that they are currently receiving. On each individual trade route, a study could be made of the average outbound rate, the average inbound rate, the costs outbound and the costs inbound. Once this survey has been done, lines would be in a position to suggest proper increases in their inbound rates and decreases in outbound rates. To give an example: in the case of the company operating between the U.S. Atlantic coast and the Far East, its outbound rate generates a profit of $10.08 after subsidy, while inbound rates generate but $2.12 per ton after all costs and subsidy. If the inbound rates were increased by 13 percent and the outbound rates reduced by 9 percent, each voyage leg would return an equal profit of $6.10 per ton. The rate disparity would be reduced and the revenue would remain the same. This, of course, assumes that the elasticity of demand would remain the same even though the rates have changed. This is not true but conferences seem to use this assumption in their present ratemaking decisions. A conference will frequently increase all rates by a fixed percentage then make adjustments for particular shippers at a later date. This precise practice could be followed to equalize outbound-inbound rates.

In short, tables 1 and 2 demonstrate that American exporters pay substantially more for steamship service than American importers. Tables 3 and 4 indicate that steamship companies earned the majority of their profits from American exporters and they barely broke even on the inbound voyages.

TABLE 3.—*Profits of a U.S.-flag operator on trade route 12 (U.S. Atlantic-Far East) export and import cargoes, 1963* [1]

	Dollars per revenue ton of cargo carried	
	Export	Import [2]
Revenue (average freight rate)	$44.31	$30.17
Expenses, total [3]	41.50	33.71
Port and cargo handling	16.91	14.49
Vessel operation	17.02	13.22
Overhead, depreciation and interest	7.57	6.00
Profit or (loss)	2.81	(3.54)
Subsidy	7.27	5.66
Profit or (loss) after subsidy	10.08	2.12
Excess of profit from exports over imports	7.96	

[1] Data submitted by Maritime Administration covers 5 voyages from each quarter of 1963 and selected at random. Same type cargo ship used on each voyage.

[2] Intermediate revenue and expense have been included in the import result as it is not practicable to treat intermediate cargoes as a separate category. Intermediate cargo is less than 8 percent of total cargo and its effect on the results is negligible.

[3] Such expenses as wages, payroll taxes, welfare contributions, subsistence, stores, fuel, repairs, etc., were allocated to export and import cargo on a voyage-day basis. Direct expense allocations were possible for agency fees, freight brokerage, canal tolls, stevedoring, and other cargo expense.

TABLE 4.—*Profits of a U.S.-flag operator on trade route 12 (U.S. Atlantic-Far East) export and import cargoes, 1963* [1]

[Expenses allocated on ton-mile basis]

	Dollars per revenue ton of cargo carried	
	Export	Import
Revenue (average freight rate)	$43.75	$31.06
Expenses, total [2]	37.75	36.99
Port and cargo handling	15.47	14.67
Vessel operation	15.38	15.57
Overhead, depreciation, and interest	6.90	6.75
Profit or (loss)	6.00	(5.91)
Subsidy	6.86	6.69
Profit or (loss) after subsidy	12.86	.78
Excess of profit from exports over imports	12.08	

[1] Data submitted by Maritime Administration covers 8 voyages selected at random. Same type cargo ship used on each voyage.
[2] U.S.-flag operators recommended that expenses which could not be directly allocated to cargo be computed on a ton-mile basis rather than a voyage-day basis. The committee staff believes that the voyage-day basis is a better measure of expenses such as wages, which are paid on a daily basis, not on tons carried. Regardless of method used, the results show a substantial disparity between export and import profits.

The CHAIRMAN. I believe there is reason to doubt that steamship conferences are willing to grant "reasonable" rate reductions to American exporters, as some of the following examples will indicate:

1. The Boiler Manufacturers Association estimates that in 1964 markets in South America and the Far East could exceed $57 million in sales if freight rate adjustments were made.

The association has pointed out that one of its members recently lost to a European competitor a $15 million sale in India due to ocean freight rate differentials on boiler parts and components. The ocean freight rate on boiler parts is $60 per measurement ton from New York to Calcutta but the European rate is only $31.16. Similar disparities exist on boiler parts and other components to every market in the Far East and South America. The inbound rates from India and the Far East to New York on boiler parts are far lower than the outbound rates. If the outbound rate of $60 per measurement ton on boiler parts is reduced to the inbound level of $30.25 per measurement ton, our exports will be competitive.

In short, statistics indicate that rate equality in this case would be very beneficial to our balance of payments.

2. The Bourbon Institute has stated that while only 1 percent of the bourbon produced in the United States is currently exported, sales abroad would substantially increase if outbound rates could be equalized with inbound rates on distilled spirits.

It costs 84 cents to ship a case of scotch from London to New York, but $1.25 per case of bourbon to London on the same vessel.[1]

3. The Sterling Publishing Co. of New York informed the committee that it costs $1.71 per cubic foot to ship books to England, but only 50 cents per cubic foot to ship comparable English publications to New

[1] Shortly after this statement was made on Mar. 25, the export rate was lowered and the import rate increased to accomplish rate parity.

York. The Oak Tree Press, the English importer, informed Sterling Publishing Co. that it could no longer import American-printed books unless some adjustment in rates was made.

The North Atlantic-United Kingdom Freight Conference, after 3 months of negotiation, finally agreed to a reduction It will be surprising to me if the American exporter still has an Engish market after such a delay.

4. An English manufacturer and distributor, Development, Ltd., attempted to develop an English market for American-made sportwear by General Sportscraft, Ltd. of New Jersey. The English company assumed that the freight rate would be the same as on English sportswear to the United States since the same ships would be used and the commodities would be identically classified.

When Development, Ltd., discovered that the freight rate from the United States to England is $33.71 per measurement ton—instead of $18.86—it stated that "we will only be able to sell a fraction of the American-made products than would be the case were fair and reasonable freight prices charged."

In all of the above cases the steamship conferences have either failed to grant rate reductions or have delayed action on such requests. These few examples would certainly indicate that rate disparities do harmfully affect our balance of payments. One can but wonder at the statement:

> Any U.S. exporter making a "reasonable" rate reduction request to the conferences would, in almost all cases, be granted a reduction.

Representatives of the American steamship companies repeatedly stated that many inbound-outbound disparities are the result of mere paper rates. They further stated that steamship conferences will make appropriate reductions in these paper rates as foreign markets are developed. Although this is a reasonable explanation, shippers may not realize that such published tariffs are meaningless. For this reason, I continue to urge steamship conferences and carriers to either eliminate paper rates from their tariffs or at least reduce them to the inbound levels.

Recently the Commerce Marine Line filed an outbound tariff identical with its inbound tariff. On the item kitchenware the rate outbound and inbound is 83 cents per cubic foot. This is substantially lower than the comparable conference outbound rate of $1.26 per cubic foot. At the reduced rate a market was found for American exports which had previously not existed. This example gives great weight to our contention that paper rates should be eliminated or outbound-inbound rates equalized.

Before we begin our hearing this morning, I would like to discuss the position of the American and foreign lines that have refused to cooperate with the Federal Maritime Commission in its investigation of rate disparities. The American lines assured this committee that they are doing and will continue to do all they can to help the export commerce of the United States. They further assured this committee that the foreign-flag lines did not dominate the shipping policies of the United States in shipping conferences. One of these statements must be untrue. The Federal Maritime Commission, to evaluate the effects of ocean freight rates on the U.S. balance of payments, has asked the shipping conferences to provide certain rate information.

The conferences have refused to comply with this request. If the American lines agreed with this action then certainly they are not doing all they can to help U.S. exports. If they disagreed with this action yet went along with the conferences because of bloc voting, it is clear that U.S. shipping policy is determined by foreign-flag lines. Several American lines have recently resigned from conferences which charge excessively high rates on our exports. These lines are to be congratulated. As I stated recently, American lines should resign from conferences that refuse to comply with the Federal Maritime Commission's requests.

We are happy to welcome here today Mr. Frank Barton, Deputy Under Secretary of Commerce for Transportation. A little background perhaps is desirable.

On February 5, 1964, I addressed a letter to the Secretary of Commerce, the Honorable Luther Hodges, on behalf of the Joint Economic Committee requesting the presence of the Maritime Administrator or his representative at this hearing to testify concerning subsidized operations on trade route 12, as well as (*a*) the Maritime Administration's action to rescind its past policy which required American-flag lines to be a conference member or charge conference rates in order to receive a subsidy; that was a request which we made of the Commerce Department last summer and which, as I understand it, they have since carried into effect; (*b*) how discontinuance of the present conference system of ratemaking would affect the American subsidized fleet, particularly on trade routes 12, 5, 7, and 9; and (*c*) the methods by which the Maritime Administration encourages the development of new technological devices in ocean transportation.

Mr. Barton, I understand you have a prepared statement to make. We will be very glad indeed to hear it.

STATEMENT OF FRANK L. BARTON, DEPUTY UNDER SECRETARY OF COMMERCE FOR TRANSPORTATION, DEPARTMENT OF COMMERCE; ACCOMPANIED BY ROBERT A. NELSON, DIRECTOR OF TRANSPORTATION RESEARCH STAFF, OFFICE OF UNDER SECRETARY FOR TRANSPORTATION; DANIEL O'KEEFE, OFFICE OF GENERAL COUNSEL; M. E. PARR, CHIEF, DIVISION OF TRADE ROUTES, OFFICE OF GOVERNMENT AID, MARITIME ADMINISTRATION; E. K. SULLIVAN, DEPUTY CHIEF, OFFICE OF RESEARCH AND DEVELOPMENT; AND MAITLAND PENNINGTON, SPECIAL ASSISTANT TO THE MARITIME ADMINISTRATOR

Mr. BARTON. Thank you, Senator. It is a pleasure to appear before the committee, particularly the distinguished Senator from Illinois.

May I introduce my colleagues at this point. To my right is Mr. O'Keefe of our General Counsel's Office and to my left is Mr. Robert Nelson, Director, Transportation Research Staff.

Sitting at the table here are three gentlemen from Maritime, Captain Sullivan, Mr. Pennington, and Mr. Parr, in case you have questions of them. With your permission, Senator, I will proceed with my statement.

We have collected in compliance with the chairman's request to Secretary Hodges of February 5, 1964, as you just mentioned, certain information for submission to the committee. The first part of this information consists of certain revenue and expense figures relating to steamship operations in 1963 on trade route 12 (the U.S. Atlantic/Far East trade) and trade routes 5, 7, 8, and 9 (the U.S. Atlantic/European continental trade). These figures were prepared by operators engaged in these trades, and have already been supplied to the committee's staff. The second part of this information, derived from statistics kept by the Census Bureau, consists of schedules showing the principal commodities, by weight and by value, moving in 1962 on each of the major trade routes in the foreign commerce of the United States. There is also a supplemental schedule showing the major commodities which were carried on trade route 12 in 1962 by U.S.-flag and foreign-flag vessels. This information, as well, has already been given to the committee's staff. In addition, the committee staff has asked for, and has been given, copies of pending subsidy applications on trade route 12, and a schedule showing the extent of vessel utilization on certain sailings made on trade route 12 in 1963.

The chairman's letter of February 5, 1964, additionally requested that the Department of Commerce witness present, in his testimony, brief explanations of (*a*) the Maritime Administration's action to rescind its past policy which required American-flag lines to be a conference member or charge conference rates in order to receive a subsidy; (*b*) how discontinuance of the present conference system of ratemaking would affect the American subsidized fleet, particularly on trade routes 12, 5, 7, and 9; and (*c*) the methods by which the Martitime Administration encourages the development of new technological devices in ocean transportation.

The Maritime Administration's policy regarding adherence to conference rates was discussed before this committee on June 21, 1963, by the Deputy Maritime Administrator. The Maritime Administration, by Circular Letter No. 3–62, had announced on February 2, 1962, the policy that subsidized lines would be expected to adhere to applicable conference rates in their respective trades, except in those cases where good justification could be shown for a departure from such rates.

The committee requested the Department of Commerce to reexamine this policy.

Pursuant to instructions of Secretary Hodges, the Maritime Subsidy Board reviewed this policy and on August 5, 1963, rescinded Circular Letter 3–62 for the reason that the administration of the subsidy program should not be used as a tool for or against adherence to conference rates.

It may be of interest to the committee to know that since the rescission of the circular letter four subsidized lines have announced their resignations from conferences and their intentions to take independent rate action.

The CHAIRMAN. Mr. Barton, I wonder if for the sake of the record, you would state the names of these lines which have withdrawn from conferences, and what the conferences are from which they have withdrawn.

Mr. BARTON. Be glad to, Senator.

Lykes Bros. Steamship Co. and Bloomfield Steamship Co., the only subsidized operators on this particular route, and I will describe the route in a moment, have withdrawn from the conference and have announced they would take action to equalize east and westbound rates. We understand one of the major reasons for the withdrawal of these two lines from the conference was the failure of the conference to lower its rates to levels prevailing on the North Atlantic trade. This is in the gulf——

The CHAIRMAN. May I ask this, Mr. Barton: When the lines say they will equalize rates, will they lower the export rates or raise the import rates?

Mr. BARTON. I am not aware of the precise action, Senator.

The CHAIRMAN. Mr. Boggs has some information which I would like to have him put in the record.

Mr. BOGGS. They intend to lower the export rates to the level of the North Atlantic export rates so in effect they are going to lower some export rates out of the gulf.

Mr. BARTON. Thank you. That is the Gulf/French Atlantic Hamburg Range Conference, and of course, as you know, it covers freight traffic from U.S. gulf ports to ports in France, Atlantic Channel ports only, Belgium, Holland, and Germany. This excludes, of course, German Baltic ports.

The other withdrawals of which we have been notified are the Delta Steamship Lines that has withdrawn from the American West African Freight Conference. This conference covers freight traffic moving between Atlantic and St. Lawrence River ports of Canada, U.S. Atlantic and gulf ports, and west African ports, south of the southerly border of Rio de Oro, Spanish Sahara, and north of the northerly border of southwest Africa, including the islands of Azores, Madeira, Canary, Cape Verdes, Fernando Po, Principe, and San Thome; and the fact that the Farrell Line's resignation will become effective April 3, 1964.

It was my understanding that these moves were taken by these lines in order to meet competition of the former conference lines which announced 15-percent-rate cuts on eastbound shipments. Since resignation of the two U.S. lines, the conference itself has announced a 15-percent-rate cut.

The CHAIRMAN. Thank you.

Mr. BARTON. Yes, sir.

The next point of discussion is the effect on the U.S. subsidized fleet of discontinuance of the present conference system.

It is difficult to state with certainty what this effect would be. The historic tendency of steamship companies has been to associate in ratemaking groups in order to moderate the more extreme effects on rates of shifts in supply and demand. The most extreme fluctuations in rates have accompanied wars and their aftermath, and other international disruptions causing shifts in supply and demand. The various agencies which have regulated ocean transports have generally found that untempered competitive forces and consequent wide fluctuations in rates worked hardships both on U.S.-flag operators and U.S. shippers. Hence the various regulatory agencies having jurisdiction in maritime matters have permitted and sometimes encouraged membership in rate conferences. The conference system has generally been supported by the findings of congressional committees which have in the past investigated the role of the U.S. merchant marine in our trade and commerce. As late as 1961 the Congress reaffirmed its basic support for the conference system as a means of furthering the interests of U.S. shippers and carriers alike.

If formal conference ratemaking were discontinued, it is quite possible that rate stickiness would persist. Understandings might be entered into among foreign-flag lines which would be extremely difficult for this Government to police. An alternative might be that U.S.-flag lines would provide price leadership on the outbound trades that would be followed by the foreign lines. Generally speaking, the number of U.S. carriers in each of the liner trades is relatively small, making informal understandings easier to arrive at.

However, there is complete freedom of entry and exit in international shipping, except for the U.S.-subsidized lines, and even a subsidized line is entitled by section 606(a) of the Merchant Marine Act, 1936, to modification or rescission of its contract obligation to provide service, if it shows that it cannot maintain and operate its vessels in the prescribed service with a reasonable profit upon its investment. This ease of entry and exit which would be accentuated by the discontinuation of the conference system might well result in extremely wide fluctuations of rates and services as carriers moved into and out of various trades. This could prove more than shippers, particularly small shippers, would find tolerable. Stability of rates has, time and again, in congressional testimony been declared by shippers to be important and that conferences provide a means of helping to assure rate stability.

Undoubtedly, conference ratemaking provides U.S.-flag carriers with greater security of investment in an industry which has been one of feast or famine. This is important if U.S.-flag shipping is to be maintained in the face of disadvantageous cost relationships with foreign-flag carriers.

The significant question, it seems to me, Senator, is whether the benefits of international shipping conferences outweigh the problems accompanying them. What is of concern to the Department of Commerce is whether the United States is sacrificing rates which are in the best interests of our foreign trade for stability in rates. Stable rates are of little value if they are so high or disproportionate relative to competition that our American companies are unable to market their goods effectively.

I want to emphasize that paragraph.

The CHAIRMAN. I would like to emphasize it, too, Mr. Barton.

Mr. BARTON. As a result of the hearings conducted by this committee, last July 12 Secretary Hodges proposed an investigation of international shipping conferences, their procedures and policies, and their impact upon the commerce of the United States. In response to this suggestion, the Federal Maritime Commission initiated factfinding investigation No. 6, "The Effects of Steamship Conference Organization, Procedure, Rules, Regulations, and Practices Upon the Foreign Commerce of the United States." The Department has declared its intention to participate actively in this investigation and has been affording its full cooperation to the Commission.

I might add that the Commission has afforded us their full cooperation also.

In connection with our participation in factfinding investigation No. 6, the Department of Commerce has undertaken three major studies. The first of them is designed to develop additional information about shipping conferences, their policies and procedures, and how these affect ocean-freight rates. In our second study, emphasis is being placed on determining the costs of steamship operations and analyzing the relation of costs to rates. The third study of the series is focusing on the effects of ocean-freight rates on U.S. exports. For the committee's information, I would like to submit a list of the ways in which the Department of Commerce has assisted the Commission, both in investigation No. 6 and otherwise.

The CHAIRMAN. That will be made a part of the record.

Mr. BARTON. Thank you, sir.

(The document referred to follows:)

WAYS IN WHICH THE DEPARTMENT OF COMMERCE HAS PROVIDED ASSISTANCE TO THE FEDERAL MARITIME COMMISSION

1. The Department has provided the FMC with various lists of shippers and other persons who have expressed an interest in ocean-freight rates.
2. The Department is continuing to forward to the FMC all complaints regarding ocean-freight problems which it receives.
3. The Department has provided the FMC with various lists of commodities believed to have significant export potential.
4. Since December 1963, the Commission has had the services of a rate expert and an economist, assigned by the Department of Commerce, to help the Commission in connection with the material requested of it by the Joint Economic Committee.
5. The Department has informed the FMC of the comments and complaints regarding ocean freight resulting from the Department's consultations with industry in connection with our program of export expansion.
6. The Department is actively participating in the Commission's factfinding investigation No. 6, "The Effects of Steamship Conference Organization, Procedure, Rules, Regulations, and Practices Upon the Foreign Commerce of the United States."

Mr. BARTON. After completion of our studies and after the record in the Federal Maritime Commission's factfinding investigation No. 6 is complete, I believe we will be in a better position to judge the usefulness of the conference system.

With the cooperation of the various steamship companies and the conferences, I am hopeful that we will be able to gain that knowledge and understanding of the conference system which will enable us to make an objective appraisal of the conference system.

The CHAIRMAN. Mr. Barton, can you estimate how much time it will take to make these studies?

Mr. BARTON. Dr. Nelson, our research man is here, Senator. I think he can make a better estimate of that than I.

Dr. Nelson, would you give the Senator an answer to his question?

Dr. NELSON. I would hope that within 6 to 8 months, sir, we would get this kind of information.

The CHAIRMAN. Then how long thereafter would it take to reach a decision, Mr. Barton?

Mr. BARTON. I would hope shortly after that, Senator. I am for quick decisions, myself. As far as I am concerned, I think it could be done very soon after the information is in.

The CHAIRMAN. I believe in discussion and research as a prelude to wise action, but I do not believe in it as a substitute or as a preventive for action. In short, I hope there will be no filibustering in the executive department even if we have it here on the Hill.

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Mr. BARTON. May I continue, sir?

The CHAIRMAN. Yes, indeed.

Mr. BARTON. The third subject of my testimony relates to the methods by which the Maritime Administration encourages the development of new technological devices in ocean transportation. Of most immediate significance is the present policy of the Maritime Administration, adopted in August 1963, that all replacement ships built with the aid of construction-differential subsidy shall be equipped with centralized engineroom control and bridge control of main engines. As a result of this policy, work is at present underway on the construction of 25 ships which will incorporate these mechanization principles. Another five ships, on which construction had already progressed substantially, are being outfitted with some of these advanced features. It is expected that all subsidized construction to be contracted for henceforth will incorporate centralized engineroom control and bridge control of main engines, and, as progress is realized, even more advanced systems of mechanization.

The mechanization features now being built into these ships will permit improved safety of operations and manning reductions of 14 to 16 men per ship. As more sophisticated features are developed, and as provision is made for a resolution of the sociological problems involved, significant additional reductions will be possible.

The Maritime Administration is vitally interested in the human factors involved in any program of mechanization. It is cosponsoring with the National Academy of Sciences, and with the participation of labor and management officials, studies of the nature of the maritime work force with a view to analyzing the effects of growth in the merchant marine versus the effects of mechanization, and projecting the needs for retraining or other methods of taking care of such dislocations as may be involved.

Other technological improvements being incorporated in new subsidized ship construction with the encouragement of the Maritime Administration are higher quality equipment and protective coatings, which will significantly reduce maintenance costs.

The Maritime Administration adopted, in 1960, the policy of promoting the use of standard size containers. As a result of this and of the rapidly increasing demand for container service, the United States leads all countries in the use of large shipboard containers. This system not only protects cargo, but also materially reduces handling costs.

In the area of research and development, the Maritime Administration is closely coordinating and exchanging information regarding the Government's maritime research and development program with technical industry groups, such as the Society of Naval Architects and Marine Engineers and the technical and research subcommittees of the committee of American steamship lines. This has stimulated collaboration and resulted in some cosponsorship between industry and Government in research and development projects, and also has generated industry acceptance and early introduction of developments sponsored by the Government.

The CHAIRMAN. Mr. Barton, may I ask, will these cost reduction features which are being put into effect result in any reduction in the subsidy payments?

Mr. BARTON. As the force is reduced, sir, and other improvements are made, and the difference between the foreign shipowner cost and the American shipowner cost is narrowed, the subsidy will be less; yes, sir.

The CHAIRMAN. You can pledge definite assurance on that score?

Mr. BARTON. As far as I can, sir.

The CHAIRMAN. As far as you can. What impediment would there be in the way of such decision?

Mr. BARTON. Well, the law calls for equalizing many cost differences between our merchant marine, of course, and foreign lines. So as far as we can, we will reduce the cost.

The CHAIRMAN. And you will reduce the payments?

Mr. BARTON. I beg your pardon? The payments? Yes, as I explained before.

The CHAIRMAN. Thank you.

Mr. BARTON. In addition, we have arranged for several cost-sharing inservice evaluation projects, under which prototypes of experimental equipment are evaluated while actually in use at sea. Examples of such projects are the radar data computer and the course computer. And under the authority of appropriation legislation for fiscal 1964, we will sponsor the distribution of progress information on our research and development program, through publications and symposia in which interested sectors of the economy will participate.

The Maritime Administration is also engaged in other specific projects, which are being carried on by private organizations working under contract with the Government. These projects include the following:

1. Studies of routes and service, using operations research techniques and economic analysis and aimed at securing more efficient operation and use of maritime resources afloat and ashore.

2. Nuclear propulsion, the objective of which is to provide more effective ship propulsion systems through the application of atomic energy.

3. Advanced ships, a program consisting of an evaluation of the feasibility of using advanced concepts such as hydrofoils, surface effect ships, and naval displacement ships for commercial operations.

4. Cargo handling and terminals, intended to increase the effectiveness and economy of cargo transport through the development of new and improved systems both ashore and afloat.

5. Evaluation, inspection, and maintenance, the purpose of which is to increase the initial and sustained effectiveness of maritime systems through the development of new and improved means for evaluation, inspection, and maintenance of equipment.

6. Ship operations, intended to improve the operation of merchant ships through development of new and improved systems of ship management and control, including such matters as anticollision radar, course computers, maneuvering assist devices, and the like.

The CHAIRMAN. Thank you very much. We asked Mr. Boggs, the committee's very efficient staff assistant on this matter, to prepare some tables based on the data submitted by the Department of Commerce and the Administration, and I am going to ask if he will present that material now before we proceed to ask questions upon it and upon your testimony.

Mr. Boggs?

Mr. BOGGS. Mr. Chairman, before I attempt to evaluate and explain these charts, I would like to say that the Maritime Administration and the Department of Commerce have been most cooperative in providing this data quickly and completely.

During the committee's previous hearings, steamship representatives stated that any comparison of the general level of freight rates should be made between average revenue per payable ton rather than on individual commodities. As a result, we requested such information from the Department of Commerce and chose one trade route, trade route 12, to run a pilot project.

Table 1 in the memorandum covers trade route 12.

(The table referred to follows:)

TABLE 1.—*Excess of export rate over import freight rate of U.S.-flag line on trade route 12* [1]

	Outbound	Inbound	Percent
Year 1962: [2]			
Total payable tons	381,906	315,274	
Freight revenue	$15,594,517	$11,240,850	
Revenue per ton (average freight rate)	$40.83	$35.65	
Excess of outbound rate over inbound rate			14.5
Year 1963: [3]			
Total payable tons	204,309	189,178	
Freight revenue	$9,053,685	$5,998,967	
Revenue per ton (average freight rate)	$44.31	$31.71	
Excess of outbound rate over inbound rate			40

[1] Data submitted by Maritime Administration from voyage reports of U.S. operator.
[2] 35 voyages, or all of the 1962 voyages are represented.
[3] 20 out of 38 voyages are represented.

The CHAIRMAN. This is the trade route to Japan?

Mr. BOGGS. From the Atlantic, Gulf, to the Far East, Senator, and back.

Table 1 shows that in 1962, for the total year, a U.S. subsidized operator carried 381,000 payable tons of freight cargo outbound and 315,000 payable tons inbound. The revenue it received is shown. The average revenue per payable ton was $40.83 outbound and $35.65 inbound.

In 1963——

The CHAIRMAN. What is the percentage difference?

Mr. BOGGS. That is $5.18. About one-seventh, Senator. It is 14.5 percent.

In 1963, the disparity increased to 40 percent, the rates being $44.31 outbound and $31.71 inbound.

The CHAIRMAN. Let me summarize that. So I understand that in 1963 the average rate per payable ton outbound on route 12 was 40 percent higher than the inbound rate per payable ton.

Mr. BOGGS. That is correct, Senator, and you will also note that the number of payable tons carried outbound and inbound is roughly the same. Total payable tons, 204,000 out, 189,000 in for 1963; and 1962, 381,906 out, and 315,274 in.

The CHAIRMAN. And this is the comparison which the representatives of the American Steamship Traffic Executive Committee said was the proper comparison rather than the comparison on individual rates.

Mr. BOGGS. Yes, Senator. They also brought out, and this is the importance of table 2, that average freight rates standing alone do not prove that U.S. exporters are at a cost disadvantage. They are only at a disadvantage if the freight rate is higher for cargo of similar value. Table 2 illustrates that the import value per payable ton is $243 and the export value is $225 per payable ton. The exporter is paying more to ship cargo worth $18 less whereas the importer pays less to import cargo worth more per payable ton. Once the value is accounted for, the significance of the freight rate disadvantage becomes glaringly clear.

When you have reduced the freight rate to a percentage of the value, it is seen that the outbound freight rate is 18.1 percent of the export value in 1962 and 19.6 percent in 1963.

The freight rate as a percentage of the inbound value is about 14.7 percent in 1962 and 13 percent in 1963. Once value is accounted for, the excess of the export rate as a percentage of value over the import rate as a percentage of value in 1962 is 23 percent.

The CHAIRMAN. Higher.

Mr. BOGGS. Higher, and in 1963 it becomes 50.8 percent higher.

TABLE 2.—*Excess of export rate as a percentage of value over import rate as percentage of value, trade route 12*

	Outbound	Inbound	Percent
Year 1962: [1]			
Value [2]	$282,000,000	$152,000,000	
Payable tons [3]	1,250,000	625,000	
Value per payable ton	$225.60	$243.20	
Average freight rate [4]	$40.83	$35.65	
Freight rate as a percentage of value	18.1	14.7	
Excess of export rate as a percentage of value over import rate as a percentage of value			23.0
Year 1963: [5]			
Average freight rate [6]	$44.31	$31.71	
Freight rate as a percentage of value	19.6	13.0	
Excess of export rate as a percentage of value over import rate as a percentage of value			50.8

[1] Data supplied by Maritime Administration.
[2] Value represents total value of cargoes carried on trade route 12, by U.S.-flag line vessels, 1962.
[3] Payable tons converted from weight-tons by following method: 500,000 weight-tons of exports multiplied by 2.5. equals 1,250,000 payable tons; 200,000 weight-tons of imports multiplied by 3.125 equals 625,000 payable tons. A payable ton equals 40 cubic feet or space or 2,000 pounds. On voyages in 1962, the U.S. operator surveyed stated that 1 ton occupied 100 cubic feet outbound (100/40 equals 2.5) and 125 cubic feet inbound (125/40 equals 3.125).
[4] See table 1.
[5] 1962 value and tonnage data used.
[6] See table 1.

The CHAIRMAN. So that whether you take per payable ton or value of shipment, the export rates on route 12 are markedly higher than import rates.

Mr. BOGGS. That is correct, Senator. Again I emphasize that the movement in both directions is virtually equal.

Representative GRIFFITHS. Mr. Chairman, I would like to ask a question.

The CHAIRMAN. Yes, indeed.

Representative GRIFFITHS. I would like to know, if, since we are paying for this, are we getting better service? Are these ships' space available to our exporters immediately or are we sitting around waiting to send our goods out?

Mr. BOGGS. That is a good question, Congresswoman Griffiths. On trade route 12 which is a subsidized service, there are currently subsidy applications by, I believe, three operators.

Mr. BARTON. I believe that is so.

Mr. BOGGS. During the subsidy hearings there was evidence brought forth concerning American shippers to the effect they had not been able to get outbound service on the current subsidized ships.

We also asked the Administration for some cargo utilization figures, on the route, and the American ships are virtually 100 percent full outbound. There is no empty space available, and inbound they are approximately 85 to 90 percent full. So the ships are full. An American shipper may not be able to put his cargo on an American ship.

Representative GRIFFITHS. So that for all the money we pay, which makes all of our goods higher than any other country of the world, we are not really getting any service for the additional funds that we are paying for that shipping, right?

Mr. BOGGS. Well, the American ships are providing service on the route, but they are full. Some other ships could be moved to the route. Currently, there are three steamship companies applying for service on the route.

Representative GRIFFITHS. Well, I would like to know, secondly, are American manufacturers in foreign countries getting first call on foreign ships or American ships to send their goods into America?

Mr. BOGGS. I cannot answer that. I would defer that to the witness, Mr. Barton.

Representative GRIFFITHS. Do you know?

Mr. BARTON. I have no information on it either.

Representative GRIFFITHS. Could you find out?

Mr. BARTON. Yes, ma'am.

(Mr. Barton supplied the following statement for the record:)

U.S.- and foreign-flag ships providing liner service between the United States and foreign countries (in both directions) are engaged in common carrier operations and, as such, are required to handle traffic for all persons impartially.

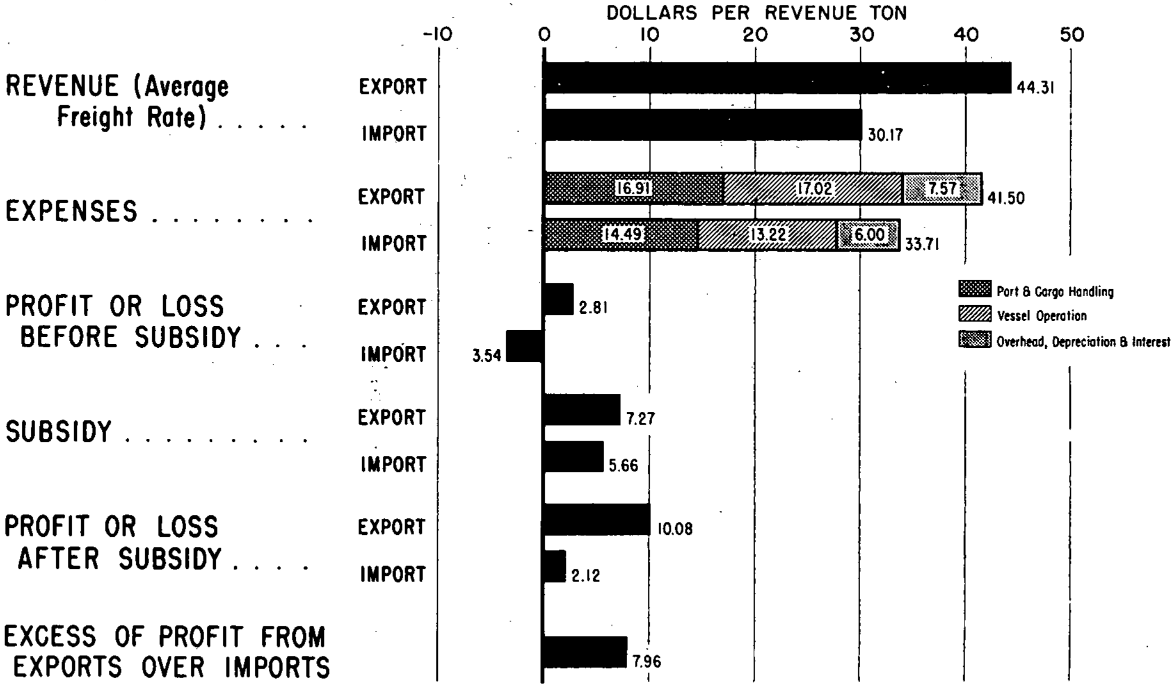
Mr. BOGGS. Mr. Chairman and members of the committee, table 3 reduces the outbound and inbound revenues down to the outbound and inbound profit per payable ton. The outbound rate of $44.31 has an outbound expense of $41.50, leaving an outbound profit of $2.81. The inbound rate, on the other hand, of $30.17, has an inbound cost of $33.71, resulting in a loss of $3.54 a ton. So before any subsidy payment is made, it can be seen that on this route the outbound rate of $44.31 does produce a profit, but the inbound rate of $30.17 results in a substantial loss of $3.54 a ton.

When the subsidy payment is made, both outbound and inbound cargoes produce a profit. However, the outbound profit is $10.08 a ton. The import profit is but $2.12 a ton. The outbound profit exceeds the inbound profit by $7.96 a ton. I think this is a better demonstration of the fact that the exporter is paying for the profit of the vessel and the importer, in a sense, is getting a free ride, a subsidized rate because his price is $3.54 below cost.

Senator, I think on the basis of this information certain questions do arise for the Maritime Administration, which is the agency controlling the subsidy program, and the Commerce Department, which has a trade expansion program underway, to account for.

TABLE 3

PROFITS OF A U.S.-FLAG OPERATOR ON TRADE ROUTE 12 (U.S. ATLANTIC-FAR EAST) EXPORT AND IMPORT CARGOES, 1963



The CHAIRMAN. Let us see if we can digest this information for a moment before we proceed to ask questions about it.

Do I understand you to say that the export rates yield a profit of close to $3 a ton?

Mr. BOGGS. Before subsidy.

The CHAIRMAN. And the import rates occasioned a loss of how much?

Mr. BOGGS. $3.54.

The CHAIRMAN. A ton.

Mr. BOGGS. A payable ton.

The CHAIRMAN. So that were it not for the subsidy, purely on the basis of rates, our exports would be subsidizing our imports.

Mr. BOGGS. On this trade route, that is correct.

The CHAIRMAN. Now, is the subsidy the same for both exports and imports?

Mr. BOGGS. The subsidy is not the same when you break it down on a tonnage basis. The subsidy is a direct payment based on——

The CHAIRMAN. Higher for exports than——

Mr. BOGGS. It works out that way. On the cost breakdown it comes to $7.27 per ton on exports, $5.56 per ton on imports.

The CHAIRMAN. So we are subsidizing most heavily the items which are most heavily rated. That is, those items which suffer most from comparative rates receive the higher subsidy.

Mr. BOGGS. That is hard to answer. On this particular trade route that is true. I do not know whether that is general.

The CHAIRMAN. Now, you uttered a very significant final sentence in which you said that the subsidy was for the profit of the lines; is that true?

Mr. BOGGS. Well, it is to equalize the cost of the American line with the foreign line. Presumably if this was a foreign line and no subsidy was paid, the foreign line would be making the same profit because it would have a cost reduction of $7.27 outbound and $5.66 inbound as far as labor and other charges are concerned. So these are really cost reductions to the American line and these cost reductions enable them to make a profit.

The CHAIRMAN. Now, in your computation of cost, did you include amortization of capital?

Mr. BOGGS. The final column indicates the overhead, depreciation, and interest charges outbound which averaged $7.57 per ton outbound and $6 per ton inbound.

The CHAIRMAN. And how did you get your rates of amortization?

Mr. BOGGS. The steamship lines supplied the data.

The CHAIRMAN. In other words, you took the steamship line figures on amortization.

Mr. BOGGS. All the figures presented here were presented by the steamship line involved to the Maritime Administration.

The CHAIRMAN. What rate of interest on investment?

Mr. BOGGS. I do not know, sir.

The CHAIRMAN. Does the Maritime Administration know? Mr. Parr, what rate of——

Mr. PARR. We are not aware of the rate that was used on this chart.

The CHAIRMAN. But this is the figure which the—do you have any accepted rate of return? Do you have any measuring stick in appraising rates, measuring stick of what earnings should be as a percentage of capital invested?

Mr. PARR. In this particular instance I do not believe there is any profit for interest on investment in this. I think this is actually their cost of operation and the depreciation costs and this type of thing is shown as the cost figure. Overhead is included. But I do not believe a return on investment is included.

Mr. BOGGS. Senator, you can calculate a return on gross revenue if you assume that gross revenue per ton, the revenue generated per ton is $44.31 and the profit is $10.08. That gives you a rate of return of approximately 23 percent.

The CHAIRMAN. On revenue, but I mean on capital.

Mr. BOGGS. I do not have the figures.

The CHAIRMAN. Does anyone have the figures on capital?

Mr. BARTON. Can we get them for the Senator, Mr. Parr?

Mr. PARR. Yes, sir.

Mr. BARTON. We will get them, Senator.

(The information referred to follows:)

The figures supplied to and presented by Mr. Boggs did not provide for any return on capital necessarily employed in the business. Maritime Administration accounting regulations require that the total subsidized earnings of a company, regardless of the number of services provided, be considered in their entirety. Therefore, it is not possible to furnish a breakdown of the capital necessarily employed and the rate of return to the subsidized company from only its trade route No. 12 operations. Analysis shows that during the 4-year period 1960–63, inclusively, that the subsidized company earned approximately a 7.83-percent return after taxes on the capital necessarily employed in subsidized operations, exclusive of mandatory deposits in special reserve funds. If the rate of return were figured before the deduction of required deposits in the special reserve funds (which can be used only for special purposes, including the building of new ships, covering future operating losses, etc.), the rate of return would be 10.77 percent. These results may be changed substantially because of fluctuations in future earnings and the fact that the subsidized operating results are computed cumulatively over a 10-year recapture period. This 10-year period for United States Lines Co. began with calendar year 1960.

The CHAIRMAN. I think this is very important. I never heard of a public utility commission trying to regulate rates that did not try to find out what the rate of return was on invested capital and——

Mr. BARTON. I might say, Senator, we do not regulate rates at the Maritime Administration.

The CHAIRMAN. I understand. I am speaking over your head to the representatives of the Maritime Commission and Administration who are behind you. And I hope I will be pardoned if I talk through or over you to the representatives of the Maritime Administration. Can't we get those figures from the Maritime Administration?

Mr. BARTON. Yes, sir. He said he would furnish them.

The CHAIRMAN. Very good.

Mr. BOGGS. Senator, if I could just summarize these tables, I would say that they indicate that the export rate exceeds the import rate by approximately 40 percent, and that when value is taken into account it exceeds by even a bigger percentage. The movement of cargoes in both directions is approximately the same. There is no movement differential. And finally, after costs are accounted for, and I might add that costs were supplied by the lines themselves, you see that the exporter is paying a far greater percentage of profit of the trip than the importer.

The CHAIRMAN. Thank you very much.

Mr. Curtis?

Representative CURTIS. Looking over this, I want to be sure I understand whether we have the comparable situation.

As I understand the examples that you have been giving us, you have been weighting the outgoing and incoming rates by breaking them down into components and then comparing those components.

Mr. BOGGS. Correct.

Representative CURTIS. But it is obvious that what goes out from the United States is a different mixture from what comes in, right?

Mr. BOGGS. Yes, sir.

Representative CURTIS. That is what we have to get to. Maybe I can illustrate what bothers me by the example that you use on airplane parts.

Mr. BOGGS. That is on page 1 of the memorandum.

Representative CURTIS. Yes. It costs a U.S. exporter $68 per measurement ton to ship airplanes and parts to Japan, but it costs $75.75 to ship Japanese airplanes and parts to the United States. But you do not agree that that establishes a point because you say quantity shipments will get better rates than rarely traded commodities, which is understandable.

But here is the point:

> Furthermore, as the ASTEC witness repeatedly stated, commodities which move in large volume outbound from a country usually do not move in large volume inbound. While the United States exports a large quantity of airplanes and parts to Japan, it does not import the same quantity.

Now, then, this establishes the point that I am seeking. The mixture of U.S. exports is going to consist of individual items like airplanes and parts, while imports will tend to be bulk commodities.

Mr. BOGGS. Congressman, we faced that problem. When the steamship witnesses testified they said this disparity of $44 as opposed to $30 was meaningless because the outbound cargo is more valuable.

Representative CURTIS. Exactly. Now you have the point. I was trying to follow this through and I am not sure that you do rebut their contention.

Mr. BOGGS. On this particular trade route—again I would like to emphasize this is not meant to be a general overall statement for all trade routes. It just applies to this trade route which is a very large trade route, about $2 billion worth of trade a year. The value per payable ton on this particular route for U.S. line ships was $225.60 outbound in 1962, whereas the value inbound was $243.20. In other words, the value inbound was $20 higher than the value outbound.

We also tried to determine whether or not there was any one distorting commodity in this $225 figure which reduced the overall value of American exports and distorted the average figure. We also tried to find if there was any one commodity in the $243 figure which raised that figure substantially, so you had a distortion and not a general picture as a result of one or two commodities. We obtained a list of the 10 leading imports and 10 leading exports by value and tons on U.S. liners on this route, and there is no one commodity which would distort those figures. The only commodity we considered would distort was coal carried outbound from the United States but U.S. liners do not carry coal on this route.

Representative CURTIS. Yes, but I still think you cannot really come to a mathematical determination of this because by the very nature of an industrialized society such as ours, we tend to ship out finished goods which are a considerably different package from the imports that we are getting, which are bulk. You have to relate your entire rate structure not just to a comparison of the rates of the individual coal, steel, or airplane parts coming in and coming out. You have to do the very difficult thing of relating all of this to the fact that the entire package going out over a period of time is composed of these highly finished products and that coming in, it is of the bulk variety. The difficulty we always experience in transportation is trying to avoid deadheading, or not have something to take back when you come in. I am not sure that you have treated this with the——

Mr. BOGGS. I wholly agree with your statement. But on this particular trade route the majority of the goods going out are not completely finished commodities. We ship a lot on this route to Korea. We ship a lot on this route to Cambodia and Manila, whereas coming back most of the commodities come from Japan, and the Japanese ship to us highly finished commodities, such as radios and television and Christmas ornaments. As a result, the value per ton is higher inbound.

Representative CURTIS. Let me commend you for some very good work here because even though I may resist drawing the broad conclusions from it, certainly the data you present is meaningful and very helpful. I am of the conviction at the present time that it is incomplete. This is a lot more complex, I am afraid.

Mr. BOGGS. I agree with that, and the only reason for presenting the data is for illustrative purposes, to ask questions, not as an answer.

Representative CURTIS. Thank you.

The CHAIRMAN. Thank you very much, Mr. Boggs.

Now I would like to address some questions to Mr. Barton and possibly also to the representatives of the Maritime Administration, and the Federal Maritime Commission, if they are here.

Now, you have stated that the Maritime Administration no longer requires the U.S. subsidized lines to belong to steamship conferences. Is this still the policy of the Maritime Administration and Commerce Department?

Mr. BARTON. Yes, sir; it is. We think that managerial discretion should prevail in this case. The lines can belong if they want to, and if they do not want to belong, they should not have to. We take no position one way or the other upon the rescinding of circular letter 3–62.

The CHAIRMAN. Some years ago the Antitrust Subcommittee of the House gathered a great deal of evidence indicating that the conference system allows many malpractices which are harmful to U.S. steamship companies and shippers. I emphasize both. Has the Maritime Administration or the Commerce Department made any evaluation of this evidence?

Mr. BARTON. Yes, sir. We are doing that right now, Senator, in connection with the studies I mentioned. We are looking over that material.

The CHAIRMAN. Well, you will forgive me if I say that one of the things that startled some of us when we began to dig into this matter was that the Celler investigation was already some years old, and apparently no attention had been paid to it by the then Maritime Commission, Maritime Administration, and I could see no evidence that much attention had been paid to it by the Department of Commerce.

I know you are busy with many matters, but I certainly hope that you do not sleep on this issue anymore.

Mr. BARTON. Senator, when we received our research money the research program was gotten underway in the Office of the Under Secretary. We began this project in accordance with the outline we submitted to Mr. Boggs. This is of the first order of business. It is going on right now.

The CHAIRMAN. When do you expect to finish?

Mr. BARTON. That will be finished as a part of the complete study that Dr. Nelson spoke about.

The CHAIRMAN. In about 6 months.

Mr. BARTON. We hope so; yes, sir—6 to 8 months, I believe he said.

The CHAIRMAN. Now, you have listened to Mr. Boggs and have seen the figures which he presents. Do you have any comments on the material in table 1, which figures are computed on the basis of per payable ton and show higher outbound rates in 1962 amounting to 14½ percent, 1963 amounting to 40 percent? Do you have any comments on those figures?

Mr. BARTON. Yes, Senator. I would agree first with Mr. Curtis' comments that this study is incomplete. I think the data that Mr. Boggs has here raises some very interesting questions, most provocative, but as I recall, he made several attempts before he got the figures set up to suit himself. I think that——

The CHAIRMAN. Incomplete in the sense that it only covered one conference?

Mr. BARTON. The figures do not even cover one conference. Table 1 reflects the volume of movement outbound and inbound of 1 steamship carrier, 1 carrier out of 33. There are 6 U.S. carriers in this conference and 27 foreign carriers. Several offer liner service on trade route 12. Hence I would say neither the volume of movement nor the revenue can be wholly representative of trade route 12.

The CHAIRMAN. Will you make a study of trade route 12 more fully?

Mr. BARTON. Yes, sir.

The CHAIRMAN. Do you think this was representative of the subsidized lines on trade route 12?

Mr. BARTON. I do not know, sir. I cannot tell.

The CHAIRMAN. I am informed it is the only subsidized line on route 12, and if there is only one subsidized line, if this is the line I would say it is 100-percent coverage.

Mr. BARTON. Under the circumstances that surround the study though, Senator, I can say it is true that table 1 indicates a relatively balanced movement for this single steamship company, but it is possible that this balance may reflect the different elasticities of demand for the transport of the commodities moving in one direction as compared to the elasticities of demand for commodities moving in the opposite direction.

The CHAIRMAN. You mean the traffic can bear a higher charge in one direction than the other, and the principal rate to be charged should be what the traffic will bear.

Mr. BARTON. I am talking about elasticity.

The CHAIRMAN. That is another phrase, another version of the same thing.

Mr. BARTON. It is possible that the difference in rates inbound and outbound may reflect the necessity of establishing lower rates inbound in order to attract cargo. The possible imbalances of movements are very clearly shown on trade route 12.

The CHAIRMAN. I am informed that this particular ship was full inbound.

Mr. BARTON. Substantially so. I believe he said 85 percent generally, didn't he, inbound, and 100 percent outbound?

The CHAIRMAN. Isn't 85-percent cargo considered full? If a hotel is 85 percent occupied, that is regarded as relatively full occupancy.

Mr. BARTON. Mr. Boggs mentioned another point that should be raised here. The predominant commodity moving on this trade route is bituminous coal westbound from the east coast of the United States to Japan. Movement of this commodity constitutes over 57 percent of the total westbound tonnage for the calendar year 1962 amounting to 1,405,000 tons out of a total of 2,462,000. This means that there is a large capacity in Japanese ships available for a return haul to the United States from Japan tending to impose a downward pressure on inbound freight rates.

The CHAIRMAN. May I ask this: Do U.S. ships accept coal for shipments to Japan?

Mr. BARTON. Not the liners; no, sir.

The CHAIRMAN. So that matter does not——

Mr. BARTON. I think the fact that they are in the market, though, as Mr. Boggs mentioned, makes a difference——

The CHAIRMAN. In other words——

Mr. BARTON (continuing). Difference in price.

The CHAIRMAN. In other words, this comparison does not include coal. But U.S. liners on this route refuse to carry coal. Moreover, I am informed that there is more inbound cargo overall on trade route 12 than there is outbound cargo, including the 1,405,000 tons of coal if payable ton figures are used.

Mr. BARTON. Also I think we should point out that a substantial portion of the movement on trade route 12, as is often the case on U.S. essential trade routes, is U.S. Government-impelled cargo, large parts of which are available only to American-flag ships, thus restricting for this movement competition to American-flag carriers.

The CHAIRMAN. So it is AID cargo that makes the rates high.

Mr. BARTON. AID and military—in part.

The CHAIRMAN. In other words, the shipping lines say that the U.S. Government can stand the cost, is that right?

Mr. BARTON. I do not know what they say, Senator, but I think when you——

The CHAIRMAN. I think you have made a very valuable point here indicating that cargo shipped at taxpayers' expense bears a higher rate than cargo shipped at exporters' expense.

Mr. BARTON. Senator, I think it is a matter of economics. When you limit competition to a few carries, especially high-cost carriers like the American carriers, and foreign competitors cannot handle the traffic, that will induce a rise in rates. So it is true that the American-flag carriers rely heavily on this predominantly outbound movement for their revenues. On trade route 12 Government-impelled cargo amounted to about, we estimate, 25 to 30 percent of the total carried by American-flag——

The CHAIRMAN. Forgive me if I add an obligato to your discussion. As I listen to you, you seem to be saying in effect that shipping lines get a double subsidy from the Government. They get a higher rate on the cargo, the Government ships, and then they get a cash subsidy in addition.

Mr. BARTON. Senator, I was merely pointing out the economics of the situation in which these rates were made that Mr. Boggs has presented here.

The CHAIRMAN. I understand. Go ahead.

Mr. BARTON. So in view of this, these matters I have raised here, it seems to me that we are not really in a position to comment on Mr. Boggs' testimony until we have completed our studies and taken into account these things and other things that may be raised. As I say, I agree with Mr. Curtis. I think these are——

The CHAIRMAN. Well, suppose the final study completed in not more than 6 to 8 months bears out this preliminary probing. What policies do you think the Department of Commerce, the Maritime Administration, and the Federal Maritime Commission should adopt if this should happen to be.

Mr. BARTON. You mean upon the completion of the Federal Maritime——

The CHAIRMAN. Suppose the final study indicates that the results of Mr. Boggs are substantially true overall. What policy do you think the three agencies concerned with shipping and shipping rates should adopt?

Mr. BARTON. The matter, of course, as we develop it, will be presented to the Federal Maritime Commission in factfinding investigation No. 6, and you can depend, Senator, on the Secretary of Commerce to pursue sound public policy upon obtaining full disclosure of the facts.

The CHAIRMAN. What would you do about the subsidized lines?

Mr. BARTON. We would take appropriate action depending on what our findings are.

The CHAIRMAN. What would you regard as appropriate action if these results turn out to be true, overall?

Mr. BARTON. Senator, I cannot agree that those might turn out to be true.

The CHAIRMAN. Well, suppose they do. Just suppose they do. That is a worthwhile assumption.

Mr. BARTON. I do not think we should assume that if we are going to be effective in our appearance——

The CHAIRMAN. I do not say you—I simply say if they are borne out.

Mr. BARTON. Well, I do not know, Senator. I think some of these economic matters, of course, might be correct. You know that the cargo preference laws are now on the books by act of Congress. That might be one area in which action could be requested. I am not sure, of course. As I say, it will depend on what we find out. I do not think—if we are to be effective, Senator, in Federal Maritime Commission Factfinding Investigation No. 6—I do not think we can be effective if we announced any predetermined plans, any bias in what our results might be, or how we feel about what the results should be. I think strict objectivity will be the greatest service we can render in the public interest on this particular subject. There are enough proponents and opponents, and if we can be objective, we can make a contribution.

Senator, this reminds me—you have referred several times to the North-South rate controversy and the comparison between this situation and that controversy and how you sympathized with the South in its efforts to get lower rates. I participated in the North-South controversy for some time. Among the things that happened in the course of that whole discussion was an attack on railroad rate conferences. Rate conferences were alleged to be the means of keeping the yoke of discriminatory freight rates on the necks of the people of the South and West, but after all was said and done, domestic conferences were regulated properly. I can say today they are useful citizens, respected citizens in the transportation world.

The CHAIRMAN. Well, we are not investigating railway rates at this moment.

Mr. BARTON. But I think your analogy, though, between the two situations, that you brought up several times in the hearings, seemed particularly apt to me.

The CHAIRMAN. Well, I was defending the South in a fashion that many people with southern accents do not defend the South. I was simply saying that I thought the South had been penalized by higher rates going out than coming in and since I have been charged on some occasions as being unfriendly to southern institutions, I thought I should make it clear that economically I have tried to foster the development of the South more than the majority of southern Representatives who sat by in 1946 trying to prevent any readjustment of rates, who followed the railways and not the interests of their shippers. But that is over and done with. I am ready to call it quits. But if you want to pursue that subject further, I will go into it.

Mr. BARTON. Senator, my point was that the question of rate conferences was raised as part of southern freight rate discrimination, and both the discrimination and the rate conference matters have been ironed out, and I think are functioning now in the public iterest.

The CHAIRMAN. Well, if there has been a reduction in the punitive rates formerly imposed on the South, and I think there has been, it has been partially as a result of the objections raised by certain great southerners like the former Gov. Ellis Arnall of Georgia and also some of us from the North.

Mr. BARTON. True. I think some fairminded people in the North did object. I might say that was decided in the ICC class rate investigation and upheld by the Supreme Court in the famous case of the *State of New York* v. *the United States*, 331 U.S. 284 (1947).

The CHAIRMAN. After this passage at arms, let us get back to shipping.

What would you do if it were discovered that outbound rates hurt American shipping? Hurt American exporters?

Mr. BARTON. I think that is a policy question, Senator, in the abstract, and these questions of rate policy are for the Federal Maritime Commission to decide.

The CHAIRMAN. What would you do with the subsidized lines? Would you permit them to stay in the conferences and receive their subsidies if they continued to carry out these practices harmful to American exports?

Mr. BARTON. Senator, I stated earlier our policy is not to use the subsidy club to keep people either in conferences or get them out.

The CHAIRMAN. In other words, you are neutral on this subject, ready to stand by and allow the conferences to force the American lines to charge higher prices on our exports than on our imports while you preserve a benevolent and icy neutrality in the matter.

Mr. BARTON. Senator, I think before you asked us if we were requiring them to belong to conferences.

The CHAIRMAN. That is right.

Mr. BARTON. We rescinded that, so it seems to me it is just as long as it is broad.

The CHAIRMAN. I congratulate you for your improvement——

Mr. BARTON. We cannot force them to get in or stay out.

The CHAIRMAN. I congratulate you on your improvement and want to pay full tribute to you, but how is it advantageous for you to grant subsidies to lines which stay in conferences and are bound by conference decisions imposed by foreign shippers which penalize American exports? That is the deeper question. The American lines are in a minority in every conference—and a small minority—and the foreign lines impose these differential rates. The American lines, for fear of a price war, go along, and they still draw their subsidy.

Mr. BARTON. Senator, you can count on the Secretary of Commerce once we have made our studies and found the facts. The Secretary of Commerce will take appropriate action in the public interest. I think you, like I, have confidence that he will do that.

The CHAIRMAN. Well——

Mr. BARTON. Until we complete our study, we cannot say what we will do.

The CHAIRMAN. Middle echelon civil service. The President can issue a mandate, the Secretary of Commerce can issue a mandate, but the intermediate civil servants by dragging their feet, raising technical objections, they can render nugatory any law passed by Congress, any Executive order of the President, any mandate of the Secretary of Commerce.

Mr. BARTON. Senator, I might say that is not true if you work for Secretary Hodges. I know from experience.

The CHAIRMAN. Well, you have very unusual civil servants, then.

Mr. BARTON. We have an unusual boss. He is very competent and very able, very public spirited.

The CHAIRMAN. I do not wish to make this any reflection on Secretary Hodges. I am merely indulging in some comments about the general procedures here in Government.

You see, this has been going on for almost a year, 9 months. I sometimes have had the feeling that people who do not want to change present practices expect to outlast this committee and by stalling——

Mr. BARTON. I am not included in that group, Senator, I might say.

The CHAIRMAN. No, no. Just sort of a general comment. No. You have been very helpful.

Mr. BARTON. Thank you, sir.

The CHAIRMAN. Let the record show that twice.

I have no further questions. Congressman Curtis?

Representative CURTIS. Well, I just have one comment which I have already made. I am very interested in these hearings and I am glad they are being held. The data that we are giving out is, I think, incomplete. I think it is quite incomplete. I am going to be very interested in seeing the studies that you come forward with. I am satisfied that there needs to be a lot done in this area, but I am not sure in my own judgment what.

I was a little bit disturbed, however, about an exchange that occurred between you and the chairman when you used the word "elasticity." Senator Douglas said you meant what the traffic would bear, as if that were something wrong. If there is true competition, I think what the traffic will bear is the marketplace operating and something to be desired, not to be thrown up as a shibboleth and in error. I am not sure whether the chairman and I are in fundamental disagreement. I do not think we are because I am anxious to see that we have a marketplace here and have real competition. If we do have that, then what the traffic would bear is the marketplace function.

The CHAIRMAN. Well, this is probably between us. May I say the rules of market are very different if you have competition than if you have monopoly.

Representative CURTIS. Exactly.

The CHAIRMAN. What we face here is the fact that we do not have competition between the lines but that they follow in the main rate schedules adopted by conferences. Once in the conference, lines are held to conference rates and, furthermore, rates are fixed, in the main, by the foreign lines which comprise the majority.

Representative CURTIS. Well, that is where the chairman and I agree. I am seeking here what competition there is and what we could do to improve that process. I have the prejudice, but it is not yet ready to be put in conclusion that probably something needs to be done. I want to know more about it. There are other factors which I think create a lot of this pattern which is the marketplace talking and speaking, and we are very foolish if we do not listen to it. I think a lot of things that have developed here are the result of sound economics. You are always going to have a differential in dollar amounts of inbound rates versus outbound rates because of good, sound economics, even if we had a completely competitive situation.

That is all I was trying to interject in this colloquy. I did not want the Government to come in here and, through a complete process of regulation, substitute the judgment of bureaucrats, however well intentioned, for the operation of the marketplace.

The CHAIRMAN. If I may ask one or two more questions. As I understand it, the Federal Maritime Commission has requested eight major outbound conferences to supply information for the evaluation of the effects of ocean freight rates on the balance of payments, and I understand that these conferences have refused and are currently seeking a court ruling. Is this your understanding, Mr. Barton?

Mr. Barton. Yes, sir.

The Chairman. Now, these outbound conferences have their headquarters in the United States; isn't that true?

Mr. Barton. Yes, sir.

The Chairman. Inbound conferences, of course, are refusing to supply information, saying that we have no right to probe their affairs. Isn't that true?

Mr. Barton. Yes. That is.

The Chairman. So both outbound and inbound are saying the Federal Maritime Commission has no right to get at the effects of ocean freight rates on the balance of payments.

Now, do you believe that American subsidized lines should be allowed to continue in conferences which refuse to cooperate in providing reasonable information to the Federal Maritime Commission?

Mr. Barton. Senator, that raises legal questions, contractual questions as between the Maritime Administration and the subsidized lines, and it also raises a question of policy. With your permission, I would like to take your query back to the Department and submit you a precise written answer.

(The Department of Commerce supplied answers to this question as well as others which were not answered during the hearing. See p. 639 for the questions and answers.)

The Chairman. Would you do that within the next few days?

Mr. Barton. Yes, sir.

The Chairman. Now, I have not previously mentioned the question of pooling which certainly diminishes competition. Over the past 2 years pooling arrangements have become quite common in the elimination of competition. It would seem to me that there is no need to make U.S. lines competitive since the pool can and does charge rates without the influence of competition.

Now, do you believe a subsidy should be paid to U.S. participants in pooling arrangements?

Mr. Barton. Senator, I mentioned this to Mr. Boggs earlier. I was not aware that there were to be questions asked on pooling until very late yesterday afternoon, and as you can see, these searching questions that you are posing give a need for some homework. I would be delighted to take these questions back and give you written answers, but I think it would be unfair to you and to me both if I tried to answer them off the cuff here today.

The Chairman. Now, is it not true that part II, section 18, of the operating subsidy contract calls for certification by the Maritime Administration before a line can join a pool?

Mr. Barton. That is true, sir.

The Chairman. What criteria does the Maritime Administration use to determine whether such certification should be given?

Mr. Barton. I think that is another policy question as I mentioned, Senator on which I can bring you a written answer.

The Chairman. How many times has the Maritime Administration given such certification?

Mr. Barton. Offhand I cannot tell you.

The Chairman. Is there anyone here who can? Are the representatives of the Maritime Administration here?

Mr. Barton. Mr. Parr says nine pools, he believes.

The CHAIRMAN. How many times has certification been refused?

Mr. BARTON. I am not aware that any of them have.

The CHAIRMAN. May I ask the question of Mr. Parr?

Mr. PARR. It is my understanding that many pools have been modified before they were approved.

The CHAIRMAN. Have any pools been disapproved?

Mr. PARR. I do not know of any disapproved, but there were extensive hearings on them before they were approved.

The CHAIRMAN. What about the Myer Line and North Atlantic Conference to Europe proposed pool? Won't that eliminate competition?

Mr. BARTON. That is before the FMC now, Senator.

The CHAIRMAN. Well, if it raises rates, how does that further the trade expansion program? Is it true that recently a coffee pool was approved which called for contributions by an American subsidized line to a Brazilian line of approximately $800,000 a year.

Mr. BARTON. I will give you a written answer on that, too, Senator.

The CHAIRMAN. This is a question of fact, not a question of policy. May I ask the Maritime Administration if it is true that a coffee pool was approved which called for contributions by the American subsidized line to a Brazilian line of approximately $800,000 per year?

Mr. PARR. There has been a pool, a Brazilian coffee pool in effect in the past. However, whether this pool resulted in the payment of $800,000 per year, I do not know. There is a pool which the Federal Maritime Commission has had hearings on recently, and I believe decision is still pending over there for the future.

The CHAIRMAN. Well, the pool which has been approved in the past, did it call for any contributions by American subsidized lines to a Brazilian line?

Mr. PARR. It would provide for a——

The CHAIRMAN. I am speaking of the past pool, not the proposed pool.

Mr. PARR. I do not know of the results of the pooling arrangement. I would have to submit it for the record.

The CHAIRMAN. Did it call for some subsidies by American subsidized lines to a Brazilian line?

Mr. PARR. No; not the payment of subsidy to a Brazilian line.

The CHAIRMAN. Did it call for payments of money from the American subsidized line to the Brazilian line?

Mr. PARR. It would call for a balancing at the end of the year based on percentage relationships of cargo carried. I do not know the effect.

The CHAIRMAN. You do not know the effect.

Mr. PARR. I do not know the results of the payments, as to who paid who and the amounts right at the present time. I would be glad to supply it for the record.

The CHAIRMAN. Does anybody here know? Admiral Harllee, do you know?

Admiral HARLLEE. Mr. Chairman, there has been a pool in effect which did call for redistribution of revenues at the end of the pooling period, and I believe this did result in some distribution to the Brazilian lines. As a result of this we are considering very carefully the pool. The initial decision has been made by the examiner, but the Commission still has to consider exceptions and replies to exceptions.

The CHAIRMAN. This is the future pool.

Admiral HARLLEE. The future pool. I do not know the exact amount of the past pool, but almost all pools call for distribution of revenues at the end of the pool in accordance with the prearranged plan.

The CHAIRMAN. Well, this may be one reason why the American lines consent to higher rates being imposed on exports than on imports.

Admiral HARLLEE. The Brazilian pool is inbound. The coffee pool is inbound.

The CHAIRMAN. I understand, but you move from a Brazilian pool into pools in general.

Admiral HARLLEE. Well, pool, in general, Mr. Chairman, could result in the distribution of money to American lines as well as to foreign lines. This is what has to be estimated and what has to be the subject of proceedings and hearings to make a determination whether——

The CHAIRMAN. Now, are the conferences and the lines willing to submit evidence to you bearing on the amounts distributed and the interstatistics of their pooling arrangements?

Admiral HARLLEE. Oh, yes; no question about that. And it is incumbent upon the Federal Maritime Commission to review the operations of these pools and insure that they are not approved in the future if the past record indicates that they militate against the public interest.

The CHAIRMAN. Well, isn't the purpose of the pool to eliminate competition?

Admiral HARLLEE. Well, the carriers and the conferences claim that the purpose of pools—and I think this is recognized to some extent in the Celler report—is to eliminate some unfair competition or malpractices which are hard to get at in some cases when they occur abroad. The American lines feel that they will have a better opportunity to provide good service and avoid malpractices if there is a pool in effect. This, of course, has to be balanced against the fact that there is not competition, not only with regard to rates but with regard to services. The conferences themselves eliminate the competition about rates except for illegal rebates that we do not know about in some cases. But what the pool does is eliminate competition with regard to the types of service, how the service is rendered, and this is the part of it that I think may militate against the interests of the shipper, exporter, and the public interest. That is what we have to balance against the matter of malpractices.

The CHAIRMAN. It also diminishes any tendency on the part of member lines to break away from the pool and secede.

Admiral HARLLEE. Yes, it does.

The CHAIRMAN. Break away from the conference and secede because they share the monopoly gains.

Thank you very much.

Well, we will submit some further questions on pools for the record which you can answer, and I hope we can get this completed within a week or so.

Senator Pell?

Senator PELL. I apologize for not being here earlier, Mr. Chairman. I was at another meeting.

I regret not being here for your testimony, Mr. Barton, but I was able to read it, and there is just one question that came to my mind. You said in your statement, as I recall reading it, that as a result of the hearings of our committee of last July, we started an investigation as to the effects of steamship conference organization procedure, rules, regulations, and practices, upon the foreign commerce of the United States. I was wondering when that study—this may have been covered already—when that study was actually started and when it would be completed.

Mr. BARTON. Senator Pell, the Federal Maritime Commission Fact-finding Investigation No. 6 was requested by the Secretary of Commerce but initiated by the Federal Maritime Commission. Dr. Nelson stated earlier he hopes the study will be completed within 6 to 8 months.

Senator PELL. And this is the responsibility, then, of Dr. Nelson.

Mr. BARTON. He is our research man.

Senator PELL. The study is in progress, and it will take 6 to 8 months to complete this study, in your view?

Mr. BARTON. Yes, sir.

Senator PELL. How long have they been going?

Mr. BARTON. Well, our research program is fairly new in Commerce as we have it today. We got money this year in December, and we have these three studies underway that we mentioned here. We have been working on them, Bob, how long, now?

Dr. NELSON. Well, we have gone through a rather extensive process of developing the research in a most productive form. We have now decided on a research organization, just this week, to carry on one segment of these studies; namely, a study of costs of operation of U.S.-flag carriers, foreign-flag carriers, and port costs, balances of movement, and matters of that kind. This study will get underway immediately.

Another part of the study has been going on now for about a month and a half. That one is the inquiry into conference practices and procedures.

The third part of the study is one in which our office is joining with the Assistant Secretary for Economic Affairs in the Department of Commerce. We are making headway in establishing a research design. That study will attempt to evaluate the effect of freight rates on exports and imports to the United States. We are very hopeful that we will get a research organization working on that particular study within the next several weeks.

Mr. BARTON. Senator, pardon me, sir. We gave an outline of this material to Mr. Boggs. He has it. It is available.

Senator PELL. The decision, though—the need for the study was established last July and yet the decision to make the study was made last week. That is a lag of about 8 or 9 months. What was the reason for the delay?

Dr. NELSON. The decision to make the study was not made last week. The decision to award—the decision as to a research organization to whom we should award a contract was made at the beginning of this week. We have not yet announced the name of that research firm, and the research firm has not at this moment accepted the contract.

Senator PELL. But, Mr. Barton, why would it take 8 months to get to the point of awarding the contract?

Mr. BARTON. Senator, our money on research was given to us in December, as I recall; so it has not been quite that long.

Dr. NELSON. The problem was brought to the Research Office sometime in December. I myself was appointed to my present position as of January 6. From late in June of last year until January 6 I was a consultant on research to the Office of the Under Secretary for Transportation.

Senator PELL. As Mr. Barton suggests, the money was appropriated in December. I am well aware of it, as my very own colleague, John Pastore, played a very strong role in reversing the original decision on the money.

Mr. BARTON. You had something to do with that, too, Senator, I am aware.

Senator PELL. Thank you. But I am struck at the time that has passed in this matter, and I also find myself a little hesitant—I defer to my chairman here—as to why it will take 8 months to achieve the results of this study. You see no way of speeding it up and coming up with earlier results?

Mr. BARTON. Senator, these things are long embedded in the economy. It takes time to study them. It takes time to learn the practices. Just to get the information together on what actually happens in a conference is quite a chore. That is something that needs to be done and cannot be done quickly.

The CHAIRMAN. How can you get the information about the practices of the conferences when the conferences refuse to give you the information and refuse to give the Maritime Commission the information?

Mr. BARTON. The conferences have been very cooperative with us.

The CHAIRMAN. I thought they had refused to give to the Maritime Commission statistical information which the Maritime Commission requested.

Mr. BARTON. That is a formal proceeding. We took a page out of the Antitrust Division of the Justice Department.

The CHAIRMAN. They give only what they want to give and refuse to give the full material to the Maritime Commission.

Mr. BARTON. Senator, they are giving us cooperation, and as some of my colleagues at Justice would say, they are very well pleased. This is a method we can use because voluntary cooperation, as in other areas, is often much more satisfactory than trying to force the issue.

Senator PELL. The question that remains in my mind, though, is whether these studies will provide some basis for decision to remedy the present apparent imbalance in this area of ocean freight rates. Is this mainly a research program or is it also going to be a decision-recommending group as well?

Mr. BARTON. Senator, we will make these studies—we hope and expect that this will be new material on which decisions may be made, and this material will be presented to the Federal Maritime Commission for their action.

Senator PELL. The responsibility, then, rests with the Maritime Commissioner, Admiral Harllee.

Mr. BARTON. It is their investigation; yes, sir.

Senator PELL. All right. Forgive me, but I have followed some of the study programs, and I just am always concerned that one does not go over old ground, and that when the study is completed, it is in a form where the executive branch of the Government, which is you, can make a clear-cut decision between various alternatives.

Thank you.

Mr. BARTON. Thank you, sir.

Mr. Chairman, I might say, for the record, that on trade route 12, the American President Lines and American Export Line also operate. That makes more than one.

The CHAIRMAN. They have round-the-world service, though, don't they? their operations to the Far East are not exclusively on trade route 12?

Mr. BARTON. Yes, but their operations include trade route 12.

Senator PELL. I would like to add that I have heard nothing but the most complimentary remarks about the job your new Maritime Commissioner is starting and the general approach you have on this problem.

Mr. BARTON. Thank you, sir.

The CHAIRMAN. Now, when you make your study, I hope you will consider the material which Mr. Boggs presented and the comparative cost and revenue figures per payable ton, and as a percentage of value. Will that be done?

Dr. NELSON. Yes, sir. We expect to explore in great detail the economic characteristics of steamship operations.

The CHAIRMAN. Including this material?

Dr. NELSON. Yes, sir. This will go beyond the American-flag carriers to foreign flag, and to foreign port costs.

The CHAIRMAN. Well, how can you get their figures?

Dr. NELSON. We are very hopeful that the contractor we have chosen will have them available to him.

The CHAIRMAN. You mean to say they will furnish material to a private investigator that they refuse to furnish to an agent of the U.S. Government?

Dr. NELSON. It is entirely possible, sir.

The CHAIRMAN. It seems incredible.

Senator PELL. But possible.

The CHAIRMAN. It seems incredible. And questionable.

Now, that raises another point. We have a communication from the Committee of European Shipowners, some 10 pages in length, sent to us ostensibly from London dated the 18th of March of this year entitled "Further Comments on Allegations of Foreign-Flag Discrimination and Domination in U.S. Export Trade." We are very glad to make this part of the record.

(The document referred to follows:)

COMMITTEE OF EUROPEAN SHIPOWNERS

FURTHER COMMENTS ON ALLEGATIONS OF FOREIGN-FLAG DISCRIMINATION AND DOMINATION IN U.S. EXPORT TRADES

1. In its earlier statement, refuting the allegations of foreign-flag discrimination and domination in the U.S. trades (hearings before the Joint Economic Committee, Oct. 9–10, 1963, pt. 2, p. 238), the Committee of European Shipowners (CES) set out to explain in general terms some of the factors which

contributed to the differences in export and import rates in trades with the United States and the differences in export rates from the United States and from other countries to similar destinations.

2. No attempt was made to explain or to justify apparent discrepancies in individual rates, which as the American Steamship Traffic Executive Committee (ASTEC) subsequently pointed out, are far more apparent than real. It confined itself to broad considerations which affect the levels of rates in U.S. trades just as they do in any other trade.

3. The American Steamship Traffic Executive Committee have since testified before the Joint Ecoomic Committee. Both their oral and written testimony completely refute the charges that there is discrimination against American exports, in favor of foreign imports to the United States and that there is foreign domination of the conferences in the U.S. trades. In the face of this testimony it is difficult to understand how these charges can be persisted in.

4. The Committee of European Shipowners believes that a number of the conclusions or assumptions contained in the Joint Economic Committee memorandum and on which these charges appear to be based can be clearly shown to be in error. These are as follows:

(i) That many outward rates are considerably higher than inward rates on similar commodities;

(ii) That outward rate reductions will serve to stimulate exports;

(iii) That outward rates should not be higher than inward rates in the same trade;

(iv) That conference lines can achieve outward-inward rate equality in part by increasing inward rates, since the laws of supply and demand do not apply;

(v) That outward freight rates should be the same per ton-mile for U.S. exports as for European and Japanese exports to other countries;

(vi) That foreign line domination of U.S. conferences is responsible for the higher outward than inward rates.

5. (i) The Joint Economic Committee staff memorandum considers that many outward rates are considerably higher than inward rates on similar commodities, and states in part:

"* * * differentials exist between the outbound and inbound freight rates charged by carriers traveling to and from the United States on the same trade routes and carrying essentially identical products. It appears to cost 25 to 50 percent more to ship many American-made products to Europe or Japan than it does to ship similar European or Japanese products to this country" (p. 1, par. 7).

6. ASTEC has shown that, on the major export commodities moving from the United States to a variety of destinations, the freight rate on those goods is, in 300 cases out of 395, lower than the rate on the import of such commodities to the United States. This does not, however, lead to the conclusion that the general level of rates from the United States is lower than the general level of rates to the United States in all trades, nor does it mean that all outward rates are as low as all inward rates, although this is usually the case on similar items in the rather rare instances that they move simultaneously to and from the United States. The basic consideration put forward by the CES in its earlier statement remains valid. Where there is a marked imbalance in trade between major areas, this will be reflected in the general level of inward and outward rates.

7. The ocean tariffs in U.S. trades contain literally hundreds in the thousands of rated items representing articles which do not move. Over the years, requests for rate quotations are made by shippers resulting often in new tariff entries. If the article develops a regular movement of some importance, the rate will usually be lowered by the conference in order to secure the continued support of the shipper. If, on the other hand, the trade fails to develop the original rate probably remains in the tariff. As a result of this, as well as of other factors, an accumulation of higher than average rate items exists in ocean tariffs on articles that simply do not move, and only an experienced traffic executive can differentiate between the active and the inactive items, explaining in part the erroneous assumptions of the Joint Economic Committee staff memorandum.

8. The ASTEC testimony also effectively laid at rest many of the incorrect conclusions that numerous specified outward ocean rates were higher than inward rates on similar items. While many outward rates appear higher than in-

ward rates on apparently similar items, ASTEC demonstrated that this was rarely the actual case, for one or more of the following reasons:

(*a*) The outward tariff description, although similar to the inward tariff description, actually involved quite dissimilar cargoes (automobile tires versus bicycle tires, in size, weight and value);

(*b*) Outward tariff measurements and weights have not been equalized with inward metric weights or measurements for proper comparison.

(*c*) Weight rates in one direction and measurement rates in the opposite direction have not been recalculated for proper comparison;

(*d*) Failure to recognize that many seemingly high outward rates were actually "paper" rates on articles not moving for other than rate-level reasons.

9. The difference between the general level of inward and outward rates, where such a difference exists, ranges between 16 cents and about $3 per ton in the ASTEC testimony. The CES must conclude, therefore, that, where differences do occur on "many" rates of "essentially identical products" as mentioned in the Joint Economic Committee staff memorandum, they cannot be as large as the 25 to 50 percent differences mentioned by Joint Economic Committee, unless they represent largely "paper" rates.

10. Parenthetically the CES have noted suggestions from various quarters that, if there are "paper rates," there should be no objection to changing them. The suggestions are without substance. To the extent they are paper rates, there is no effect upon the commerce of any country or upon balance-of-payment problems and the alleged disparities are an illusion.

11. (ii) The Joint Economic Committee staff memorandum considers that outward rate reductions will serve to stimulate exports, and states in part:

"Ocean freight rates are a significant competitive factor in international trade. In 1961, ocean transportation costs accounted for 12 percent of the value of U.S. exports, and 10 percent of the value of U.S. imports. These costs are more significant in many cases than governmental trade barriers. For example, U.S. tariffs averaged 7 percent of the value of imports in 1961 compared with the 10-percent freight costs" (p. 1, par. 1.)

12. The apparent purpose of the Joint Economic Committee hearings has been to ascertain whether a reduction in outward freight rates would stimulate U.S. exports and improve the U.S. balance of payments. The CES believes that an analysis of the above figures must lead inevitably to the conclusion that, generally speaking, a reduction in freight rates cannot stimulate exports, although the Joint Economic Committee figures are apparently intended to support the opposite view. If the ocean freight rate represents 12 percent of the U.S. export value, a 10-percent reduction in the freight rate would equal only 1.2 percent of the export value, far too little to stimulate exports. This is entirely aside from the question of whether or not a 10-percent freight rate reduction is warranted. The shipping industry believes that increasing operating costs generally justify increases rather than decreases.

13. No explanation is given in the staff memorandum of what the term "ocean transportation costs" include, but the following example does put in clearer perspective the part that "ocean carriage" plays in the total transport costs involved in exporting goods from the United States. In 1961 a detailed study made by the management of the Porto di Venezia into the cost attributable to ocean carriage, compared with the total cost of transportation of various commodities gave the following as an example of their investigations:

"SS *Warrior*, 6,000 gross tons, cargo: 5,100 tons, general cargo consisting of 200,000 packages. From various inland places in the United States of America to Western Germany. Loading port: New York. Port of discharge: Bremerhaven. Total man-hours: 37,000 at an average of 7.3 hours per ton. Average cost of transportation $47 per ton. Breakdown of cost during the various phases of transport:

	Percent
1. From U.S. inland place to New York	37.3
2. Handling and intermittent storage at New York	6.6
3. Cost of loading	17.3
4. Ocean freight	11.4
5. Cost of discharge at Bremerhaven	7.6
6. Handling at Bremerhaven and transshipment into rail cars	5.5
7. From Bremerhaven to German inland place	14.3
Total	100.0"

14. The Joint Economic Committee's investigation and allegations were sparked off by what appeared to be disparities in inward and outward steel rates. In this connection it is of the highest significance that U.S. steel exporters into the FMC Docket 1114 hearings on this very point (in New York, Jan. 14–22) had no complaint whatever in regard to export ocean freight rates—one of them confirming categorically that, even if U.S. steel were to be carried free, it still could not compete in the European and/or Japanese markets.

15. The relative part which "ocean freight" plays in export costs has been demonstrated. Normally it represents only a small part of the sale price of most exports. Where, however, the rate level can affect the volume of exports the exporter or his forwarder normally can be counted on to bring it to the attention of the lines who, in their own desire to increase carryings, will usually cooperate with the exporters. It is doubtful that any government body would react quicker or be better informed than the American and foreign merchants specializing in the export of a particular commodity, in calculating their costs.

16. There are vital differences between domestic transportation where only certificated or licensed carriers operate and international shipping where certification, licensing, or rate regulation by government agencies of any country would be contrary to historic principles of international law and comity and, in any event, be impracticable. The CES would also suggest that any program of goverment-enforced rate reductions below the normal market rate levels would be self-defeating, unless compensating subsidies were involved. The normal protection of shipowners against continued less than market or unremunerative rates would be to reduce ports of call, reduce frequency of sailings, and to switch vessels into other trades where higher market rates prevail, which would be to the ultimate disadvantage of the exporters who require regular and frequent sailings from and to a large number of ports. The intense competition between tramps, independent lines, and the conference lines normally results in lower and more flexible freight rates for exporters than can be obtained through subsidizing carriers or through attempted rate regulation.

17. Finally, the CES has noted the testimony submitted to your committee by the American Shipowners' Traffic Executive Committee which shows that the U.S.-shipping industry earnings-and-profit margins were among the lowest of 50 industries examined. The same is true for the European shipping companies who are even less able to bear the expense of rate reductions. The lines, just as any other industry, are entitled to work for a return on capital invested. To deny them this by advocating unwarranted rate reductions is to require them to subsidize the goods they carry, whether they be exports or imports. The CES submit that, on the facts, a reduction of outward ocean freight rates is not warranted as a stimulant to U.S. exports and that, in any event, such reductions could not be financed by the shipping industry.

18. (iii) The Joint Economic Committee staff memorandum considers that outward rates should not be higher than inward rates in the same trade, and states in part:

"The European shipowners may have painted an accurate description of the differentials but it is an unsatisfactory justification. First, even though it is generally true that more ships are needed to carry our outbound cargo than our inbound cargo, this is not true on many individual trade services. Second, in the case of trade between Japan and West Germany, the freight rates on a select number of products appear to be almost identical, yet the movement is very unbalanced. Germany exports twice as much to Japan as Japan exports to Germany" (p. 3, par. 2).

19. The above two assumptions are unfortunately based on a rather serious misunderstanding of the facts.

20. First, it is inescapable that a surplus of ships over cargoes in Europe and in the Far East—causing a steady movement of empty or partly empty ships toward the United States from both areas—places varying degrees of downward pressure on inward freight rates. U.S. Government statistics show an excess outward over inward dry-cargo tonnage in the U.S. trade with the northern area of the Far East including Japan of 16.864,000 tons, and in the Hamburg/Bayonne trade of 16,377,009 tons for 1962. This area imbalance far outweighs the existence of a balance or imbalance in tonnage of individual services. The mere fact that the flow of cargoes between several ports in Japan and California may be relatively even in each direction is quite beside the point, since this does not eliminate the surplus of empty ships in the Far East area or diminish the depressing effect on inward rates by this overall surplus of empty ships bidding for inward cargoes, regardless of the particular loading port and regardless of

the cargo volume to or from the particular ports of the major areas. Japanese and Californian ports are only segments of the full itineraries of the average liner service between the larger United States and northern Far East areas.

21. Second, the conclusion reached on the basis of the cargo-movement between Japan and Germany similarly ignores the fact that the liner-cargo volume in the trade is determined not merely by the cargo loadings in Japan or in Germany, but instead is determined by the total loadings of the vessels on their inward voyages and on their outward voyages between all ports in this trade. A typical itinerary in this trade involves calls at Hamburg, Bremen, Antwerp, Rotterdam, Southampton, Genoa, Port Said, Penang, Port Swettenham, Singapore, Manila, Hong Kong, Pusan, Kobe, Negoya, Yokohama, Shimizu, with Indian ports sometimes added on the homeward voyage. The cargoes loaded at these ports for final destination in Europe or the Far East, plus the intransit cargoes, contribute to the total movement in each direction, with the result that the conclusion based upon the movement between Japan only and Germany only is unsound. However, even had the inward versus the outward liner-cargo volume in the European-Far East trade as a whole been properly evaluated, any rate-level conclusions based on this factor would have been unrealistic, to the extent that it also ignored the nonliner cargo movements which are infinitely larger than the liner movement. The overriding determination of inward rate levels is the effect of independent owners of empty vessels seeking inward cargoes at distress rates which, in turn, is determined at least as much by the relative volume of inward and outward tramp vessels and bulk cargoes as by the liner vessels and liner-cargo volume. That a surplus of empty vessels and a shortage of cargoes exists in the inward trades to the United States from the Far East and Europe is public knowledge.

22. (iv) The Joint Economic Committee staff memorandum considers that conference lines can achieve outward-inward rate equality in part by increasing inward rates, since the laws of supply and demand do not apply, and states in part:

"* * * The rates are not set by supply and demand but by the steamship conferences. Because of this the lines can distribute costs to both the outbound and inbound legs and charge rates outbound and inbound which cover these distributed costs" (p. 3, par. 2).

"* * * If the operators would raise their inbound rates to a level which would cover the inbound operating costs, and thereby increase their revenue, they could then reduce their outbound rates so that they would continue to receive the same revenue that they are currently receiving" (p. 5, par. 7).

23. These statements suggest that revenue losses created by outward-rate reductions can be paid for by inward-rate increases by the conference lines. In arriving at this conclusion, it appears to have been assumed that:

(*a*) An increase in inward rates will not drive away cargo to competitors; and

(*b*) The lines have not already increased inward rates as much as practical.

24. Underlying these assumptions is the completely unrealistic proposition that conferences are not subject to competition; thus that the forces of supply and demand are not present in international shipping and therefore that conferences have the power to fix and to settle rates at arbitrary levels. There is no regulated floor level preventing less-than-remunerative rates from being charged and, most important, there is an immense fleet of unregulated independent vessels, served by a network of agencies and brokers in every major port, which move in and out of the trades at will, ever searching and bidding against each other for the best available cargoes.

In the Bayonne-Hamburg range trade with the United States, less than one ship in five is a conference vessel, and in the Far East northern area including Japan, less than one in three ships is a conference carrier. It is quite unrealistic to assume that the conference carriers can establish rate levels entirely independent of the rates offered by a majority of the ships in the trade.

26. As an example of the continuous rate-cutting competition by nonconference operators, there are more than four independent liner sailings per week from the Antwerp-Hamburg range to the Boston-Hampton Roads range undercutting the conference rates. In addition to these regular sailings, there are additional hit-and-run operators, who must work their vessels back to the United States empty or in ballast, except for the cargoes they can attract by offering discount rates through the network of brokers and agents representing independent operators in all major ports. The conference lines are continuously faced with the necessity

of quoting competitive rates or risk losing the cargo. It is quite erroneous, therefore, to assume that the inward rates are not subject to the laws of supply and demand and that inward rates can be raised above the going level merely to compensate for rate reductions in the opposite direction.

27. In passing, it is again stressed that there are vital differences between the open competition between international carriers on the high seas and the protected and limited competition between domestic carriers in the United States. In international shipping there is no protective legislation reducing the competition between operators, nor are there licensing regulations to prevent new lines and new competition from springing up overnight on any trade route where rates appear inviting.

28. Due to nonconference competition, an inward rate increase by the conference lines, as suggested, would result in revenue reductions rather than in revenue gains, since it would encourage their inward shippers to switch their inward cargoes to competing cutrate ships. Where possible the conferences have raised inward rates, but it is wholly impracticable to suggest that further increases can be arbitrarily made and that the many factors which determine the level at which a rate can be maintained should be ignored.

29. Even assuming that it was practicable to draw up tariffs on a basis of inward and outward equality, it would be wholly impracticable to maintain this equality. Individual rates are subject to continuous negotiation with shippers at both ends of a voyage. Changing conditions, such as operating and loading costs, transit time at ports on route, inland charges, changes in the volume of the goods shipped and countless other factors affect rates and must constantly be taken into account. To ignore the needs of individual shippers and arbitrarily equate inward and outward rates would, in the view of the CES, stifle trade and not expand it. The present rate structures are the result of negotiations and competition, which must surely remain the basis of any pricing system in a free enterprise society.

30. That this concept of two-way rate equality has been allowed to continue as an issue before the shipping industry is of deep concern and surprise to the maritime nations of the world. Two-way rate equality does not exist on any of the world's trade routes nor does a uniform charge per-ton-mile, in terms of general rate levels of the conference or nonconference operators. Independent American-flag lines do not attempt to charge equal two-way rates. nor do the U.S. carriers in the ICC-regulated intercoastal trade where foreign ships are prohibited. Furthermore, if two-way rate equality and uniform charges per-ton-mile are contemplated as a basis for Government regulation of international shipping, it must be realized that such a system would inevitably break down unless it encompassed every ship of every nation engaged in world trade. To be successful, it would have to force all ships to charge higher-than-normal market rates on the inward voyages where cargoes are scarce. Since there would seem to be no prospect of such a regulatory system gaining the required international support, a higher-than-normal rate level could not be maintained in the face of unregulated ships taking the cargoes at lower rates.

31. (v) The Joint Economic Committee staff memorandum considers that outward freight rates should be the same per-ton-mile for U.S. exports as for European and Japanese exports to other countries, and states in part:

"It appears that neither the outbound or inbound rate differentials have been justified, nor have the differentials to third-market areas been justified. It is expected that representatives of the U.S.-flag lines will explain these differentials and propose solutions to them" (p. 6, par. 6).

32. This statement appears to assume that freights in international trade are based on a ton-per-mile basis and, by comparing export rates from the United States with such rates from other countries on this basis, it comes to the conclusion that there is discrimination against American exports. What this assumption totally ignores is that distance is only one of many factors that must be taken into account in negotiating freight rates for individual commodities.

33. In order to avoid unattractive commitments, a shipowner must calculate his expenses and revenues on a round-trip basis. To illustrate, it would be highly impractical for a shipowner to charge say $17 per ton to destination A. 5,000 miles away where no return cargoes are available, when $17 per ton is available to destination B, also 5,000 miles away where return cargoes are available at say $10 per ton. The shipowner must obviously charge more to A than to B in order to show the same round-voyage result, and therefore a

uniform outward charge per-ton-mile to all outward destinations from any major trade area, such as Europe, the Far East, or the United States is completely impractical. For this reason alone, and there are others, there is also bound to be a difference between say European and United States outward freight rates to a common destination in terms of ton-miles. Once again, this is a traditional and natural consequence of the supply and demand of ships and cargoes, and is certainly not caused by a conspiracy of a group of lines, foreign or American.

34. (vi) The Joint Economic Committee staff memorandum considers that foreign-line domination of U.S. conferences is responsible for the higher-outward-than-inward rates, and states in part:

"Besides the allegation that U.S. freight rates are too high, testimony received by the Joint Economic Committee indicated that these rates are too high because the conferences which establish them are dominated by foreign-flag lines. It is certainly true that, in the major conferences dominating American trade, U.S.-flag lines are vastly outnumbered" (p. 6, par. 6).

35. Although the American Steamship Traffic Executives Committee has since firmly denied such domination, the charge apparently still persists that rate discrimination against American exports is made possible by foreign domination of conferences to achieve higher outward rates in both direct and indirect trades.

36. An example is given of the East Coast South American Conference which covers cargo moving from U.S. Atlantic and gulf ports to Brazil, Uruguay, and the Argentines. It is pointed out that, of the 14 members, 7 have competitive services between Europe and these same South American ports, and hence have a definite and demonstrable stake in cargo movement from Europe to South America. It is implied—again on the basis of a ton-per-mile calculation—that this position is used to discriminate against American exports. The fallacy inherent in ton-per-mile calculations has already been commented on herein.

37. It is, of course, clear that these owners have a stake in cargo movement from Europe to South America, but doesn't their participation in the trade from the United States to South America equally indicate a stake in that trade?

38. Perhaps the following example will illustrate the point more clearly: Membership of the Far East Conference—covering the trade from the U.S. Atlantic to the Far East—consists of 19 lines, 13 of which are non-American and 4 of which maintain a service in the allegedly competitive trade between Europe and the Far East. One of these four, for example, has invested $90 million to maintain a liner fleet in the United States-Far East trade. Could it be seriously suggested that such a line would deliberately concert with others to price itself out of business?

39. The question has been raised as to whether inward freight rates—on steel from Europe, for example—are rigged below the outward freight rates from the United States through the domination of the freight conferences by non-U.S.-flag lines. That such a question has been publicly expressed by responsible Government officials is indeed surprising to all familiar with the basic structure of international trade. Any such hypothesis runs into violent collision with several inescapable facts which necessitate quite contrary conclusions.

40. For example, the promotion of lower steel rates from Belgium to the United States by a so-called conspiracy of foreign-flag lines presupposes that privately owned shipping companies of Norway, Holland, and Germany would dip into their private resources and elect to subsidize Belgian steel exports by offering abnormally low freight rates. The fact of the matter is that the low westbound steel rates from Belgium are the result of a continuing surplus of empty ships bidding against each other for westbound cargoes, resulting in unremunerative westbound freight rates on all commodities subject to independent tramp competition.

41. While the term "foreign domination of shipping conferences" is superficially impressive, it quickly loses its impact when one realizes that the trade of almost any single country, served by ships of many flags, will always necessarily find its own flag in the minority. The obvious fact that each individual shipowner conference, nonconference or tramp, competes strenuously against the others, regardless of flag, is ample reason alone why it is against the best interest of foreign conference lines to attempt to combine as a group to promote the business of foreign shippers and American importers over that of American shippers and foreign importers. The unceasing competition for cargoes between the many relatively lower cost foreign-flag ship operators is a primary factor in lowering freights from the United States, rather than raising them. Independ-

ent U.S. operators do not charge equal outward and inward rates to any greater degree than do the conferences, and surely it cannot be held that nonconference American operators are dictated to by the foreign conference lines.

42. As has been earlier stated, the wide and sweeping allegations made in the Joint Economic Committee staff memorandum are based on selected examples and comparisons which simply do not stand up to analysis. The ASTEC has provided detailed and documented refutation of these allegations and the Committee of European Shipowners would commend the testimony of that body to all who have a genuine interest in the well-being of not only U.S. shipping and trade but the similar interests of her trading partners.

LONDON, *March 18, 1964.*

The CHAIRMAN. I think it is extraordinary that this Committee of European Shipowners will present their case to us, and we are glad to have them do it, yet refuse to make their figures available to the Maritime Commission, and I furthermore think that it is somewhat lamentable from the standpoint of international comity that their respective governments seem to back them up on this. This is really a very grave matter. If there is anything wrong with figures which we have produced or the methods which we have employed, let them answer this, but let them produce the evidence in full court instead of hiding behind a statement that we have no jurisdiction.

I suppose there are representatives of the European shipowners here. Let me say I mean that, and I do not think it is endangering international friendship at all. International friendship should not be used as a means of covering up facts or discriminating against the exports and shipping of a friendly nation.

Senator PELL. Mr. Chairman, to interpolate for a moment, would you not agree that, in our so-called free enterprise and capitalistic system, our State Department is usually more reluctant to assist our industry and industrial enterprises than are the foreign ministries of the so-called much more socialistic or liberal leftwing regimes in Europe?

The CHAIRMAN. I think that is a very interesting comment. I could go into the psychology but—it is true that the European governments are supporting the lines. That is true. Although I do not think that the British Government at the moment can be accused of being socialistic.

Any other questions? Well, I have a sneaking feeling in the back of my head that there are certain groups that want to prolong the study of this matter, spin it out, delay putting evidence in or refuse to put evidence in, in the knowledge that at the conclusion of this year the committee will pass under a new chairman who may not be as interested in this matter as I will be, though undoubtedly a man of high probity. They possibly may have the hope that a new national administration will come into being which will be less anxious to pursue this matter.

Let me say so long as I am chairman, I do not intend to sleep on this matter. And I intend to proceed not with deliberate speed but with speed period.

Senator PELL. In fact, our function up here is somewhat as a goad.

The CHAIRMAN. Yes. Very necessary. Mr. Nelson, I notice you wanted to say something.

Dr. NELSON. I want to assure you, sir, that our research section will not engage in any kind of a filibuster. We will, to the utmost of our capabilities, endeavor to bring forth the facts with respect to these matters.

The CHAIRMAN. Would you be willing to make a monthly report of progress to us?

Dr. NELSON. Yes, sir.

The CHAIRMAN. That is fine. Thank you. Thank you very much, gentlemen.

Our next session will be on the 26th of March, tomorrow. We will be very happy to have Adm. John Harllee, Chairman of the Federal Martime Commission, as the witness.

Thank you, gentlemen.

(The following letter was received from Clarence D. Martin, Jr., Under Secretary of Commerce for Transportation, on April 28, 1964. It provides answers to questions raised during the course of Mr. Barton's testimony which he felt were policy questions and as such should be answered in writing after consultation with Under Secretary Martin.)

THE UNDER SECRETARY OF COMMERCE FOR TRANSPORTATION,
Washington, D.C., April 28, 1964.

HON. PAUL H. DOUGLAS,
Chairman, Joint Economic Committee,
U.S. Senate, Washington, D.C.

DEAR SENATOR DOUGLAS: This is in response to your letter of March 31, 1964, in which you requested the comments of the Department of Commerce on several questions relating to issues being considered in your hearings on ocean freight rates.

Attached are our responses to these questions. As you know, we are very much interested in the subject of ocean freight rates and we want to be of all assistance possible to your committee.

Please let us know if we can be of further help in your studies.

Sincerely,

CLARENCE D. MARTIN, Jr.

RESPONSES TO QUESTIONS ADDRESSED TO THE DEPARTMENT OF COMMERCE BY SENATOR DOUGLAS, BY LETTER OF MARCH 31, 1964

Question 1. What will the Department of Commerce do if it is proven that outbound conference freight rates are substantially higher than inbound conference freight rates as far as the certification required of American subsidized lines by the Maritime Administration under part II, article 18, of the subsidy contract?

Response

There is no provision in article II–18 which expressly, or by reasonable implication, gives the Maritime Administration authority to require subsidized carriers to equalize outbound and inbound conference rates.

Section (a) of this article of the contract provides that the subsidized operator shall not give preference to cargo in which the operator has a direct or indirect interest. This section does not apply to the factual situation posed by the question above.

Section (b) provides that the subsidized operator will not unjustly discriminate against another U.S. operator who is exclusively employing vessels under U.S. registry on an established trade route. Therefore, this section is not applicable to the situation referred to in the question above.

Section (c) imposes on the subsidized operator the obligation to obtain "approval of the United States" on pooling agreements. The reference in this section to "approval of the United States" has been and will continue to be interpreted to mean approval by the Maritime Administration, rather than meaning approval by some other agency of the United States, such as the Federal Maritime Commission.

Apart from the authority of the Maritime Administration under this provision of the operating subsidy contract, there is express statutory language which vests in the Federal Maritime Commission responsibility for review and approval or disapproval, under section 15 of the Shipping Act of 1916, of a broad range of shipping agreements, including a pooling agreement referred to in section (c) of article II–18. The Federal Maritime Commission must find that a pooling arrangement is not unjustly discriminatory or unfair as between carriers, shippers, exporters, importers, or ports, or between exporters from the United States and their foreign competitors, and that the pooling arrangement will not operate to the detriment of the commerce of the United States, and will not be contrary to the public interest or in violation of the Shipping Act. As a matter of administrative practice, the Maritime Administration does not consider giving its approval to a pooling arrangement unless that arrangement has already been approved by the Federal Maritime Commission.

Further comment with respect to Maritime Administration action on applications of pooling arrangements is contained in response to question No. 5.

The Department does not assume that it will be necessary or desirable to attempt to achieve regulation of shipping conferences and conference rates through administrative action taken under laws governing the maritime subsidy programs. If the Department made this assumption it would seem in effect to amount to an assumption of the regulatory authority and responsibility which is clearly vested by statute in the Federal Maritime Commission, an independent regulatory agency. We assume that the Federal Maritime Commission will in the future review and make proper decisions on conferences and conference rates, and that appropriate enforcement in the courts of Commission decisions will be available to the extent necessary.

(As the committee is aware, several months ago the Maritime Administration rescinded its circular letter 3–62, which in substance was a policy statement encouraging subsidized operators to belong to conferences and adhere to conference rates.)

We are not suggesting, of course, that the Department of Commerce should or will maintain an indifferent impartiality concerning the operation of shipping conferences or concerning shipping rates. We are authorized, and we have a responsibility, to intervene as an interested party in any proceeding before the Federal Maritime Commission. We will take action in the future, either by initiating petition or by intervention, in any appropriate proceeding before the Federal Maritime Commission where such action is necessary to assert the Administration's total interest as related to international shipping and international trade.

Question 2. Is it the opinion of the Department of Commerce that cargo preference laws encourage high outbound ocean freight rates?

Response

A correct response must be stated in terms of three distinct categories of cargo. These are: bulk movements of preference cargo carried on tramps; preference cargo carried on liners; and nonpreference cargo carried on liners.

Preference cargo in bulk.—This cargo normally is handled in full shipload lots and moves in the tramp trade. It is correct to say that the cargo preference laws result in higher freight rates on this type of cargo than would be the case if the cargo were freely available to all flags. The cargo preference laws contemplate that U.S.-flag ships will carry the preference cargo at rates reflecting U.S. costs. This means that the rates on this cargo hauled by U.S.-flag ships will be substantially higher than the rates charged by foreign-flag vessels for the same load of cargo. This higher rate level is not an unexpected result. If the costs of U.S.-flag tramp operators (the so-called unsubsidized fleet) were no higher than the costs of their foreign competitors, the need for cargo preference laws as we know them would be substantially reduced if not eliminated. This would follow on the premise that in such a case U.S. shipowners would be able to compete on even terms with their foreign competition. To the extent that cargoes are reserved for U.S.-flag tramp carriers, and to the extent that the rates on such cargoes are based on costs for U.S. commercial vessels, it amounts to a program of subsidy for U.S.-flag operations which are not subsidized through an operating subsidy under the Merchant Marine Act of 1936. This segment of the American-flag merchant marine, manned by American crewmen who are paid at American standard of wages, would be virtually eliminated if business were not available to them under the cargo preference laws.

In sum, cargo preference laws result in higher freight rates on preference cargoes carried aboard U.S.-flag tramps. They have little effect, however, upon rates for bulk cargoes generally carried aboard foreign-flag tramps, largely because bulk preference cargoes are such a minuscule proportion of total world tramp movements.

Preference and nonpreference cargo carried on liners.—The issue is less clear for the large share of preference cargoes which move in liners at published rates. However, it is likely that these preference cargoes impart upward pressure on the published rate structure for movements outbound from the United States.

Bulk and nonbulk, prefence and nonpreference cargoes often move outbound from the United States on the same published rates via both U.S.- and foreign-flag liners. Thus the rates reflect all of these factors. It is probable that rates on classes of freight which move largely as preference cargo will reflect the supply of U.S.-flag liners. This is influenced by the fact that, because of the terms of AID legislation and U.S. military programs, over 80 percent of the nonbulk cargo subject to cargo preference laws actually moves on U.S.-flag liners. Rates for shipments which are largely nonpreference will tend to reflect the supply of foreign-flag ships as well as U.S. ships. Undoubtedly, these proportions influence steamship carier conference members in their negotiations on rates. An additional point is that where cago which normally moves on a preference basis is nonpreference it frequently is shipped on a nonpreference liner rate or on a tramp rate. In any case, the structure of published rates outbound from the United States undoubtedly reflects the supply restrictions placed on the transport of preference cargo.

The supply of U.S.-flag liner ships is influenced by the U.S. maritime subsidy programs. The intent of these programs is to place U.S.-flag carriers on a competitive basis vis-a-vis foreign-flag carriers. If this end is achieved, presumably freight rates on preference cargo gravitate to levels comparable to rates on nonpreference cargo. This assumes that the supply of U.S.-flag ships will be unrestricted. However, this is not actually the case. The number of carriers, ships, and sailings is restricted to those found necessary for the essential trade routes of the United States and is also limited by appropiations available for subsidy. If there were more U.S.-flag service and hence more competition among U.S.-flag carriers, it is likely that rates on preference cargo would go down. But this, of course, would increase the amount of subsidy to be paid to U.S.-flag operators.

A further consideration is that U.S.-flag liner carriers derive a very large part of their freight revenues from preference cargoes (estimated to be 50 percent of tonnage in 1962), which move in greater volume outbound than inbound. In order to participate in this trade, U.S.-flag ships often return to the United States lightly loaded.

Question 3. Should the cargo preference laws be amended or abolished?

Response

We do not think the cargo preference laws should be repealed, nor are we prepared to suggest at this time any particular amendment, although it is possible that with further intensive study the conclusion would be reached to suggest some amendment to the present laws.

It is important to note that in the absence of our present cargo preference laws much, if not most, of the cargoes which are now carried on U.S.-flag ships would go on foreign-flag vessels. This would result in substantial payments in U.S. dollars to foreign-flag carriers, with an obvious adverse effect on our balance-of-payments situation.

The cargo preference laws have as their purpose preservation of a U.S. merchant marine engaged in foreign commerce. It is reasonable to assume that the major portion of our unsubsidized merchant marine, meaning those carriers which do not have an operating subsidy, would not exist without the business assured them under the cargo preference statutes. At least, it could be assumed that most of these carriers would have to go to foreign registry, and employ foreign nationals at foreign wage scales, in order to compete with foreign-owned carriers for U.S. cargoes removed from the cargo preference laws.

The cargo preference laws reserve certain cargoes to U.S.-flag vessels, as a form of support of subsidy. As originally conceived, these cargoes were particularly in support of that portion of our U.S. merchant fleet which did not obtain an operating subsidy under the 1936 Merchant Marine Act.

Question 4. What is the policy of the Department of Commerce concerning participation by American subsidized lines in conferences which refuse to respond to section 21 orders?

Response

As explained in our response to question No. 1, the Maritime Administration some time ago rescinded its circular letter 3-62, which was an expression of policy that the subsidized carriers should belong to conferences and adhere to conference rates. For the reasons stated in our response to question No. 1, we do not believe we should use the subsidy program to coerce subsidized lines to abandon conferences aand conference rates any more than we should attempt to force them to join conferences and to adhere to conference rates. We believe the Federal Maritime Commission has authority to obtain proper response to the orders issued by that Commission. The section 21 orders are now before the courts—a forum which we believe is the proper one to decide the legal questions which have been raised concerning the Federal Maritime Commission authority.

Also, it should be noted that the Department has been informed by the Federal Maritime Commission that U.S. subsidized lines have all either substantially complied with the section 21 order issued by the Commission or have expressed their intention to comply.

Question 5. What criteria does the Maritime Administration use to determine whether or not a subsidized line can participate in a pooling arrangement? How many times has the Maritime Administration permitted participation? How many times has participation been prohibited?

Response

The first criterion used by the Maritime Administration to determine whether or not a subsidized line can participate in a pooling arrangement is whether the pooling agreement has been approved under section 15 of the Shipping Act of 1916, by the Federal Maritime Commission. Before approval the Federal Maritime Commission must find the arrangement not unjustly discriminatory or unfair as between carriers, shippers, exporters, importers, or ports, or between exporters from the United States and their foreign competitors, as not operating to the detriment of the commerce of the United States, and as not contrary to the public interest or in violation of the Shipping Act. In the event such approval has not been granted by the FMC, no further consideration is given to the subsidized lines' participation in the pool. In the event the FMC approves the pooling agreement under the Shipping Act of 1916, the Maritime Administration accepts the FMC's findings as conclusive and does not make a separate review of the broader issues of shipper and public interest spelled out in section 15 of the Shipping Act of 1916.

The Administration then gives consideration in each case to the purposes of the pool (i.e., whether it is designed to meet discriminatory practices of foreign governments or foreign competitors) within the overall framework of the foreign policy of the United States.

Specific factors considered and held detreminative will vary in different factual circumstances. The primary factors considered are the following:

1. Do the provisions of the pool conflict with any of the provisions of the operating-differential subsidy contracts (i.e., regarding number of sailings, ports of call, and the like)?
2. Will the pool be beneficial to the trade or the service of the subsidized operator(s)? (Will it assist the subsidized operator in maintaining his service at a reasonable level?)
3. Will the pool give the subsidized operator(s) access to cargo previously denied to the operator by discriminatory practices of foreign governments or by discriminatory practices of other operators?
4. Does the pool include provisions which will permit the operator to increase his service with a growth in the trade?
5. Does the pool permit independent solicitation of traffic by member lines?
6. Is the subsidized operator's share in the pool consistent with its past, present, and anticipated future performance on the service?
7. Are the payments required to be made for the carriage of cargo in excess of its pro rata share of the pool equitable in terms of the revenue received from pooled cargoes? (Will the amount of revenue to be retained by the operator, after payment into the pool for excess cargo carryings, cover the operators out-of-pocket expenses attributable to such excess carryings?)
8. Does the pool permit reasonable entry of new members or the withdrawal of old members?
9. Are there any U.S.-flag operators, subsidized or unsubsidized, excluded from membership?
10. Are there any other provisions of the pool which are inconsistent with the purposes and policies of the Merchant Marine Act, 1936, as amended?

Since the Federal Maritime Commission was established by Reorganization Plan No. 7 of 1961, effective August 12, 1961, and various regulatory powers were transferred from the Maritime Administration to that agency, the Maritime Administration has approved participation by U.S.-flag lines in six pooling agreements, covering trade from or to the United States. Presently there are in effect 12 such agreements. The Maritime Administration has not prohibited the participation of any subsidized line in a pool approved by the Federal Maritime Commission since the aforementioned reorganization. Five pooling agreements or amendments thereto, which have been approved by the Federal Maritime Commission, are presently pending before the administration.

As part of its responsibilities, the Maritime Administration keeps under continuing review developments in the industry which could have an impact on achieving the objectives of the Merchant Marine Act of 1936. In the past several years there appears to have been a trend toward an extension of pooling agreements to cover significant proportions of cargoes in the foreign commerce of the United States. This development is being examined by the Martime Administration. In addition, the Maritime Administration is currently reviewing the criteria as stated above with the view of clarifying its responsibility and authority in regard to pooling arrangements vis-a-vis the statutory responsibility of the Federal Maritime Commission in the same area.

Question 6. Is there any need to pay a subsidy to an American line to make it competitive with foreign-flag line if it participates in a pool?

Response

Yes. The participation of a subsidized line in a pool under present conditions does not eliminate disparities in the cost of operation between U.S.- and foreign-flag vessels. For example, the average cost of wages for a C–3 type ship operating under the U.S. flag in the Brazilian coffee pool is about $1,565 per day. A competitive Argentine Lines ship of the same type would pay wage costs of about $344 per day while a Lloyd Brazileiro Lines ship of the same type would pay wage costs of about $516 per day. Over 75 percent of subsidy dollars is paid to offset the labor cost differential between U.S. labor and foreign labor. The disparities exist whether or not there is a pooling agreement.

Question 7. The hearings indicated that an American subsidized operator has paid a Brazilian line a considerable sum of money in the past 5 years as a result of a coffee pooling arrangement. The Brazilian line carried less than 1 percent of the coffee. Should taxpayers' dollars be used to pay a Brazilian steamship company which, in effect, provides no service on the trade route?

Response

U.S. subsidy is not paid to foreign steamship lines which participate with U.S. companies in pooling arrangements. U.S. subsidy is paid to the U.S. line to offset the higher operating costs of U.S.-flag operators as is shown by our response to question 6. The essential question is whether it is in the total economic interest of the United States (U.S. carriers, shippers, consumers, etc.) to permit the participation of U.S. carriers in a pooling agreement. If a pooling agreement has been approved by the Federal Maritime Commission as not contrary to the public interest as specified in section 15 of the Shipping Act of 1916, the Maritime Administration examines the pooling arrangement under the criteria set forth in our response to question 5. Basically, the Maritime Administration is seeking to determine whether or not the U.S.-flag operators are better off with a pool than in the absence of a pool and whether the pooling agreement would frustrate the purposes of subsidy.

For example, the following facts concerning the Brazilian coffee arrangement clearly show the substantial net advantage to U.S. carriers in that instance.

The coffee pooling agreement under discussion (FMC Agreement No. 8505–1, as amended) has resulted in the redistribution of slightly over $2 million. Table 1 shows the amount of coffee carried, the revenue received from the carriage of coffee, and the pool redistribution during the period of time covered by the pool. Agreement No. 8505–1 covers the period August 29, 1960, to February 28, 1963, to U.S. Atlantic ports and November 23, 1960, to February 28, 1963, to U.S. gulf ports.

TABLE 1

Line	Total number of bags of coffee carried [1]	Total revenue received from carriage of coffee	Total amount paid to pool	Total amount received from pool
Argentine Lines	[2] 1,383,367	$3,458,417.50		$209,600.57
Brodin Line	1,138,429	2,846,072.50	$36,248.63	
Columbus Line	924,192	2,310,480.00	305,026.55	
Delta Steamship Lines	[3] 3,277,076	8,192,690.00	412,010.99	
Holland Pan-America Line	138,665	346,662.50	101,126.33	
Ivaran Lines	793,712	1,984,280.00	116,194.32	
Lloyd Brazileiro	[4] 2,135,877	5,339,692.50		1,514,922.15
Moore-McCormack Lines	4,607,309	11,518,272.50		362,295.42
Nepal Line	[5] 1,503,449	3,758,622.50	546,893.49	
Norton Line	854,260	2,135,650.00	417,660.83	
Scansa Line	37,708	94,270.00	18,812.80	
Torm Line	810,006	2,025,015.00	132,844.20	
Total	17,604,050	44,010,125.00	2,086,818.14	2,086,818.14

[1] All coffee carried to U.S. North Atlantic ports unless otherwise indicated.
[2] Of this total, 420,073 bags were carried to U.S. gulf ports and 963,294 bags were carried to U.S. North Atlantic ports.
[3] All carried to U.S. gulf ports.
[4] Of this total, 388,255 bags were carried to U.S. gulf ports and 1,747,622 bags were carried to U.S. North Atlantic ports.
[5] All carried to U.S. gulf ports.

The redistribution pursuant to the terms of the pool included payments into the pool by Delta Steamship Lines, a U.S.-flag subsidized carrier of $412,010.99. Delta received more than $8 million in revenues from its coffee carryings. The redistribution also included payments from the pool to Moore-McCormack Lines, another U.S.-flag subsidized operator, of $362,295.42. This carrier received revenues in excess of $11.5 million from its coffee carryings. Thus for a net payment of about $50,000, U.S.-flag subsidized carriers were able to receive revenues totaling over $19.7 million, or nearly half of the coffee carried to U.S. North Atlantic and gulf ports. Subsidized line participation in the pool was approved by the Maritime Administration after a consideration of the above and the issues raised in our answer to question 5 and after approval of the pool agreement by the Federal Maritime Commission under the Shipping Act of 1916.

Question 8. Currently a pool is pending before the Maritime Commission between Myer Line, an independent Norwegian operator, and the North Atlantic Freight Conference. The pool's purpose is to end a so-called rate war. As a consequence of the pool, freight rates on all U.S. exports from Atlantic ports to Europe will be increased. Can certification under part II, section 18, be given to American participants of such a pool?

Response

Yes. It is our view that we have the authority under the contract provision, and we believe we have the implied statutory authority even in the absence of an express contractual provision, to approve or disapprove the pooling arrangement referred to in this question.

The particular pooling arrangement is still pending before the Federal Maritime Commission and it will be considered by the Maritime Administration only if the Commission approves the arrangement from the standpoint of its regulatory responsibility.

(Whereupon, at 10:40 a.m., the committee recessed, to reconvene Thursday, March 26, 1964.)

DISCRIMINATORY FREIGHT RATES IN OCEAN SHIPPING AND THE BALANCE OF PAYMENTS

THURSDAY, MARCH 26, 1964

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

The joint committee met, pursuant to recess, at 9 a.m., in room AE-1, U.S. Capitol Building, Hon. Paul H. Douglas (chairman of the committee) presiding.

Present: Senator Douglas and Representative Curtis.

Also present: Thomas H. Boggs, Jr., economist; Hamilton D. Gewehr, administrative clerk; Leonard Appel (associate counsel of the Antitrust Subcommittee of House Judiciary Committee), and Mary Proctor, legislative liaison assistant, Maritime Administration.

The CHAIRMAN. It is now 9 o'clock. The committee will come to order.

We are very glad to welcome Rear Adm. John Harllee, Chairman of the Federal Maritime Commission.

The purpose of the hearing this morning is to obtain from Admiral Harllee and other representatives of the Commission a report on the Commission's actions concerning ocean freight rate disparities.

On the 21st of last June this committee made four specific recommendations to the Federal Maritime Commission. It is my understanding, Admiral Harllee, that you have a prepared statement concerning the Commission's steps to implement these recommendations.

Admiral HARLLEE. That is correct, Mr. Chairman.

The CHAIRMAN. Thank you.

Admiral HARLLEE. Shall I proceed?

The CHAIRMAN. Yes, if you would.

STATEMENT OF ADM. JOHN HARLLEE, CHAIRMAN, FEDERAL MARITIME COMMISSION; ACCOMPANIED BY TIMOTHY J. MAY, MANAGING DIRECTOR; JAMES E. MAURE, ASSISTANT TO CHAIRMAN; AND ROBERT J. BLACKWELL, CHIEF, BUREAU OF HEARING COUNSEL

Admiral HARLLEE. It is a pleasure for me to appear here formally this morning for the first time in my capacity as Chairman of the Federal Maritime Commission.

Our specific purpose in being here this morning is to report to this committee on the action taken by the Commission over the last 7 months to implement the four recommendations made by this committee to the Commission. These recommendations placed a considerable burden of responsibility upon the Commission. But they also charted a course for the Commission to follow so it could take its proper place as an effective public servant protecting and fostering the foreign commerce of the United States.

Guided by these recommendations, I think the Commission has revitalized itself and clarified its regulatory purposes. It has taken initiatory action to remove discriminations from our foreign commerce, to actively promote the prosperity of our foreign commerce, and assure the freest flow of goods in that commerce, unencumbered by restrictive, discriminatory, or antiquated practices.

To be sure, the Commission has only made a start in these directions, but the progress to date demonstrates, I believe, that the Commission can and will make a positive contribution to the welfare of our foreign commerce.

I congratulate this committee for the catalytic role it performed in providing the impetus and direction to the Commission for the proper discharge of its statutory responsibilities.

The CHAIRMAN. Thank you very much, Admiral. We take such abuse, quite abuse, from administrative agencies that it is a great relief to have these kind words. I will have these framed.

Admiral HARLLEE. Therefore, I welcome these hearings; I do not regard them as a chore, but rather as an opportunity to review the contributions of the Federal Maritime Commission is advancing the foreign commerce of the United States.

I would now like to report specifically and in detail the manner in which the Commission has implemented the four recommendations of this committee.

The first recommendation of the Joint Economic Committee was:

1. The Commission should establish guidelines for U.S. complainants pointing out what the law requires as proof of discriminatory freight rates so that the Commission can act on their behalf.

The committee has been greatly disturbed, and reasonably so, by disparities between inbound freight rates and higher outbound rates on the same commodities between the same ports, and by disparities between outbound freight rates and lower rates on the same commodities from other countries to the same foreign destinations. It apparently had been these two kinds of disparities especially in mind when it recommended that the Federal Maritime Commission "establish guidelines for U.S. complainants pointing out what the law requires as proof of discriminatory freight rates so that the Commission can act on their behalf."

In order to explain what action we have taken in this regard, I must first explain the significance of a substantial inbound-outbound rate disparity under the present provisions of the Shipping Act. The word "discriminatory" has been used to characterize the disparate rates, but their real significance is that they may indicate that either the higher rate is unreasonably high or the lower rate is unreasonably low. The relationship between the two rates is not discriminatory in the regulatory sense of the term, because the services for which the rates are charged are neither identical nor competitive with each other, and the shipments moving outbound are not competitive with those moving inbound. I am not underrating the importance of a substantial rate disparity between outbound and inbound freight; I am merely trying to make clear the nature of its importance.

Under the Shipping Act, 1916, section 18(b)(5), we are directed to disapprove a rate if it is so unreasonably high or low as to be detrimental to American commerce. An exporter who sees that a rate on outbound freight is considerably higher than a rate on inbound freight has a right to suspect that the outbound rate is unreasonably high. There are many other kinds of information, possibly available to him, that may help to confirm his suspicion.

Our Bureau of Foreign Regulation issues a type of guideline in its handling of shipper complaints. The Bureau gives the exporter a list of items of information which are helpful in assessing the reasonableness of the rate level. The guidelines also ask him to submit estimates of the effect that a change in the rate to a reasonable level would have on the quantity he would export under the rate and on his profits.

The statement of "guidelines" is addressed also to an exporter who thinks that an outbound rate is unjustly prejudicial to American exporters. This involves the other kind of rate disparity to which this committee devoted its attention; that is, a disparity between a rate on freight from the United States to a foreign country and a lower rate on the same commodity from a third country to the same destination. Part of the statement applies only to complaints about rate unreasonableness, part applies only to complaints about unjust prejudice, and part applies to both. By dealing with these two kinds of complaints, the guidelines cover the two great sources of rate unlawfulness tending to inhibit American exports.

One of the principal difficulties in issuing more specific guidelines which relate to the disparity issue is that the Commission has never found a rate to be unreasonably high or low under section 18(b)(5). It is essentially a judicial determination for the Commission, and each case must be judged on its own merits. However, once the Commission has made this judicial determination it will form the basis for more specific guidelines.

We have several formal investigations presently underway where the Commission will have to make this determination. The issues must be explored and Commission positions established. Regardless of the results of these proceedings, they should provide a basis for issuance by the Commission of more specific guidelines.

Nor has the Commission ever made a determination under section 17 that a U.S. rate in comparison to a foreign-to-foreign rate was unjustly discriminatory to American exporters as compared with their foreign competitors. Again, this issue is now before the Commission in a formal proceeding; when this issue has been formally met by the Commission judicially, it should provide a basis for more specific guidelines on that situation.

I agree with this committee that guidelines are necessary in order to give full protection to the shipping public. Furthermore, I think guidelines will facilitate the full compliance with the law by the steamship companies and conferences.

The second recommendation of the committee was:

2. The Commission should initiate steps under its existing authority to eliminate unjust discrimination in rates and should promptly in-

form the Congress if additional authority is needed to deal with any aspects of these discriminatory practices.

The Commission is presently exhausting every power provided it under law and every resource appropriated to it by Congress to eliminate unjust discrimination in rates.

However, the Commission has only limited powers to correct discrimination caused by a rate disparity existing in the inbound-outbound trade. The present statutes do not make such disparities unlawful.

For example, if it costs twice as much to ship commodity A from New York to England than to ship commodity A from England to New York, the disparity itself is not unlawful no matter how inequitable it may be, and despite the absence of any economic justification by the carrier for charging the higher outbound rate.

While the Commission is powerless to order the correction of such a situation, it is precisely the phenomenon which Congress ordered the Commission to investigate in section 212(e) of the 1936 act.

This section states:

> SEC. 212. The Commission is authorized and directed——
>
> (e) To investigate, under the regulatory powers transferred to it by this act, any and all discriminatory rates, charges, classifications, and practices whereby exporters and shippers of cargo originating in the United States are required by any common carrier by water in the foreign trade of the United States to pay a higher rate from any U.S. port to a foreign port than the rate charged by such carrier on similar cargo from such foreign port to such U.S. port, and recommend to Congress measures by which such discrimination may be corrected.

It will be noted that the statute does not simply authorize the Commission to investigate; it directs the Commission to investigate and make a report and recommendation to the Congress.

The Commission is pursuing this investigation with every resource at its command. It intends to complete this investigation with or without the cooperation of the conferences and the carriers. And, depending upon the magnitude and nature of the problem, that is, the discrimination, and its effect on our commerce, it intends to recommend to the Congress what measures are necessary to correct that discrimination.

As I have noted before, the Commission does have power to correct a rate which is so unreasonably high or low as to be detrimental to our commerce. And I have noted that the existence of a substantial inbound-outbound disparity may be evidence of an unreasonable rate level. However, this is a different problem, and the correction of disparate rate structures cannot be accomplished through this Commission power, except in isolated instances as a byproduct of correction of an unlawful rate level.

The Commission is vigorously studying the rate levels on our important commodities to assess their effect on the movement of those commodities and the reasonableness of the rate level. I must be frank, however. and state that this is a laborious, time-consuming process.

There is no method whereby a rate can be adjudged, on its face, to be discriminatory. Each rate must be analyzed and related to other pertinent factors. The Commission has on file over 1,900 tariffs, containing approximately 3 million rates, and rate changes are being filed at the rate of 900 a day. It is obvious, therefore, that it would be unrealistic ta attempt to scrutinize each individual rate for its discriminatory content or impact upon commodity movements. Some other approach to safeguard our economy is imperative. Part of the answer is the establishment of a watch list of critical items; that is, meaningful selectivity. More important, however, will be the conversion of our tariffs from a manual system to automatic data processing. I am happy to report that this will shortly be a reality. It is, in our view, an indispensable tool if the Commission is to perform its statutory responsibilities.

Meanwhile the Commission is proceeding to take action to correct unreasonable rate levels and rate discriminations by carriers against American exporters compared to their foreign competitors.

The Commission has had the iron and steel rate under formal investigation since August 1963.

After careful study and analysis the Commission has concluded that the rates on distilled spirits and boilers warrant formal hearings to determine the reasonableness of the rates and the possibility of discrimination against American exporters. Therefore, these rates are now under formal investigation. Also, the rates on plywood have been made the subject of an informal factfinding investigation.

As this committee knows, the Commission can make findings of unlawfulness and take corrective action only after a formal hearing with due procedural safeguards to all parties.

In furtherance of its efforts to eradicate rate discrimination, and as suggested by this committee, the Commission has made inquiry into the handling of shippers' requests by the conferences. The Commission asked the conferences to supply information voluntarily relative to this matter. Over one-half of the conferences refused to do so and were then ordered by the Commission, under section 21, to produce the information. Thirteen of these conferences still refused, and the Commission intends to enforce the order against these conferences by pressing for court action.

The CHAIRMAN. Admiral, would you furnish the names of some of these conferences which have refused to furnish the information?

Admiral HARLLEE. Yes, I will, Mr. Chairman. Actually——

The CHAIRMAN. Can you mention some of them offhand?

Admiral HARLLEE. Yes. We have a record of it right here. The Pacific Westbound Conference refused. The Pacific Coast European Conference refused, and I have the other right here.

The CHAIRMAN. These are outbound conferences?

Admiral HARLLEE. Yes, they are.

The CHAIRMAN. Now, have any of the inbound conferences been willing to produce material which you requested?

Admiral HARLLEE. We did not ask the inbound conferences for this because our primary concern at this point was with the exporters and the export trade.

The CHAIRMAN. Well, if that takes up too much time, may I ask if the Atlantic coast conferences refused?

Admiral HARLLEE. In general the Atlantic coast conferences complied with our request to submit them voluntarily, and in general the Pacific coast conferences refused, but, of course, there are exceptions.

The CHAIRMAN. What about the Atlantic to the Pacific?

Admiral HARLLEE. Excuse me?

The CHAIRMAN. What about the conference which covers trade from Atlantic ports to the Pacific Far East through the canal?

Admiral HARLLEE. They complied, Mr. Chairman.

The CHAIRMAN. Thank you. Will you furnish this for the record if it is not too much trouble?

Admiral HARLLEE. All right. We will furnish that for the record, Mr. Chairman.

On the widespread problem——

The CHAIRMAN. Admiral, would you excuse me. There is a quorum going on in the Senate. I must go and complete the quorum. I am going to ask Mr. Boggs to chair the meeting in my absence. I will return just as soon as I can.

Admiral HARLLEE. Yes, sir.

The CHAIRMAN. Thank you very much. I apologize.

Admiral HARLLEE. Shall I continue, Mr. Boggs, with the statement?

Mr. BOGGS. Yes, sir.

Admiral HARLLEE. On the widespread problem of inbound-outbound disparities, the Commission took the following action:

1. Requested the conferences and independent carriers voluntarily to eliminate disparities on selected items or explain why these disparities existed.

2. Ordered the conferences, the member lines thereof, and independent carriers to furnish documents and information which the Commission needs in order to study the disparity problem, as directed by section 212(e) of the 1936 act, and in order to study the reasonableness of certain rate levels under sections 15 and 18(b)(5) of the 1916 act.

Except for three independent lines, none of the lines and conferences eliminated disparities and none supplied an explanation for their existence. It is our understanding, however, that the American lines in one of the gulf conferences attempted to get the conference to eliminate certain disparities, but were voted down by the foreign lines.

The foreign-flag lines and the inbound conferences headquartered abroad refused to comply with the orders and their governments formally protested the orders to our State Department. The outbound conferences, as well, refused to comply with the orders.

At the request of the European governments and Japan, the Commission participated in meetings held in Paris under the auspices of the Organization for Economic Cooperation and Development to discuss the issues raised by our section 21 orders. There were very frank exchanges of views lasting over a 2-week period.

At these meetings, the United States offered to eliminate the request for documents located outside the United States if the governments would agree voluntarily to furnish the other information. Since this information would be furnished voluntarily, the Commission would cancel the section 21 orders. There was, however, no discussion about the orders served on the outbound conferences. These conferences are all domiciled in the United States and all documents requested are physically located in the United States. We made it perfectly clear at the meetings, therefore, that this was a matter of internal U.S. policy, and that these section 21 orders would not be eliminated.

The delegates agreed to take the proposal to their governments and shipowners. To give them ample opportunity to consider the proposal, the Federal Maritime Commission suspended the effectiveness of the orders pending negotiations. This did not apply, of course, to the outbound conferences. They have refused to comply and have taken the orders to court seeking a temporary injunction against the Commission. The District of Columbia Circuit Court of Appeals and the Ninth Circuit Court of Appeals have both denied their petition, and all eight outbound conferences are, therefore, subject to $100 per day fines for noncompliance with the Commission's orders.

The orders were also suspended for the American-flag lines so they would be treated equally with the foreign-flag lines. Nevertheless, five American lines: American Mail, Lykes Bros., Prudential, Moore-MacCormack, and States Steamship, have already supplied the data requested; and three other American lines: Pacific Far East, American-Export-Isbrandtsen, and United States Lines, have told the Commission they will comply as soon as a due date is fixed. And actually Pacific Far East Line has promised to comply on the 3d of April.

The foreign governments have now responded in principle to the U.S. proposal, and that response is favorable. Some technical details and clarification must be worked out, but the indications are that the foreign governments will voluntarily supply the essential information requested by the Commission to conduct its studies of disparities.

I might say, generally, that if the Commission cannot obtain this type of information then it cannot perform its statutory functions of regulating conferences. If it cannot perform these functions, then the whole question of permitting the existence of conferences, which are quite simply legalized cartels, will have to be reviewed. Congress, in immunizing conferences from the antitrust laws, did so only on the condition and the assumption that these anticompetitive bodies could and would be submitted to the supervision of the Federal Maritime Commission.

In their presentations to this committee, the carriers' representatives have attempted to minimize the effect of such disparities on American exports with a showing that identical commodities do not in fact move in such reciprocal trades and that such disparities as do exist in published rates merely reflect "paper" rate situations. The information we sought from the carriers will, when produced and analyzed, show the propriety of this position. Such information will also help to show whether depressed inbound rates tend to increase outbound rates in order to create an overall round-trip return which is profitable.

The short-term answer to the problem seems to us to be that if, as the carriers contend, the noted disparities exist only in connection with paper rates or on unlike commodities, there is a simple method by which the carriers can remedy the situation. They can either decrease or remove from their tariffs the rates on such commodities that do not in fact move in significant volume. The carriers' revenues would not be diminished, and no shipper would be hurt.

Dr. Dan Mater, who was loaned to this Commission by the Commerce Department, has, at our request, analyzed intensively the overall disparity problem in selected trades. His conclusions, which we will present here in detail, suggest that certain rate structures as a whole constitute a form of discrimination against exports.

More specifically some typical Commission activities designed to eradicate discriminations are detailed below:

1. Effective October 28, 1963, the Far East Conference and the Pacific Westbound Conference, whose member lines served the trade from the United States to Manila, instituted a surcharge of $10 per ton on all cargo transported from the United States to Manila, Republic of the Philippines. In announcing the surcharge, the conferences stated that their action was prompted by a disruption in the loading and discharging of vessels at the port as a result of labor disputes, and that such disruption caused costly vessel delay at Manila.

Although we do not have tariffs showing rates and charges from other countries to Manila, we were able to learn from other sources that the surcharge from Europe, Hong Kong, and India was 25 percent, and from Japan, $2 per ton. The 25 percent from Europe, Hong Kong, and India usually produced less than $10 per ton. We also found that a shipper in Searsport, Maine, had been asked to move his newsprint through an eastern Canadian port from which there was no surcharge to Manila. The significance of this offer lies in the fact that the same line serves both the eastern Canadian ports and the New England ports, although it is a member of two different conferences. We, of course, have no jurisdiction over the conference that operates from Canada.

The Commission approached the two conferences informally with a request for revocation of the surcharge but the conferences insisted that the extra revenue was necessary and that they had no intention of canceling the surcharge. Accordingly, the Commission instituted a formal investigation of the matter and the case is now pending before a hearing examiner.

Shortly after notice of our investigation, effective December 26, 1963, both conferences reduced the surcharge from $10 per ton to $5. Even that reduction was not sufficient to remove the apparent discrimination against American exporters. Other carriers who were made parties to the investigation because of a surcharge at Manila also later reduced their surcharge but did not completely remove the apparent discrimination.

Mr. BOGGS. Is there any surcharge on commodities moving inbound from Manila to the United States?

Admiral HARLLEE. Our information indicates that there is not.

Mr. BOGGS. Is there any apparent reason for that?

Admiral HARLLEE. The reason insofar as we have been able to ascertain is that ships going into Manila have to wait to unload the cargo which they are carrying in our export trade but, once they arrive at the dock, after this wait, they do not have to, of course, wait any longer to pick up the inbound (inbound to the United States) cargo. This, in other words, means that they feel that the load of the surcharge should be put on the leg of the voyage where they have to wait, although, of course, it would be contended by other persons that it should be equally priced.

Mr. BOGGS. Does this mean that the American exporter pays a surcharge but the Manila exporter does not?

Admiral HARLLEE. In this particular case that it what that means, yes. This is not, however, true in all surcharges, but this is the situation in the Manila surcharge area.

2. Similarly, the India, Pakistan, Ceylon, and Burma Outward Freight Conference last year announced a surcharge of 40 percent on all rates to Chittagong, effective October 1, 1963. The stated

reason for this surcharge was once again vessel delay attributed in this instance to the destruction of shoreside facilities by a typhoon. In this instance, as in the case of Manila, the State Department confirmed to us that conditions in the port resulted in vessel delay, but once again, it was the view of the Commission that the impact of such a drastic surcharge on the foreign commerce of the United States was such that the carriers should be required to affirmatively establish on the public record the need for a surcharge in the amount proposed. Accordingly, the Commission ordered a formal investigation into the Chittagong surcharge. I am sure your committee will be interested to know that this proposed surcharge was canceled in its entirety, October 4, 1963.

The Conference has again announced a surcharge effective April 3. The Commission has been watching the situation very closely, and understands that the port conditions which give rise to the surcharge are improving. We are awaiting further developments to see if a formal Commission investigation is warranted.

Mr. BOGGS. Excuse me again, Admiral. Is this also a 40-percent surcharge?

Admiral HARLLEE. No. This is a 30 percent. Thirty percent effective the 1st of April and 40 percent effective the 1st of July.

3. In a more limited area, one shipper complained to us concerning the cost of shipping to Europe parts for oil heaters. In the particular trade oil heaters moved at a rate of $25. There was no rate on parts for such heaters and, accordingly, they took the general cargo rate of $70.25. The Commission informally brought the matter to the attention of the Conference which shortly thereafter revised its tariff to permit parts for oil heaters to move at the same rate as the heaters themselves.

4. In another instance a shipper communicated with us indicating a desire to ship 1,500 tons of newsprint, for which he expected to make a bid for the sale in the immediate future. He was confronted with the fact that an emergency rate on this commodity had expired and the applicable rate was a figure so high as to effectively put him out of the market. The Commission communicated informally with the Conference with the result that a reduction in the amount of approximately 30 percent was promptly effected in the rate. We are not aware of whether the shipper was successful in his bid for the business in which he was interested. We do know, however, that he was satisfied with the rate reduction and felt that he was in a competitive position.

5. In yet another instance, a manufacturer of household refrigerators who was interested in selling to the market area of the Near East complained to us because he was unable to ship through an adjacent and otherwise logical port because of a rate disadvantage as compared to the freight rate from another area of the United States. This matter was taken up informally with the Conference with the result that the disparity in rates between the two ports was reduced by more than 60 percent. We cannot state informally whether the existing apparent disparity is reasonable since we have conducted no investigation of this matter. It may be necessary to explore this matter more formally. We mention it, however, as an instance in which the joint efforts of the shipper, the carrier and this Commission have been able to relieve at least to a certain extent an impediment to an American exporter.

6. Another illustration of the successful intercession of this Commission has to do with rates on carbon black from the gulf to the United Kingdom and the Continent of Europe. Because of the nature of this commodity, its transportation had presented problems in loading, stowing, and unloading that required relatively high rates. Several years ago the Commission was instrumental in obtaining relief from a proposed rate increase on this item. In November 1963, the three conferences publishing rates from the Gulf to the Baltic, United Kingdom, and French Atlantic/Hamburg Range ports announced general 10 to 15 percent rate increases on all commodities effective in January 1964. One of the country's leading exporters of carbon black protested to us that the increases would severely limit its ability to compete in the countries served by the three conferences. We sent telegrams and letters to the conferences, asking them to reevaluate their position on this specific commodity because of the harmful effect the proposed increases would produce on our exportation of carbon black. We also had our New Orleans district manager contact the conferences personally. Within a month the conferences established reduced experimental rates for unitized shipments of the commodity to test the new packaging developed by the exporters. If the new method of shipment proves successful, we assume that the experimental rate structure will be made permanent.

7. As your committee is aware, the North Atlantic European trade is one in which outbound freight rates are most critical. In July 1963, it was common knowledge that the Conference lines and the major independent in the trade, Meyer Line, were on the verge of concluding a pooling agreement. The Conference Chairman was quoted in the press as stating that a new tariff reflecting increased rates in the outbound trades would be filed at an early date. This Commission, at once, let it be known that it viewed with concern any increases in the outbound rates since, obviously, such increase would accentuate the existing disparity in rates and would further militate against American exporters. The Commission initiated an informal investigation. We firmly believe that it was the interest thus expressed by the Commission, as well as by the Joint Economic Committee and the Department of Commerce, in this matter which resulted in the rate increase being delayed from time to time and not being made effective until March 16, 1964. And this increase is now subject to investigation. in connection with the Commission's formal investigation of the pooling agreement.

8. The General Services Administration has expressed concern over the level of freight rates on natural rubber. This matter is presently under formal investigation by the Commission in Docket No. 1157, which is an adversary proceeding between the General Services Administration and certain steamship lines, members of the North Atlantic/Mediterranean Freight Conference.

9. In the course of studying the pooling agreement between two Japanese lines from San Francisco to eastern Canada—Iino Line and Kawasaki Line, Agreement 9180—it was determined that rates on canned goods from Japan to eastern Canadian ports were lower than rates from Hawaii and San Francisco to eastern Canadian ports in tariffs filed by the same carriers.

Various negotiations have been going on between the Commission and these Japanese lines regarding this whole matter, and the pooling agreement has now been withdrawn.

Reevaluation of the canned goods rates from Japan, Hawaii, and San Francisco to eastern Canadian ports as of February 28, 1964, indicates that recent filings by the involved carriers have now reversed the rate disparity situation so that rates on canned goods from Japan to Canadian ports are now somewhat higher than the rates on canned goods from Hawaii and San Francisco to the same eastern Canadian ports.

I have tried to detail what the Commission's powers are to accomplish the second recommendation of this committee.

The record discloses, I believe, that the Commission is doing everything it can; however, it also discloses that there are severe limitations on Commission power in certain areas.

We are not recommending at this time what additional powers the Commission needs, although I have indicated that perhaps the Commission's most serious inadequacy lies in its inability to obtain necessary information from and about the carriers and conferences. The Commission is still in the midst of its efforts to evaluate the disparity situation and its efforts to obtain the necessary information to make that study.

The Commission should know shortly if its present powers are inadequate to the job. If this proves to be the case, the Commission will move immediately to ask Congress for the necessary additional powers.

The CHAIRMAN. Admiral, you mean if a court refuses to permit you to obtain information from the conferences?

Admiral HARLLEE. Part of it is the matter of the action by the courts, Mr. Chairman. That is part of it. That goes to the outbound conferences. The other part of it is a matter of concluding the negotiations with the European and Japanese powers which we think are going to be successful in providing us with enough information for a meaningful analysis.

The CHAIRMAN. Well, now, if the lines—if the conferences resist as they are resisting, and you have to go to the courts, where do you start, in the district court or in the circuit court?

Admiral HARLLEE. In the circuit court. However, the matter has already been started, Mr. Chairman, but the conferences took us to court rather than we taking them. They took us to court and requested a temporary injunction, and in the Ninth Circuit Court in San Francisco, when the injunction was refused, the court indicated, in fact said, that there was no probability that the case would be decided on its merits in favor of the conference.

The CHAIRMAN. There was no probability.

Admiral HARLLEE. That is what the Ninth Circuit Court in San Francisco said. Now, the matter is also under adjudication in the Circuit Court of Appeals in Washington.

The CHAIRMAN. Admiral, you are a deep sea sailor but are you acquainted with the wiles of lawyers, that they can ask for continuances, their attorneys can be taken ill and plead that they are unprepared, and that there have been deaths in the families, funerals which they have to attend?

Admiral HARLLEE. Well, I am all too sadly familiar with those types of delays, Mr. Chairman. We have, I think, a few wily lawyers ourselves now, though, and I will say this, that the fine of $100 a day on these conferences for noncompliance is already starting to toll. The courts have refused to stay that so we feel confident that we will ultimately win, and there will be considerable fines which will accrue.

The CHAIRMAN. And, of course, there is also an appeal and the circuit court has a crowded docket. There is always appeal from the circuit court to the Supreme Court.

Admiral HARLLEE. Yes. There quite possibly could be some delays in this matter, but these delays will be costly to the conferences as well——

The CHAIRMAN. $100 a day.

Admiral HARLLEE. As well as somewhat frustrating to us.

The CHAIRMAN. Are you going to do this to every conference that refuses to submit its testimony?

Admiral HARLLEE. Oh, yes. We definitely will, except in the case of the inbound conferences domiciled abroad. If we can get information through the governments of those friendly powers which will enable us to accomplish the mission of analyzing the ocean freight rate structure, then it would appear unnecessary in those cases. But where we cannot work it out on that basis and where the conferences are domiciled in the United States, we, of course, will use the powers and have used the powers that the law gives us.

The CHAIRMAN. Well, if you depend on voluntary agreements with the conferences which have their headquarters abroad, doesn't this mean that in practice they will give you only that information which they wish to give?

Admiral HARLLEE. Well, it is quite true that this information will not be quite as valid as that produced in the United States in compliance with orders. But on the other hand, we think that it will be useful. The negotiations go to providing this through the governments concerned, and we think the information will be good enough to enable us to make the kinds of analyses to enable us to then proceed after that is over into formal investigation where we would get more exact information by the subpena route.

The CHAIRMAN. Go ahead, Admiral.

Admiral HARLLEE. I should make mention of another Commission action which is designed to move on a broader basis to remove impediments to our foreign commerce.

In response to questions raised by this committee, and at the request of the Secretary of Commerce, the Commission has initiated a fact-finding investigation into the effects of steamship conference organization, procedure, rules, regulations, and practices upon the foreign commerce of the United States. It is the first overall comprehensive study of the conference system and its effect on U.S. commerce by the Commission or its predecessor agencies, although, of course, the Congress has made three such investigations. It embraces numerous questions raised before the Joint Economic Committee, the Antitrust Subcommittee of the House Judiciary Committee, and the House Merchant Marine and Fisheries Committee.

The staff in charge of the investigation, using as a basis various questions raised in testimony before the Joint Economic Committee, the Celler committee, and the Bonner committee, has prepared a comprehensive outline of the subsidiary areas of investigation. The Commission staff is currently engaged in screening and assembling material already available to the Commission on these various questions. In addition, lists of several hundred shippers have been obtained from the Department of Commerce—I would like to interject at this point, although it is not in the prepared statement, with relation to their testimony by Mr. Barton yesterday that we have received complete, enthusiastic, and wholehearted cooperation from the Department of Commerce in all these matters and we have tried to, of course, give them the same—and those shippers who have expressed an interest on the basis of correspondence are being interviewed for the purpose of developing a slate of witnesses. Basic aspects of all conferences will be studied and, in addition, a selected cross-section of conferences will be studied in depth. It is expected that initial hearings will be held in late May of this year and completion of the study is tentatively estimated to be April 1965.

But I would like to emphasize, Mr. Chairman, in view of the testimony yesterday, that this does not mean there will not be any results from this investigation until April of 1965. There will be results as we go along as has been the case with the Joint Economic Committee, the Celler committee, and other committees and other investigations.

One part of this investigation would be, for example, looking into the disintegration of the conference from the gulf to the Continent of Europe and the occurrences with relation to the Gulf/United Kingdom Conference and these aspects will have results long before April of 1965. But to have the complete results, to do a really thorough job which involves among other things the questioning of some 400 possible witnesses, will in our estimation take this length of time.

The third recommemdation of the Joint Economic Committee was:

3. The Federal Maritime Commission should undertake a study of the extent and economic effects of disparities between inbound and outbound ocean freight rates. In selecting products for this study, the following guidelines should be used:

(*a*) Products which U.S. exporters have indicated are discriminated against in their complaints.

(*b*) Products which are presently substantially exported or for which there is export potential.

(*c*) Products which the Commission presently knows are discriminated against.

(*d*) Products for which freight rates are a high percentage of landed cost.

The Commission has instituted a program of pilot studies of selected commodities to determine the effect of inbound-outbound disparities on the exportation of such commodities in our foreign commerce.

The particular commodities chosen for these studies were selected in the following manner: The Commission on September 10, 1963, approved a commodity list for priority consideration. These commodities were selected on the basis of the following criteria, which includes the criteria recommended by the Joint Economic Committee:

(*a*) Commodities moving in volume or identified by the Department of Commerce as having an export potential.

(*b*) Commodities which are subject to declining oversea markets and/or increased imports.

(*c*) Commodities where outbound freight rate is a high percentage of landed costs.

(*d*) Commodities for which complaints were received either by the Commission or by the Department of Commerce or other sources.

Many of the commodities set forth in that program were broad commodity classifications rather than specific tariff items, and this list was later refined to include specific commodity items within such broad classifications.

Within each of the four categories above listed, the commodities have been rated in order of importance. In order of this priority list, the Bureau of Financial Analysis has been conducting informal commodity studies in accordance with the guidelines established by the Commission. These guidelines were generally as follows:

1. Volume of outbound and inbound movement of the commodity;
2. Select particular commodities within generic groupings which represent a substantial part of the total movement within the commodity group;
3. Identify principal trading areas involved in movement of the selected commodity;
4. Determine inbound-outbound freight rates and percentage of disparity in principal trading areas for the selected commodities;
5. Determine to the extent possible the principal economic factors; e.g., ocean freight rates, foreign import restrictions, local user taxes, embargoes, customs duties, national preference, currency restrictions, which affect U.S. exports of the selected commodity to the trade area involved;
6. Incorporate results of industry meetings conducted by the Department of Commerce on particular commodity involved;
7. Make use of any pertinent information available within agencies of the Federal Government as appropriate to the particular study; and
8. Particular attention in these studies was to be given to—
   (*a*) Past and probable future trends in movements;
   (*b*) Significant changes in tariff rates;
   (*c*) Significant or controlling economic conditions affecting current and future movement of the commodity under study; and
   (*d*) Frequency or absence of industry complaints.

The CHAIRMAN. Admiral, will you just mention a few of the pilot studies which you have finished? The full list will be printed in the record. I notice you included automobiles, trucks, canned fruits, nitroglycerin, electric motors, construction machinery, phosphates, electrical machinery.

Admiral HARLLEE. Yes, Mr. Chairman; I think perhaps the best plan might be if I mentioned those commodity studies which do indicate that there is reason to believe that possibly the freight rates have affected the——

The CHAIRMAN. Very good.

Admiral HARLLEE. I will do that and submit the rest for the record.[1]

[1] The Federal Maritime Commission has submitted commodity studies to the committee. These will be printed in "Part V. Discriminatory Ocean Freight Rates and the Balance of Payments."

Those commodities would be canned and frozen fruit juices, woodpulp, superphosphate fertilizer, potash, fertilizer, canned fruits and vegetables, sulfuric acid, electric motors, plywood, bicycles and motorcycles, and soda ash.

(The exhibit referred to follows:)

Pursuant to this program, 20 commodity pilot studies have been completed as follows:

Canned meat.
Potash fertilizer.
Major household appliances.
Automobiles and trucks.
Canned fruit and vegetables.
Nitrogen fertilizer.
Electric motors.
Construction machinery.
Phosphate fertilizer.
Electrical machinery and industrial controls.
Canned and frozen fruit juices.
Sulfuric acid.
Radios, phonographs, and parts.
Standard newsprint paper.
Sulfur.
Sulfate woodpulp.
Soda ash.
Plywood.
Bicycles and motorcycles.
Walnut logs.

Admiral HARLLEE. In conducting these commodity pilot studies, the Commission has established and maintained close liaison with the following Government agencies: Department of Commerce, Maritime Administration; Civil Aeronautics Board; General Services Administration; Tariff Commission; Bureau of the Budget; Office of Emergency Planning; Export-Import Bank; Inter-American Development Bank; and International Bank for Reconstruction and Development.

These agencies have been most cooperative and helpful in furnishing information.

As a part of this program, representatives of the Commission have attended a number of industry meetings sponsored by the Business and Defense Services Administration of the Department of Commerce. At these meetings the subject of ocean freight rates as a possible deterrent to U.S. exports has been specifically docketed for discussion. Information received from shippers at these meetings has been considered along with all other information developed in connection with the pilot commodity studies programed by the Commission.

From these meetings it was found that shippers generally are concerned with many factors affecting their ability to export, of which the export freight rate is only one.

Furthermore, shippers appear to be even more concerned with the problem of competitive freight rates from other foreign sources of supply than with the lower inbound rate to the United States.

Commission representatives attending these meetings have indicated to shippers that the Commission desires to receive from them specific examples of foreign-to-foreign competitive rates, competitive situations where they might have suffered loss of sales or difficulty in competing because of a particularly high export freight rate. Also, it was noted that in many instances manufacturing companies had not contacted carriers or conferences with requests for reductions in export freight rates in trading areas where they felt such reductions might be helpful. It was suggested that appropriate requests for export rate adjustments first be made to carriers and conferences, and if this did not result in a satisfactory adjustment, then the shippers were requested to so inform the Federal Maritime Commission. In a number of instances shippers have indicated to the Commission that requests for rate adjustments have been denied and the details of these transactions have been evaluated along with all other facts in our pilot commodity studies.

Before summarizing some of the significant findings with respect to the particular commodity studies, following are some general comments:

The studies have shown that there are numerous and exceptionally varied factors which affect the ability of exporters of a particular commodity to sell and ship that commodity in various markets throughout the world, and the ocean freight rate is only one of these factors. With limited exceptions, it appears that the export ocean freight rate is not the controlling or most significant factor in the minds of American exporters as a specific impediment to their export programs. Following are some of these factors which our studies indicate are significant in restricting the ability of American exports to compete in specific foreign markets.

Would you like me to read those or supply those for the record?

The CHAIRMAN. These are not necessarily in the order of their importance, are they?

Admiral HARLLEE. No, they are not, Mr. Chairman.

(The list referred to follows:)

1. Foreign import duties.
2. Prohibitions against imports.
3. Currency restrictions.
4. National habits and preference.
5. Substantially lower cost of production in foreign countries.
6. Lower ocean freight rates from other foreign manufacturing areas, as compared with the rates from the United States.
7. American companies have established foreign manufacturing subsidiaries.
8. U.S. aid programs for assisting foreign governments in establishing their own manufacturing industries.
9. Foreign nationalistic programs to develop domestic industries to the exclusion of foreign imports.
10. U.S. Government restrictive export quotas.

Admiral HARLLEE. The importance or relative significance of these various factors will be different in every instance, sometimes being an absolute controlling factor which overrides the impact of any other factors.

These commodity studies serve two purposes. First, they help place freight rates in proper perspective as a factor in the movement of the commodity. While it cannot be said that a particular inbound-outbound disparity has any economic effect on the movement of that particular commodity, the rate levels may, however, have a great deal to do with its movement. And the magnitude of the disparity may be evidence of an improper rate level. This suggests the second utility of these studies. They should isolate those commodity rates which are important in our commerce and warrant formal investigation to determine the propriety of their level. Thus far these studies have resulted in three formal Commission investigations of rate levels, and one factfinding investigation.

The CHAIRMAN. Just a minute, Admiral. What have you done about steel?

Admiral HARLLEE. Mr. Chairman, the iron and steel investigation is a case which I will have to sit in quasi-judicial judgment on, and I am strongly advised that is best for me not to discuss it. However, mindful of the fact that you should be informed as fully as possible, I have brought with me the chief of our Bureau of Hearing Counsel, Mr. Blackwell, and would like him to give you some information on that and to answer questions on that case. Mr. Blackwell?

Mr. Chairman, would you prefer for him to first give you a brief rundown or would you rather simply ask questions?

The CHAIRMAN. Well, I do not want to go into the details of the case. I simply want to ask what is the status of the investigation?

Mr. BLACKWELL. Mr. Senator, hearings were held in New York City and we called 14 witnesses from representatives of various steel interests. We also recently conducted hearings in San Francisco where an additional 14 witnesses were called. We think that in both the New York and particularly the San Francisco hearings there was rather significant testimony on the ocean rate disparity problem.

The CHAIRMAN. Did the Commission introduce evidence itself?

Mr. BLACKWELL. It certainly did. In fact, we introduced all the evidence.

The CHAIRMAN. I see.

Mr. BLACKWELL. There is only one intervenor in the case that is taking an active part. That is the Crucible Steel Co. They have been most cooperative and Bethlehem Steel has been most cooperative as well.

We expect hearings to be held in Washington perhaps as early as late April but certainly in May where the major steel companies will testify as well as the carrier representatives. We anticipate calling as many as 40 to 50 witnesses. And we have a considerable abount of economic data to put in the record, data relating to the steel movement, and data relating to conferences and independent line iron and steel rate structure. In addition, we intend to put in the record many hundreds of requests from shippers for rate reductions, some of which were granted, many of which were not. These were procured by the Commission, the Bureau of Hearing Counsel, through a section 21 order against the eight major conferences in the trade and in each case there has been compliance.

We have, in addition, approximately 20 outstanding subpenas that have been directed to the independents in these trades and we anticipate proper return on those subpenas on the date that the hearing is held in Washington.

The CHAIRMAN. Mr. Blackwell, what has been the general testimony of the big steel companies about these rates? Have they minimized the importance of the differential and in effect defended the carriers?

Mr. BLACKWELL. We have only called one witness from what you might term a big steel company and that is Crucible. We had on the stand in New York Mr. Paul Hubert, international vice president of Crucible, whose headquarters are in Paris. Mr. Hubert intends to return to Washington for further testimony in the case.

Crucible is not the classical major steel company. It produces primarily low-carbon specialized steels. The Crucible people indicated, Mr. Hubert did in his testimony, that the ocean freight rate to Crucible is particularly significant. In fact, the record shows that it is significant enough that in their European business, that is, the movement from the North Atlantic to Europe, Crucible uses the services of Meyer Line exclusively, an independent carrier which traditionally has had a 10-percent differentially lower freight rate than the conferences lines.

I would rather not, unless I was pressed by the Senator, discuss the testimony of the major steel companies. We have statements and witnesses from each of the other 19 or 20 steel companies which we intend to insert in the record and also interrogate these gentlemen, and I do not think it would be quite proper, sir, to release their testimony in advance at this hearing inasmuch as the steel case is an adjudicatory proceeding.

The CHAIRMAN. Without going into the details of their testimony, do they in general defend the carriers and uphold the existing rates?

Mr. BLACKWELL. I think if we can synthesize their position, and it is rather difficult to do that, but if we can synthesize it, the position that the major steel companies will take is, one, many of them are not interested in the movement, in exports. Two, that although they will acknowledge——

The CHAIRMAN. Are they only interested in imports?

Mr. BLACKWELL. Some of them are, sir.

The CHAIRMAN. We have been hearing the loudest complaints from the steel industry how their prosperity is threatened by the increasing imports of steel. They are demanding higher tariffs and complaining about dumping.

Mr. BLACKWELL. The major steel companies indicate to us that, while the outbound freight rate is a factor they certainly consider in the movement of their cargoes, the landed costs of their goods in the European markets and in the Japanese markets are so high that they can consider the freight rates as being insignificant.

The CHAIRMAN. Well, now, do you find atomization of freight rates in the steel industry? You remember that we produced evidence last year on main commodity classes in steel and found these really extraordinary differentials. Then the complaint was made that these were not typical, that there was a whole series of such classifications where the rates were, in practice, lower than the classification for the subgroup. Do you find that there has been atomization of rate schedules, or if I may use another highfalutin word, morselization of rate schedules?

Mr. BLACKWELL. Not to my knowledge, Mr. Chairman. It is my view that the statistics on the ocean steel rates that were inroduced at the first session of the Joint Economic Committee were accurate, and that those are the rates that the steel moves at in most trades.

Chairman DOUGLAS. The defense of the carriers that these were not typical in your judgment was ill founded?

Mr. BLACKWELL. I would say so, to the extent that I have knowledge of the situation, sir.

Chairman DOUGLAS. Are there secret rates?

Mr. BLACKWELL. No; we have not uncovered any secret rates. We have perhaps thousands of rate requests of steel companies, both large and small, to various conferences. I think a reasonable man can draw a fair judgment that, by and large, the large shipper is probably accorded better treatment in terms of rate reductions than the small shipper.

Chairman DOUGLAS. Isn't the rate reduction granted in the form of a specification?

Mr. BLACKWELL. Many times it is, sir.

Chairman DOUGLAS. That is what I referred to as the atomization of the schedules.

Mr. BLACKWELL. In fact, it reached one point where several representatives of big steel actually consulted a conference chairman, or at least a rate committee, proposed a modification of the entire iron and steel tariff, did so in terms of the tariff structure itself, and also in terms of the rate structure and, by and large, the recommendations were accepted by the conference.

Now this, I think, indicates the bargaining power that at least some of the large steel companies have in getting equitable rate adjustments from the conferences.

Chairman DOUGLAS. Getting reductions.

Mr. BLACKWELL. Getting reductions.

Chairman DOUGLAS. By splitting up the classification, isn't that true?

Mr. BLACKWELL. In sense, yes, definitely. But this was a reclassification of the entire tariff structure concerning iron and steel.

Chairman DOUGLAS. The smaller shipper is not able to obtain these reductions, isn't that true? His steel is classified at the general subgroup rate, isn't that true?

Mr. BLACKWELL. Many times we have found that, with an item that hasn't moved in the trade, or a new item, this is one of Crucible's arguments, actually, that at a time when a new commodity or a new product needs an initially low rate to penetrate the market, they are initially with the not otherwise specified rate, which is higher and at the very critical time when they need the lower rate, they either can't get it or have to engage in a prolonged discussion with the conference in order to bring the rate down.

This is one of the things we think that was beneficial about the New York hearing, that was part of the record. Many steel people, both small ones and people like Crucible, who engage in the export of specialty products, feel hindered by the so-called not otherwise specified rate, which classifies their commodity in a higher rate range rather than a specific commodity which is usually lower.

Chairman DOUGLAS. The only company which made a formal complaint was Crucible.

Mr. BLACKWELL. Crucible intervened in the case, and has cooperated with the Commission and has produced a witness whom we called in New York. We expect to have that witness here in Washington when the case reconvenes.

Now on the west coast we developed, I believe, some rather startling testimony. The Kaiser people indicated that the higher freight rates which have prevailed in the Pacific westbound trade, both to Japan and to the Philippines, have caused their movement of certain steel items to decrease from roughly 7,500 to 3,800 tons. Their general manager and vice president directly attributed the drop in the movement, to the high freight rate.

We had three other witnesses who testified that high freight rates impeded, not only impeded but actually frustrated the movement of their goods to the Far East, steel items that is, and actually caused a decline in that movement.

In one case an American shipper of steel on the west coast moving steel to the Philippines had the same rate that a British shipper had moving steel from England to the Philippines, a distance of some 5,000 miles longer.

Chairman DOUGLAS. Now what about the inbound rates? Is there any evidence to indicate that the differential on inbound rates fostered imports into this country?

Mr. BLACKWELL. We haven't tested either the high rate or the low rate in terms of its propriety or reasonableness, simply because we haven't called the carriers or the conferences.

We intend to do that at the hearings in Washington. We have had, frankly, a split in terms of the interests that are prevailing on the inbound problem. Many steel importers claim that they will be driven out of business if the rates are increased.

Other domestic companies are complaining they will be driven out of business if the rates stay as they are, because the domestic producers are losing certain markets to foreign suppliers.

We have a very strong representation in the hearing by attorneys for the steel importers. We intend to hear many more of these people. There is a segment in the gulf, frankly, that we would like to hear, but we are not sure that the Commission has funds to conduct a hearing in the gulf.

We might very likely call these people to Washington and testify.

Chairman DOUGLAS. When do you expect to finish?

Mr. BLACKWELL. We will have completed the hearing at the termination of the Washington proceedings, which if they commence in May should last probably through May and end in June.

Chairman DOUGLAS. Then will you be in a position to make on order, Admiral?

Admiral HARLLEE. Yes, we will. Of course after they finish the hearing, then the exceptions and replies to exceptions and oral argument, and then we would make a decision.

Chairman DOUGLAS. This is before an examiner?

Mr. BLACKWELL. It is, sir.

Admiral HARLLEE. Yes.

Chairman DOUGLAS. So then there is an appeal from the examiner to the Commission?

Mr. BLACKWELL. There will be briefs by the parties.

Chairman DOUGLAS. That could drag along for another year, couldn't it?

Admiral HARLLEE. It could, but it would be up to us to see that it doesn't.

Chairman DOUGLAS. Go ahead, Admiral. Thank you, sir.

Admiral HARLLEE. The commodity studies will be a continuing function of the Commission. In selecting future commodities for study, consideration must be given to the most significant commodities, in tonnage or revenue in the various trades. To have a full understanding of the economic impact and the extent of disparities, the Commission must study the disparities on those significant commodities. It was for this reason that the Commission, in its section 21 orders, asked the carriers to identify their 15 most important commodities.

A final point should be made, I think, about the disparity matter. I have stated that the particular disparity itself has no economic effect on the movement of that particular commodity. However, the existence of a pervasive disparate rate structure in a given trade can have and necessarily will have a pronounced effect on the general movement of cargo in that trade.

If it is established, for example, that the entire rate structure outbound is substantially higher than inbound, it is an inescapable conclusion that this disparate structure itself compels the outbound movement to bear a greater part of the costs of the roundtrip than the inbound, and that the disparate structure itself constitutes a restraint upon a diminution of export capability, and a resultant disadvantage to the U.S. balance-of-payments position.

I might add here with relation to Mr. Boggs' presentation yesterday, that we would of course hope to do the same type of thing on a wider scale, and that is why we are looking for the information.

Dr. Mater, in his presentation, will go into detail and illustrate these points.

The fourth recommendation of this Committee was:

4. The Federal Maritime Commission should:

(*a*) Request information from shipping conferences on rates between Europe, Japan, and third market countries.

(*b*) Compare these rates to the rates on U.S. exports to these third market countries.

(*c*) Indicate the mileage from Western European and Japanese ports and United States ports to these third areas.

In its fourth recommendation, this committee identified a problem which is most serious to our export trade, but a problem which the Commission is least able to cope with.

It has become apparent that many shippers feel that the export freight rate from the United States is detrimental to them, not so much because of a low inbound rate on the same commodity, but because the ocean freight rates from other competitive foreign sources of supply are lower than the rate from the United States. They allege that these foreign-to-foreign rates are lower in some instances, even though the distance from the foreign competitive source of supply is further from the market than the United States.

This committee is familiar with the difficulties already encountered by the Commission in its efforts to obtain foreign rate information. We have had some small success in obtaining this information and have furnished it to the committee staff, along with comparisons with U.S. rates, and mileage comparison figures.[1] What information we have obtained was procured with the assistance of our embassies abroad, and from independent sources, such as shippers, as well as conferences and carriers. I must point out, however, that verification

[1] See pt. III of the committee's hearings on "Discriminatory Ocean Freight Rates and the Balance of Payments."

of this information is all but impossible, and its accuracy, in any event, is diluted by the widespread rebating practices generally acknowledged to exist in foreign-to-foreign trades.

Chairman DOUGLAS. Admiral, this last sentence is very interesting. Now in general the foreign rates are lower than our rates. Are you saying that in addition to this, there is widespread rebating so that the actual shipping rates charged are still less?

Admiral HARLLEE. This is our belief, Mr. Chairman, yes, sir.

Chairman DOUGLAS. Now is this belief founded on tangible evidence or is this a suspicion?

Admiral HARLLEE. I would say that it is a belief founded on what in the maritime world would be considered probably common knowledge. It would be very difficult to prove in a legal proceeding because of the difficulty in getting evidence which would stand up in court about rebating abroad in foreign-to-foreign trades.

Representative CURTIS. But is it all illegal?

Admiral HARLLEE. No, it is not illegal, but it does mean that the information which is obtained about foreign-to-foreign tariffs is not essentially correct.

Chairman DOUGLAS. In other words, the disparity is even greater than is indicated by a comparison with the published rates.

Admiral HARLLEE. This is our belief, Mr. Chairman. This is as I say substantiated by common knowledge. It is not really practical to legally establish this.

Chairman DOUGLAS. Under whose jurisdiction are these foreign conferees?

Admiral HARLLEE. The European countries and Japan do not believe that conferences ought to be under any nation's jurisdiction.

Chairman DOUGLAS. In other words, they are unregulated international cartels, outside the control even of the governments in which they are located?

Admiral HARLLEE. Essentially that is true, Mr. Chairman. The European nations and Japan of course exercise some small minimal control over them, but their basic belief is that they are international groups and should not be subjected to any government's control. That is their belief.

Chairman DOUGLAS. Daniel Webster defined a corporation as follows: "a being invisible, intangible and existing only in the contemplation of the law." That is a fairly ghostlike interpretation of a corporation. But a conference is invisible, intangible, and does not exist in contemplation of the law. This is the most rarified type of ghost that I have ever heard. And these conferences are extremely powerful.

Admiral HARLLEE. That is true.

Chairman DOUGLAS. Congressman Curtis?

Representative CURTIS. On this point, just as a matter of information, are any of these foreign lines owned and controlled by the foreign governments themselves?

Admiral HARLLEE. In some cases they are. However, this is generally more true in the Latin American countries and in newly developed countries than it is in the major maritime nations of Europe and Japan.

Representative CURTIS. But where that exists, are any of these lines involved? I guess they are in some of these conferences.

Admiral HARLLEE. Oh, yes; they are.

Representative CURTIS. That makes it even more sticky when the government itself is involved.

Admiral HARLLEE. That is quite true, Congressman.

Chairman DOUGLAS. Mr. Boggs informs me that at the Geneva Conference, which has just started, the so-called developing countries have asked that the international shipping conferences be subjected to international regulation.

Admiral HARLLEE. This is a desire on the part of the newly developing countries, which of course the major maritime nations feel is unwise, I mean the major maritime nations of Europe and Japan.

Chairman DOUGLAS. I must say I am disposed to agree with the developing nations.

Admiral HARLLEE. Furthermore, in many instances it has been difficult or impossible to identify the particular lines or conferences involved in the foreign-to-foreign competitive trade.

The second difficulty grows out of the jurisdiction of the Commission. The Commission has absolutely no power, and I am sure you would agree should have none, over foreign-to-foreign commerce. For the most part, the conference and carriers in U.S. commerce disclaim any knowledge of or responsibility for rate setting in foreign-to-foreign trades, despite the fact that many carriers are in both trades.

If the same carrier is not involved in the fixing of the competitive rates, the Commission's jurisdiction is restricted to determining whether the outbound rate from the United States is so unreasonably high as to be detrimental to the commerce of the United States, or if a conference rate is involved, whether it is detrimental to the commerce of the United States or is contrary to the public interest.

Knowledge of the third-country rate, however, is important because a wide disparity in rates here can also suggest an unreasonable rate level in U.S. commerce, a problem within the jurisdiction of the Commission.

Nevertheless, the comparison between the U.S. export rate and the third-country competitive rate would just be one of a number of factors in determining whether the U.S. export rate is unreasonably high or is causing detriment to U.S. foreign commerce.

However, in a situation where the identical carrier is involved in the trade, a different regulatory situation would appear to exist. Section 17 of the Shipping Act, 1916, provides that "no common carrier by water in the foreign commerce shall demand * * * any rate * * * which is unjustly prejudicial to exporters of the United States as compared with their foreign competitors." If, after notice and hearing, the Commission finds that the carrier involved was charging rates which are unjustly prejudicial to U.S. exporters as compared with foreign competitors, the Commission may order the carrier to alter the rates to the extent necessary to correct such prejudice and order the carrier to discontinue the collection of such prejudicial rates.

Chairman DOUGLAS. Just a minute. This is a very important point that you made. In other words, as I understand it you are saying that though you have no control over the inbound conferences, you are able to reach the American carriers which are members of the inbound conferences, is that right? Have I understood you correctly?

Admiral HARLLEE. No. We can of course naturally reach American carriers better than others, but that is not really the point of this.

The point is that there is a section in the law which does provide that if rates discriminate against U.S. exporters in competition with foreign exporters, we can disapprove the rate. However, our efforts along these lines of course are trailblazing. The precedent has not been set for this. This is a difficult area which we are now in the process of developing. It hasn't been done before.

Chairman DOUGLAS. This is for third countries.

Admiral HARLLEE. Third country rates, due in part, in large part, to the problems that I have pointed out with regard to information and proceedings.

Chairman DOUGLAS. Where the same carrier will charge a higher rate, let us say, from New Orleans to Venezuela than it will charge from Liverpool to Venezuela.

Admiral HARLLEE. Yes, that is the type of situation to which the law goes. But of course there would have to be a hearing conducted.

Chairman DOUGLAS. I understand.

Admiral HARLLEE. And there would be a defense introduced on why the rate was lower from Liverpool, and so forth. The law does contain that provision, which should be the subject and will be of course the subject of proceedings. The case of the boilers will be our precedent case there.

Because of these considerations, efforts have been undertaken to find situations where the same carrier is charging rates from the United States, and at the same time is charging substantially lower rates from a foreign area to the same destination country. Our Bureau of Investigation is presently in the process of contacting various shippers and shipper groups who have indicated that they may have evidence which will assist the Commission in developing proof of a situation involving a single carrier in competitive United States and foreign trades.

This is one of the issues to be determined in the formal hearing ordered by the Commission on freight rates on boilers.

The foregoing is a summary of the important regulatory activities undertaken by the Commission in the last 7 months. Out of these activities has come, however, a clear indication of certain limitations the Commission must work with, and I would like to advert to them in closing.

There are two principal limitations to effective regulation by the Federal Maritime Commission. Both of these limitations inhere in the fact that we are regulating what is essentially international in character.

The first limitation is related to our ability to affect the rates being charged. A utility type of rate regulation is neither possible nor desirable. Our export rates are another country's export rates, and vice versa. We cannot fix an inbound rate without, at the same time, fixing another country's import rate.

This, of course, does not mean that this country must stand idly by while a particular rate discriminates against the United States. The Commission can and will take action. But by far the majority of rates must remain free from governmental control. And yet rates are the most important aspect of the shipping problem.

The second limitation pertains to the ability of the Commission to obtain the information about carrier and conference activities necessary to do its regulatory job.

Foreign governments traditionally resist the attempt of another government to obtain documents physically located inside their country. This is no less true with respect to shipping.

Our foreign allies disagree with the United States over the necessity and wisdom of regulating shipping. We must face this fact. We do not have to agree with each other, but we must not disregard or ignore each other's legitimate concerns.

We intend to avoid, wherever possible, actions which are particularly objectionable to our friends. They, for their part, however, must understand our legitimate interests and cooperate with us to correct discriminations against U.S. commerce.

Our current negotiations demonstrate, I believe, that, while disagreeing in principle, friendly nations can come together and find acceptable solutions to difficult problems.

We do not expect that they abandon their principles, and we intend, where possible, to avoid direct conflicts. But they must understand also that it is the desire of this Government, reaffirmed by Congress over a 50-year period, to exercise supervision over shipping, and particularly over anticompetitive combinations such as conferences and pools. The laissez-faire alternative to supervision, this Government believes, is not only contrary to the interests of the United States, but also contrary to the interests of international shipping.

Therefore, the Commission intends to do its regulatory job. It will issue orders where that is necessary; it will hold formal proceedings where that is necessary; and it will approach other governments through diplomatic channels where that is the best course indicated. These are all questions of means, and the Commission must be wise and prudent in selecting the proper means. But the end is clear: the elimination of discriminatory practices from our commerce.

Chairman DOUGLAS. Thank you very much.

Admiral HARLLEE. Mr. Chairman, I would like to suggest the possible desirability before further questioning of Dr. Mater, making his presentation, because it may answer in good fashion some questions.

Chairman DOUGLAS. I agree. I merely wish to congratulate you on your statement, and the obvious improvement in the intellectual tone and determination of the Commission since you became chairman of it, and also if I may say so, the obvious improvement in the quality of the staff.

Admiral HARLLEE. Thank you very much, Mr. Chairman. I certainly agree with the latter.

Chairman DOUGLAS. Mr. Mater.

STATEMENT OF DANIEL H. MATER, FEDERAL MARITIME COMMISSION

Mr. MATER. My name is Daniel H. Mater from the Commerce Department. I have been on loan to the Federal Maritime Commission since the first of the year, and before that on loan for a period of a few weeks to your own committee. Still earlier, I did some work on the same subject out of the Under Secretary's Office in the Department of Commerce.

When I went over to the Maritime Commission, it seemed to me that there might be some way of ascertaining the extent to which and whether or not freight rates outbound are higher than they are inbound on a trade-by-trade basis.

In the time that I have had I couldn't attempt this on all of the trade routes, but I have examined two trades: the one between Japan and the Atlantic and Gulf coast ports of the United States, and the other between West Germany and North Atlantic U.S. ports.

As I studied the problem, I was surprised to find how difficult it was to define the problem. It wasn't as simple as it sounded. There are several definitions or approaches that one might use to study and to find out whether or not outbound rates are higher or lower than they are inbound.

If time permitted, I would spend time showing the wrong ways that one might take. To give an example, one might simply—well, as a shorthand method—add up all the rates, get some kind of an average of the rates in one tariff and compare it with the average of the rates in another tariff.

The deficiency of this is that it is perfectly possible that the consist of traffic in one direction is higher or lower in value than that in the other, and therefore an average that would not be very meaningful in the sense of the word which we are considering here—that is, whether or not freight rates are higher outbound than inbound.

At length I became convinced that it had to be done on the basis of matching rates, finding the rate outbound and inbound on each commodity. Since I could not consider all of the rates in a tariff, I had to resort to a sampling basis; I used a 10-percent sample.

In case of the Japanese trade, for example, I took every 10th rate in the outbound tariff beginning with item 3.

Chairman DOUGLAS. How many were there?

Mr. MATER. In the outbound tariff there were 1,010 items.

Chairman DOUGLAS. And in the sample?

Mr. MATER. 101.

The inbound tariff was smaller, 600 rates and therefore 60 in the sample. At this point I might mention that as I worked along it became obvious that any tariff is an outbound tariff, and what we consider an inbound tariff from Japan is really Japan's export tariff. And, of course, an outbound tariff reflects the shipping or the exports of that country and the potential of that country to export.

Now, as has been said here, I think, it is not often that one would find a given commodity moving in heavy volume in both directions. And if I may go one step further, before I turn to the charts, if the classification is finely enough divided, there couuldn't be any commodity which would move at all in both directions. All you have to do is to made the discriptions fine enough and every commodity becomes unique.

Well, now to turn to the charts, this first chart is of the ocean freight rates between Japan and the U.S. gulf and Atlantic coasts. These rates, in fact all rates used in this study were in effect as of November 19, 1963. There have been changes since then.

Chairman DOUGLAS. I would like to have this full report made a part of the record.

Admiral HARLLEE. Yes. We submit that for the record.

(The report referred to follows:)

IMPORT VERSUS EXPORT

OCEAN CONFERENCE FREIGHT RATES OF THE UNITED STATES

THE FEDERAL MARITIME COMMISSION

Prepared by

DAN H. MATER and GORDON P. SMITH

OCEAN CONFERENCE FREIGHT RATES

Inbound versus Outbound

The present inquiry concerns the freight rates of the liner or common-carrier service. These are published rates for the movement of general cargo between regular ports of call on a regular basis. Time has permitted inquiry only with respect to West Germany and Japan.

CHAPTER I

The Freight Rate Structure with Japan

In the case of both Japan and Germany, the inquiry is two-fold: (1) an across-the-board analysis of the tariffs; and (2) an analysis of the freight rates of the important commodities.

General. -- The general-cargo trade between Japan and the United States Atlantic and Gulf coasts is of major importance on trade routes 12 and 22; the freight rates for this liner service are contained in two tariffs -- one for each direction. The rates in each tariff are established by a conference of shipping companies.

The inbound tariff, No. 32, issued by Japan-Atlantic and Gulf Freight Conference shows the names of the participating carriers and the many subsidiaries. Four of the nineteen members are American. The outbound tariff, No. 23, issued by the Far East Conference, shows the names of the participating carriers and the many subsidiaries. Five of the nineteen members are American. Most of the companies belong to both Conferences including four of the five American companies.*

The outbound tariff reflects or has as its basic purpose the provision of freight rates for the trade which moves from U. S. Atlantic and Gulf ports

* See note at end of the chapter.

to Japan. The inbound tariff, in like manner, presents rates on commodities which Japan ships or hopes to ship to the U. S. through Atlantic and Gulf ports. Other tariffs contain the rates to and from other Far East ports and other ports of the United States.

It is infrequent that a given commodity moves in heavy volume in both directions, although gradual changes in direction and in commodity movement are constantly taking place. Generally, the freight rate on a given commodity between given ports is lower if that commodity moves in heavy volume than if it moves in small volume. Thus, one would expect the rates on our exports--especially the major-moving ones--to be lower than the rates on those same commodities inbound. In like manner, one might expect the import rates from Japan, especially on major-moving commodities, to be lower than they are into Japan. The question arises as to which difference is the greater; that is, does Japan have a net freight-rate advantage, or do we?

The tariffs are sizeable, each composed of a few hundred pages and many hundreds of rates. It is obviously not a simple task to ascertain which tariff has the lower prices. It is at once apparent also that there are several ways of making overall comparisons, each having a certain value.

The following approaches have been used in this portion of the study of the rates with Japan:

1. A sample was taken of the rates to Japan and compared with a similar sample of rates from Japan.

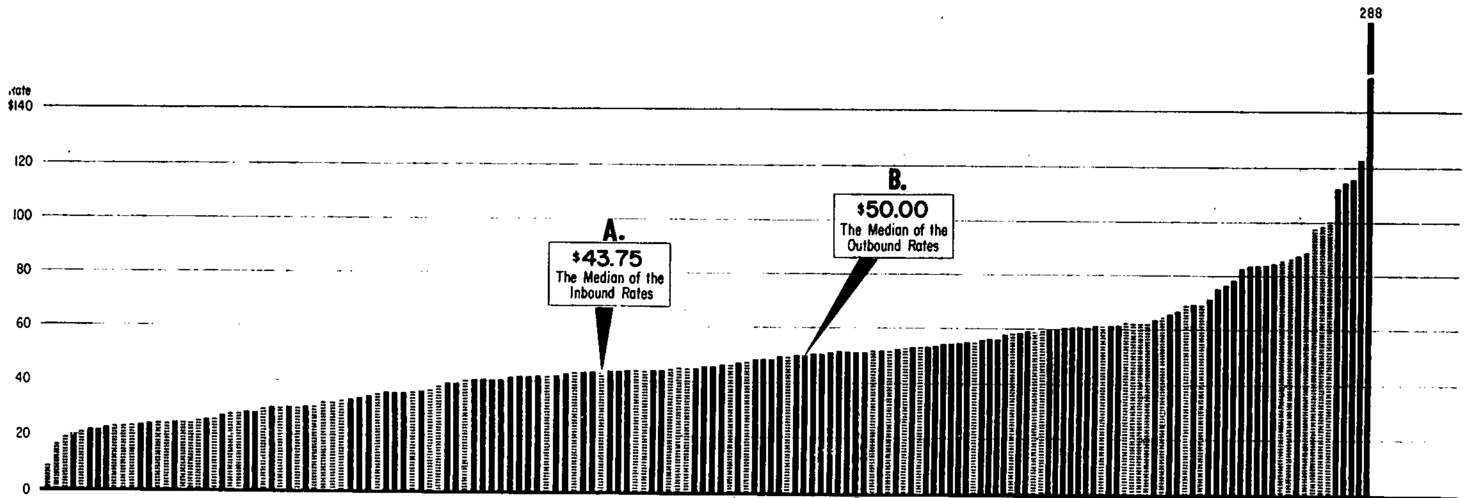
2. (a) Each rate in the sample of the export tariff was compared with its counterpart in the opposite direction--that is, the import rate on the same item.

2. (b) In like manner, a sample of the inbound tariff was taken, and each rate compared with its matching export rate.

Chart I

OCEAN FREIGHT RATES BETWEEN JAPAN AND U.S. GULF-ATLANTIC COASTS

A. 10 Percent Sample of the Inbound Tariff
B. 10 Percent Sample of the Outbound Tariff



All rates were in effect on November 19, 1963

3. The inbound and outbound rate samples and their counterpart rates were placed into a single array.

The rates used in these three methods appear in appendix tables 1 and 2.

Method No. 1 consisted of taking a 10-percent sample of the export tariff; and a 10-percent sample of the import tariff. This was done by taking every tenth rate in each of the tariffs, beginning with the third item in each.

For the purpose of charting, the two 10-percent samples were dovetailed into a single array so that the rates progress from the very lowest to the very highest. Chart I shows this progression of rates; the solid bars depict export rates and broken bars import rates. The results speak for themselves. The middle one of the 101 rates in the sample of the export tariff is $50.00; and the midpoint in the ascending scale of the sample of the sixty rates from the import tariff, which is much smaller, was found to be $43.75. On this broad and rough measure, the freight rates from the U. S. Atlantic and Gulf ports to Japan are 14 percent higher than from Japan.

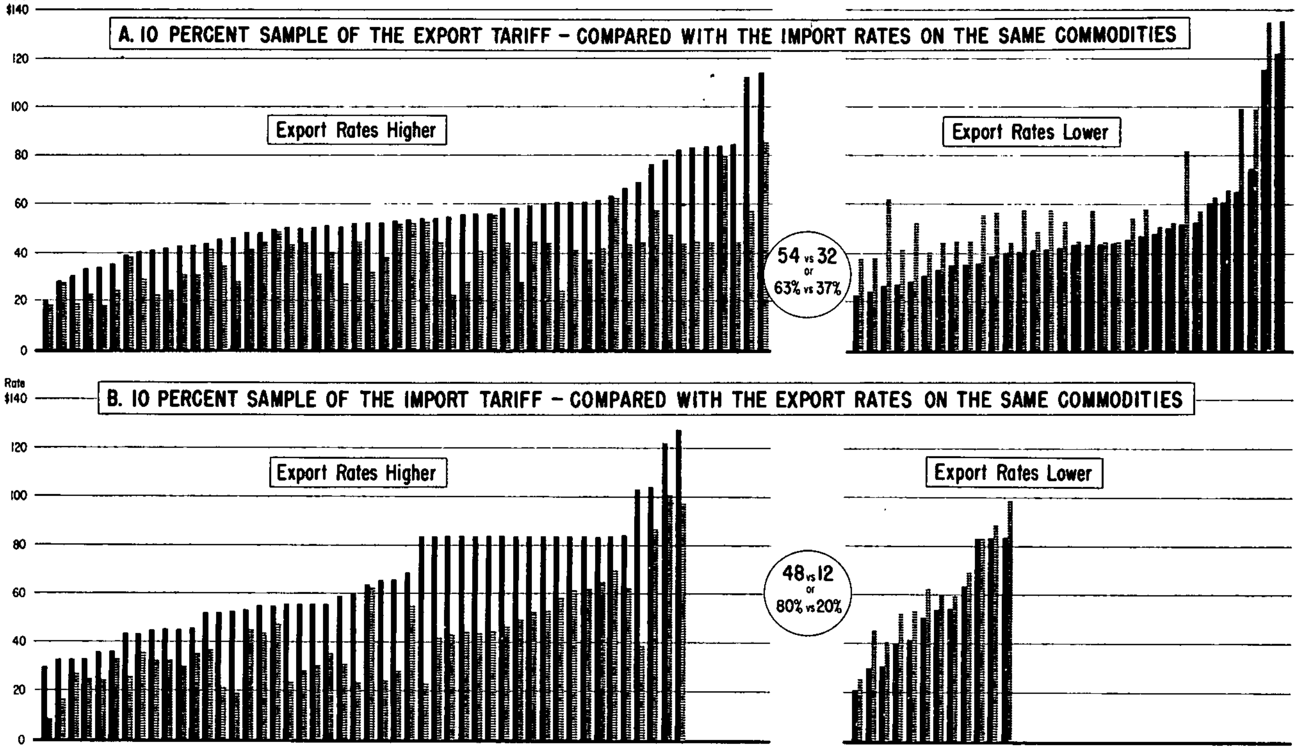
Although the two 10-percent samples reveal that export rates unquestionably are higher than import rates, they do not reveal how rates compare inbound versus outbound on any given commodity. Such comparison is germane and follows in Chart II.

Chart II uses the same two 10-percent samples; in addition, the matching or return rates have been added. For example, from the inbound tariff the matching rate was found for each one of the rates in the 10-percent sample of the export tariff. In like manner, to the 10-percent sample of the inbound tariff were added the matching export rates, commodity by commodity.

In the upper half of Chart II are plotted the rates of the 10-percent sample of the export tariff and their matching import rates. Of the 101 export

Chart II

OCEAN FREIGHT RATES BETWEEN JAPAN AND U.S. GULF-ATLANTIC COASTS



All rates were in effect on November 19, 1963

rates, it was not possible to find a sensible matching rate in fifteen cases. The eighty-six export rates and their matching import rates were divided into two groups and plotted accordingly; the larger group of fifty-four pairs is of those in which each export rate is higher than its counterpart inbound rate. In thirty-two cases, on the other hand, the sample export rates were found to be lower on a given commodity than the counterpart import rates.

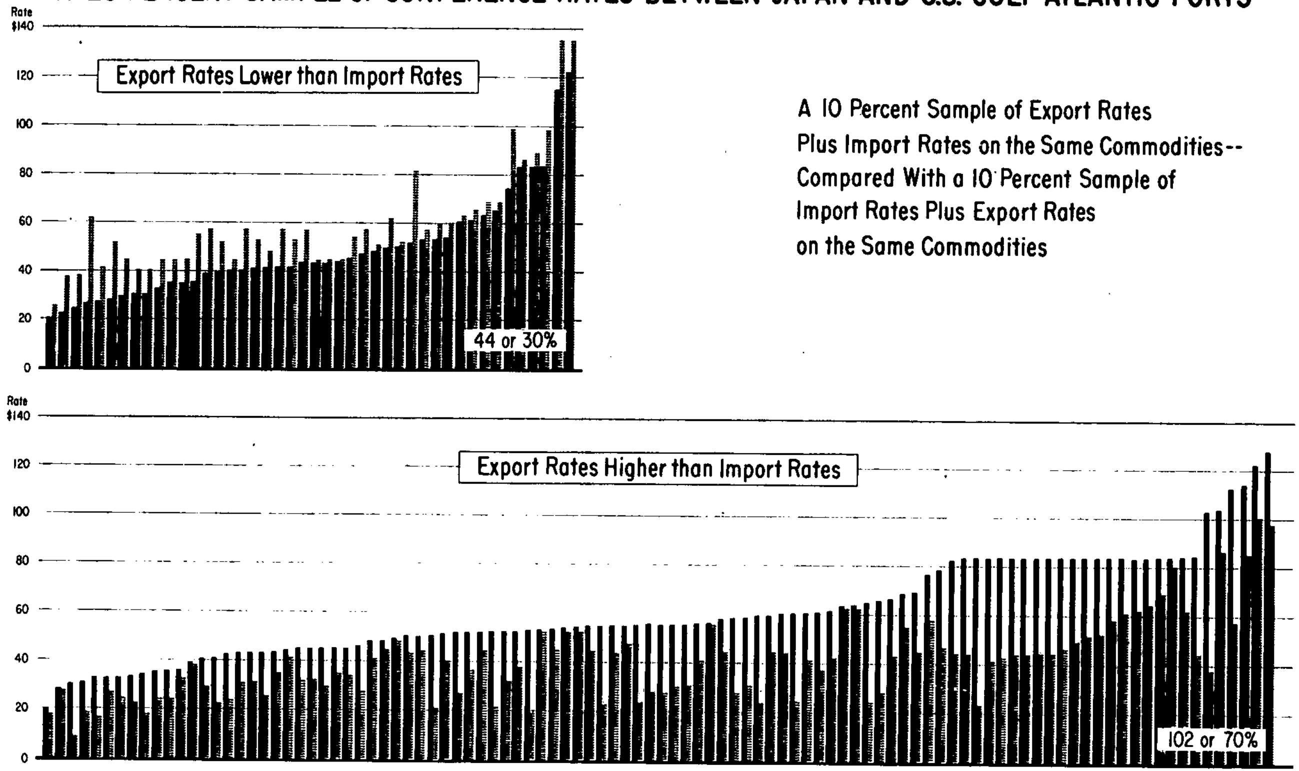
In other words, in 63 percent of the cases it is cheaper to ship inbound, commodity by commodity, on the basis that our export tariff has rates which are higher than the rates on the same commodities inbound.

It is important to realize that generally a given tariff is built around exports; the outbound tariff in this case, covering the trade from United States North Atlantic and Gulf ports to Japanese ports reflects the exports of this country from the port ranges indicated; and the inbound tariff, on the other hand, reflects the export potential of Japan. The above fact should be thought of in relation to the previously-mentioned point that practically no commodity moves in heavy volume in both directions between two ports. Also, to reiterate, rates are lower, by and large, on commodities which move in great volume than they are on commodities that move in small volume. Therefore, one would expect the rates on our exports to be generally lower than the import rates on the same commodities. Notice that the top panel of Chart II shows just the reverse: commodity by commodity, Japanese rates are lower than are those in the tariff which reflects our own export potential.

The comparison on the basis of matching rates, commodity by commodity, is only half completed when done on the basis of a sample of either of the tariffs; it is important to start also from the other side of the ocean, so to speak.

Chart III

A 20 PERCENT SAMPLE OF CONFERENCE RATES BETWEEN JAPAN AND U.S. GULF-ATLANTIC PORTS



All rates were in effect on November 19, 1963

When the inbound rate sample, therefore, was compared with the matching export rates, it was found, as the bottom half of Chart II shows, the outbound rates are higher than the inbound rates in 80 percent of the cases. This result was to be expected in principle, but not to such an extreme degree. In summary, where we might expect to find ourselves strong, we are not; and where we might expect to find ourselves weak, we are even weaker. Starting from either tariff, rates outbound are higher than inbound, commodity by commodity.

Having made the comparison with each tariff as the starting point, the question arises as to what a composite of the two measurements might show. Chart III supplies the answer. It contains both 10-percent samples and both sets of return rates. This means eight-five export rates and their matching eighty-five import rates, plus the sixty rates from the import sample and their matching sixty return rates. Altogether, 290 rates are in the composite picture. As previously stated, there were an additional fifteen rates in the export sample for which no matching import rates could be found; they were, accordingly, omitted from Charts II and III, although some were satisfactory for use in Chart I.

Chart III presents something approximating a 20-percent sample of the body of rates designed for moving traffic between the two sets of ports, plus the matching rate in every case. It was found, as the chart shows, that there were more than twice as many cases in which the rate outbound on a given commodity is higher than the inbound rate: 70 versus 30 percent.

To these quantitative measurements should be added a qualitative point. If one looks at the bottom half of Chart III, it is obvious that the export rates are measurably higher than the import rates; whereas in the upper half of the chart, it can be seen that only occasionally is the export rate measurably or substantially lower than its matching import rate. Thus, export rates not only are higher than the matching import rates in 70 percent of the cases, but the extent to which they exceed import rates is greater than in the reverse comparison.

It will be recalled that on an unmatched basis the median rates were $50.00 and $43.75, outbound and inbound, respectively. This approach was used as a kind of helpful first view. Although the finding is in keeping with that of the matching-rate basis, it is the latter which leaves no reasonable doubt that the basic ocean freight-rate structure is more favorable to Japan than it is to the Atlantic side of the United States.

The difference depicted is between the inbound and outbound general-cargo freight-rate levels. The value of the random-sample method is that each item, large or small, important or unimportant, receives one vote in the analysis.

Major-moving commodities.--From the measurement of the nation's relative position in terms of the general rate level, one may proceed to evaluate the various claims about the rates on the "important commodities" moving in this same trade. Before so proceeding, however, it will be observed that the survey of the overall liner-rate structure between Japan and the East Coast of the United States indicates no more about the general situation of the remainder of our trade routes than that the same type of analysis would appear to be in order.

One frequently hears the idea expressed that the Federal Maritime Commission should confine its rate attention solely to the rates of the major-moving commodities--meaning major-moving exports. As earlier stated, a tariff fits or is built around the exports of a country; therefore, from a

Table 1

OUTBOUND VERSUS INBOUND RATES

Rates on Major Moving Commodities from U. S. Atlantic & Gulf Ports to Japan
Compared to Rates from Japan to Atlantic & Gulf Ports of the U. S.
on Same Commodities (Bulk Excluded)
(This table is a copy of that submitted by the Carriers, except as indicated in the footnote)

Commodity No.	Commodity	Outbound	Inbound	Correction of Inbound Rate
1	Additives, non-hazardous, N.O.S.	$48.25 W/M	$62.25 W/M	
2	Airplanes and parts	68.00 W/M	75.75 W/M	
3	Autos, unboxed	49.25 W/M	24.00 W/M	
4	Carbon black	22.00 W/M	44.50 W/M (as industrial chemicals)	
5	Cotton, raw, high density	2.00 - 100#	5.50 - 100#	
6	Pipe, conduit bent, iron and steel	36.00 - 2240/40	24.25 - 2240/40	
7	Pipe, conduit bent, straight iron and steel	32.75 - 2240#	24.25 - 2240#	
8	Iron and steel shapes (not fabricated)	30.50 - 2240#	18.50 - 2240#	
9	Tinplate, secondary	32.75 - 2240#	53.00 - 2240#	
10	Scrap metal, aluminum	32.00 - 2000#	29.00 - 2000#	
11	Scrap metal, brass	26.25 - 2000#	22.75 - 2000#	
12	Concentrates, packed, copper	16.50 - 2240#	69.72 - 2240#	$62.25 W
13	Synthetic resin	50.00 - 2000#	62.30 - 2000#	
14	Rosin and sizing N.O.S.	31.00 - 2240#	83.70 - 2240#	
15	Synthetic rubber in bags	45.00 - 2240#	104.50 - 2240#	
16	Synthetic rubber, not in bags	45.00 W/M	62.25 W/M	
17	Shells, mussel	28.50 - 2000#	35.75 - 2000#	27.50 W
18	Stoves and ranges, oil or coal	49.00 W/M	62.25 W/M	31.00 W
19	Tetraethyl lead	65.50 W/M	62.25 W/M	
20	Tobacco, unmanufactured a/	87.25 - 2000#	104.00 - 2000#	51.75 M
21	Flour, wheat, in bags	22.00 - 2000#	81.00 - 2000#	
22	Lube oil and grease, packed	35.00 - 2240#	55.75 - 2240#	
23	Petroleum solvents	45.00 W/M	44.50 W/M	
24	Cargo, N.O.S.	83.75 W/M	62.25 W/M	
25	Machinery, N.O.S.	61.25 W/M	42.00 W/M	

Source: Outbound - Far East Conference Tariff #23.
Inbound - Japan Atlantic & Gulf Freight Conference Tariff #32.

Notes: 1/ Rates indicated above as of November 1, 1963.
2/ W/M = 2000 lbs. or 40 cubic feet.

Where necessary, the inbound rate has been adjusted so that its rate basis will reflect the same rate basis as the outbound.

F.M.C. notes: a/ Inbound $104.00 for tobacco leaf in hogshead W; $51.75 tobacco leaf filler, M.
· First and last columns added.

commodity-by-commodity approach one might expect to find a nation's exports to have freight rates which are lower than those on the same commodities inbound. Particularly might this favorable condition be expected in regard to the major-moving commodities.

With these expectations in mind but not necessarily acceptable in principle, consider the inbound and outbound rates presented by the Committee of American Steamship Lines to the Joint Economic Committee on November 19, 1963. The following table is reproduced from that presentation except that the items are numbered and certain corrections and footnotes added, as indicated.

The Carriers' table, according to the title, shows the rates to Japan from the United States Atlantic and Gulf coasts on twenty-five major-moving commodities. It must be emphasized that these important commodities are outbound only. Even on this selected sample of twenty-five exports, ten of the rates are shown to be higher outbound than inbound. In addition, there were among the inbound rates some with which there is disagreement. After making necessary rate corrections, twelve of the twenty-five items have rates which are higher outbound than inbound. Further, the thirteenth item should probably be added to the list of lower rates inbound; and finally, one of the items perhaps should have been omitted. Thus, on the basis of the Carriers' own presentation of only major-moving outbound commodities, freight rates to Japan are higher than from Japan in half or more of the cases.

Finally, let us consider our export rates to Japan on the principal commodities which Japan ships to the East Coast of the United States. It is not easy to find data concerning such important incoming commodities,

Table 2

MAJOR MOVING COMMODITIES FROM JAPAN TO U. S. ATLANTIC AND GULF PORTS, PLUS MATCHING EXPORT RATES

INBOUND TARIFF ITEM NUMBER	INBOUND COMMODITY DESCRIPTION AND COMMENT RE MATCHING EXPORT DESCRIPTION*	INBOUND FREIGHT RATE	OUTBOUND TARIFF ITEM NUMBER	OUTBOUND FREIGHT RATE
	CANNED GOODS:			
375	Fruits	$33.00 W/M	468	$55.75 W/M
375	Meats	33.00 W/M	468	55.75 W/M
1369	RAMIES	41.00 W/M	578	32.75 W/M
550	LINEN	45.75 W/M	7080	65.50 W/M
555	COTTON BAGGING	36.00 W/M	240	65.00 W
555	COTTON GOODS, N.O.S.	36.00 W/M	520	83.75 W/M
555	COTTON YARN	36.00 W/M	2974	56.25 W/M
	ELECTRICAL GOODS:			
635	Motors	43.50 W/M	1625	61.25 W/M
635	Radios	23.50 W/M	2775	61.25 W/M
	HARDWARE:			
845	Shovels	38.25 W/M	2500	103.25 W/M
	MACHINERY AND PARTS:			
1095	N.O.S.	42.00 W/M	1625	61.25 W/M
	METAL WARE:			
645	Enamel Ware	34.00 W/M	1221	83.75 W/M
1210	NOVELTIES:			
	Animal Heads, Ash Trays, Paper Hats, Picture Frames, Wire Stands, Etc.	23.50 W/M	520	83.75 W/M
1800	WALL BOARDS, PLYWOOD AND VENEER	27.00 W/M	1610	45.25 W/M
1425	RUBBER GOODS, N.O.S.	42.00 W/M	520	83.75 W/M
1450	RUGS AND CARPETS, N.O.S.	27.25 W/M	523	53.00 W/M
950	IRON OR STEEL RODS	18.50 GT/M	1335	45.25 GT/M
950	IRON OR STEEL PLATES	18.50 GT/M	1354	26.50 GT/M
1770	TOYS AND GAMES, AS SPECIFIED	29.00 W/M	2862	59.50 W/M
	WIRE AND WIRE MANUFACTURED:			
974	Iron or Steel Wire	18.50 GT/M	1369	32.75 GT/M
976	Iron or Steel Wire Barbed	19.00 GT/M	1305	36.00 GT/M
980	Iron or Steel Wire Rope	32.00 W/M	1367	38.25 GT/M
	WOODEN WARE:			
1830	Doors	34.00 W/M	864	56.50 W/M
741	Furniture - K. D.	34.00 W/M	1060	77.00 W/M
1845	XMAS ORNAMENTS	24.25 W/M	520	83.75 W/M

W = 2,000 lbs.
M = 40 cu. ft.
GT/M = Gross ton or measurement ton : 2240 pounds or 40 cubic feet
* Indented material refers to export description
All rates in effect on November 19, 1963

Tariff Authorities:
Inbound--Japan-Atlantic and Gulf Freight Conference Tariff, No. 32
Outbound--Far East Conference Freight Tariff No. 23.

usable in connection with freight-rate comparisons. In a publication, however, entitled, "Consolidated Statistics of Cargo Movements from Japan from January 1 to June 30, 1963", compiled by Trans-Pacific Freight Conference of Japan and Japan-Atlantic and Gulf Freight Conference, Tokyo, there was found the tonnage moving from Japan to the U. S. Atlantic and Gulf coast ports for each of the forty-six commodity groups.

As might be expected from previous discussion of this general point, these commodity groups do not well match those used in either the inbound or outbound tariffs. Only by close analysis of the classification of commodities in the inbound tariff in relation to the commodity groupings in the aforementioned Japanese publication, was it possible to put together a list of what probably are the major-moving commodities from Japan. This list, reduced to twenty-four by omitting the smallest-tonnage items, was constructed before any comparison was made of their in and out freight rates. There follows that list of items and their inbound and outbound freight rates.

The table shows that only in one case is a rate from the United States lower than the inbound rate from Japan on a given important commodity. As earlier stated, this list of twenty-four major-moving commodities inbound from Japan probably does not constitute the most important such commodities tonnage-wise. That would be expecting too much from the data and knowledge at hand. In spite of such limitations, however, it can hardly be argued that the freight rates from the Atlantic side of the United States to Japan are not higher than they are from Japan on Japan's own major commodities inbound to the United States. It is clear beyond any doubt that the United States Gulf and Atlantic coast ports have an extremely adverse balance of freight rates with Japan--on the basis of both the general level and on the level of important commodities; 70 percent on the composite general rate level basis and about the same, 73 percent, on the basis of the directional composite of important commodities.

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*American President Lines, Ltd., Lykes Bros. Steamship Co., Inc., States Marine Lines Co. and United States Lines belong to both conferences. One American company, Isthmian Lines, Inc., belongs only to the outbound conference. See 7th revised page No. 3 of J.-A.G.F.C. Tariff No. 32, effective July 1, 1963, and 7th revised page No. 2 of Tariff F.E.C. No. 23, effective November 28, 1962.

CHAPTER II

Carriers' Exhibit Relative to Our Trade with Various Countries

One of the exhibits prepared by the American Steamship Lines for presentation before the Joint Economic Committee on November 19, 1963 deals with the foreign trade between each of several countries and the United States.

Japan.--The first page of Section "A" of that exhibit consists of a table of the exports and imports with Japan, separately stated, for each of the years between 1958 and 1962. For each year, also, there is shown the balance, plus or minus, in favor of the United States. In each of these years, except one, the balance was positive. The average also was positive. In fact, exports, on the average, exceeded imports by 20 percent. No textual explanation accompanies this table; apparently, it is assumed that the reader will conclude that the freight rates between the United States and Japan must be favorable to the United States because we have a favorable balance of foreign trade with that country.

Examination of the table, however, should lead one to be wary of such conclusions, stated or implied. The exports of 1962 were 67 percent higher than they were in 1958; the imports, however, had risen by over 100 percent. Further, our exports have fallen from 1961 to 1962, whereas our imports from Japan have increased. The future does not look as good as the past. The unfavorable freight-rate balance could be a factor.

Beginning with the numbered pages, page one presents a discussion about American and Japanese automobiles. The statement is made that inbound rates on automobiles to the United States are 22 percent lower than outbound, but that since we have sold more automobiles in Japan than Japan has sold in the United States, the freight-rate differential must not be doing any harm. In few disciplines would such logic be used.

Further observation is made to the effect that since the average value of our automobiles exported to Japan is $2,332 versus $951, "the two products cannot be called competitive in any practical sense ..." It is probably true that the Japanese low-priced car does not directly compete with new American-made cars. On the other hand, a low-priced import definitely does compete with U. S. second-hand cars which, in turn, increases the effort necessary to sell new cars.

The remainder of the sixteen-page text and forty-four pages of tables also deal with the Japanese trade. Typically, a page shows the shipments to Japan in the top panel, the shipments to the United States from Japan in the middle panel; and the freight rates in both directions in the bottom panel, plus a comment or conclusion. The values and the freight rates are generally per kilogram, although, as the statement observes, this is not always possible.

A typical page shows that the value of the United States product is higher, each or per kilogram, etc., than is the Japanese product. Many of the examples show that the freight-rate per pound, kilogram, or each, is also higher to Japan than from Japan. In such instances the usual explanation is that the value of our products is so much higher per pound.

The Carriers maintain that U. S. exporters have favorable freight rates relative to the inbound rates on the same commodities. Even those rates which are higher outbound than inbound are said to be bargains because of the very high value of U. S. versus foreign-made products. Instead, it may mean that only the high-priced portion of American exports has the margin of profit in dollars or percent to enter the Japanese market.

The shipping industry representatives have made much of the fact that "tires and tubes" were chosen by the Government as one of the trade items on which to compare the rates inbound and outbound with Japan. Their complaint with this choice of items has been that the exports are composed principally of tires for airplanes and big earth-moving machinery; whereas, the imports from Japan are primarily for bicycles. They complain that the comparison is unrealistic, that tires and tubes are not comparable in this case. Part "A" of the Carriers' market exhibit shows the statistics back of this criticism. This unnumbered table and page shows that from the United States to Japan the largest-moving variety was 526 tires for trucks and busses, having an average value of $102.19. The next largest group was passenger-car tires; only a few off-the-road tires are shown--but no airplane tires.

The data which they show for the trade between Japan and the United States for the same year in tires and tubes does, indeed, show that the largest single item inbound was that of bicycle tires, having a value of 65 cents each.

As in the entire exhibit, it is obvious that the industry people have struggled mightily with the data that are available; it is true, as they state, that much of the available data are inadequate; this situation troubles everyone. For example, the industry shows that the average value per tire from the United States to Japan is $75.95 as opposed to an average value of 77 cents per tire inbound from Japan to the United States. These figures do not prove, however, that the freight rate should be higher <u>per pound</u> from the United States than to the United States; nor does the value per tire indicate the value per pound. The exhibit shows the value per kilogram of tires from Japan is 68 cents; but it does not show the value per kilogram from the United States.

The freight rates quoted in the table are on the basis of both weight and space to Japan, but on the basis of space only from Japan. Using the space rates quoted, therefore, in order to compare the inbound and outbound situation, note that the rate from Japan to the Atlantic coast is shown to be $34.00 per 40 cubic feet; the rate from the Atlantic coast to Japan, however, is quoted as ranging from $27.42 to $36.35 per 40 cubic feet, depending upon the value of the commodity. Since the exhibit emphasizes the higher value per unit of U. S. exports, the $36.35 or higher end of the rate range might expectably be the more nearly comparable with the inbound rate of $34.00--unfavorable to the United States.

The Netherlands.--In Section "B" of the Carriers' commodity exhibit, it is shown that the United States, as a whole, has an extremely favorable export balance with the Netherlands. One should not conclude from these facts alone, however, that the freight rates between the United States and the Netherlands are favorable to the United States.

Following the table of exports and imports are fifty-one pages of tables, each showing the trade between the United States and the Netherlands for a single commodity, the freight rates thereon, and a conclusion. A typical one is to the effect that the United States is not a major exporter of this commodity (soda ash) to Europe; and since, in addition, there is no inbound movement, the freight-rate difference is said not to be significant.

Another frequent conclusion offered is that since there is no comparative relationship between the major commodities that move in each direction, the rate disparities do not matter.

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One table shows that we exported one locomotive and imported none. It was stated as a conclusion that the rates are, therefore, academic. This logic would also support a freight rate at cost, or zero, or even below cost.

Another one of the fifty-one tables in this same Section "B" of the report shows no traffic in railway cars in either direction; and again the conclusion is drawn that the rates are meaningless.

The table in regard to radios and parts shows about seven million dollars of imports and six thousand dollars of exports. The freight rates quoted are \$35.50 to \$57.25 outbound from the Atlantic, and \$58.00 from the Gulf. Inbound, however, the rates are shown to be much lower; \$25.50 and \$32.50 to the Atlantic and Gulf Coasts, respectively. It is explained, however, that no freight-rate adjustment would do any good, since production costs are already too much against the American product.

Again and again one finds this refrain: since little traffic moves outbound, the higher rate outbound isn't hurting anything. One might consider, however, that if some traffic moves against a freight-rate barrier, perhaps more would move if the freight rate were lower.

<u>Belgium and Luxembourg</u>.--Section "C" of the exhibit deals with the exports and imports with Belgium and Luxembourg. The first page shows a favorable balance of trade with these countries; one notes, however, that the balance is becoming less and less favorable: seventy-five millions of dollars more of exports than imports in 1960, but only forty-one million more in 1962. Further, exports have increased only 35 percent, 1962 over 1958, as compared with a 44-percent increase in imports in the same

interval. Following this table are forty-eight pages, each showing the trade for a given commodity. In all cases the freight rates are stated to be the same as those for the Netherlands. A frequent conclusion at the bottom of each of these forty-eight pages is, "same as for Netherlands." As noted above, there is widespread disparity in the Netherlands rates.

West Germany.--Section "D" of the report shows, as do the others, that we have a favorable export balance with West Germany--the inference perhaps again being that the freight rates must also be favorable. As in the case of the trade with some of the other countries, however, our favorable export balance is becoming less so. Our exports have grown 46 percent from 1958 to 1962, according to the figures quoted; whereas the imports have increased 53 percent. There follow forty-six pages of tables, each page showing the exports, the imports, the freight rates, and a conclusion regarding a single item of trade between the United States and West Germany.

The first page has to do with automobiles for the year 1962. The rates quoted are $16.50--$35.00 from the Atlantic Coast to Germany, and $20.00--$40.50 from Gulf ports to Germany. These rates are for 2,240 pounds of 40 cubic feet. The rates from Germany to the Atlantic range from $15.75 to $29.00, and from $14.50 to $16.50 to Gulf ports. These rates are for 2,204 pounds or 35 cubic feet. The rates at the lower points of the ranges do seem to be, as the freight-rate conclusion states, quite comparable. At the higher end of each of the rate ranges, however, this is not the case. From the Atlantic and Gulf ports to Germany the higher ends of the two rate ranges are $35.00 and $40.50, respectively. Contrast this with $29.00 and $16.50 from Germany to the Atlantic and Gulf coasts, respectively. Thus, the comparison, inbound versus outbound, is not entirely clear; it depends upon whether the comparison is made at the lower ends of the rate ranges, or the higher ends.

The table dealing with copper sheets shows the rates from U. S. Atlantic ports to Germany, for example, to be $44.50 for 2,240 pounds to Germany, but only $26.25 pounds from Germany to Atlantic ports. The conclusion is stated to be the same as that for the Netherlands, which is to the effect that there is a statistical problem inherent in copper items. This explanation appears several times where there would not seem to be available the customary explanation for the disparities.

Another page shows the copper rates from Atlantic ports to West Germany to be $72.00 per ton, compared with $29.00 from Germany to Atlantic ports per metric ton. The conclusion stated is that the low inbound rate reflects the movement in volume into the United States, and that if Germany can produce and sell such volume to us, then we are already outcompeted. Apparently, our inability to compete otherwise is the justification for imposing a higher outbound rate.

France.--Section "E" of the Carriers' exhibit dealing with exports and imports of the United States with France, contains a table which shows the ocean freight rate as a percentage of the average value of commodities shipped under tariff entry. This percentage is shown separately for exports and imports for each of a number of items or commodity groups. In each case the ocean freight rate is a higher percentage of commodity value in the case of imports then it is in the case of exports, with one exception.

The ratio generally is two to one, or higher. For example, in case of copper sheets, the export rate is shown to be about 1¼ percent of the commodity value. In case of imports on this commodity, the percentage is about 3 percent. This is supposed to justify the fact that the export freight rate is about 2¢ per pound as opposed to the average import freight rate of about 1½¢ per pound.

It would be fatalistic if the United States agreed to a rate-making principle which decreed that more cheaply-made foreign products are to be imported into this country at a rate lower than our competitive product can be exported, solely because the foreign-made products were cheaper.

This table is followed by eleven tables, each of which shows for a given commodity the exports, the freight rates, and a conclusion. Not all of the tables are complete, which is quite understandable in view of the several difficulties with the data in this field.

One of the tables has to do with costume jewelry. The stated conclusion amounts to a description of the Carriers' inability to convert the data on imports and exports to a cubic measurement. Thus, the Carriers are unable to explain away the fact that the freight rate to France from Atlantic ports is $63.75 per long ton, as opposed to the inbound rate as low as $32.00.

Taking another table at random, iron and steel plates, the rate per ton from Atlantic and Gulf ports to France is shown to be 7/10 of a cent per pound. Inbound, the rates to North Atlantic ports are higher, but to the Gulf lower. The U. S. shipper is said to have a tremendous advantage because the French shipper's freight rate is as much as 12 percent of the value of the commodity--as opposed to only 2 percent in the case of the American exporter. Quite obviously, this is no advantage to the American exporter because he still pays a higher freight rate. Also, one must assume under this reasoning that if the price of American steel is reduced, the conferences would lower the rate.

United Kingdom.--Section "F" contains 38 pages, each page constituting a table describing the exports, the imports, and freight rates for a given commodity between the United Kingdom and the United States. Each page ends with a conclusion.

In the case of automobiles, the export freight rate from Atlantic ports begins at $25.25 per long ton. The import rate begins with $12.25. The table shows that in 1962, 324 units were exported, and 68,459 were imported. Most of the imports move on chartered ships. The conclusion states: "Based on the tremendous volume of movement, import rates have been driven down to their low level by the presence of contract (charter) competition." Apparently, we have the high export rate because there is no competition to the conferences; that is, the absence of competition because of the conference system has resulted in a high outbound rate.

The conclusion regarding freight rates on "books" moving so much more cheaply to the United States from Great Britain, is to the effect that our local producers find it cheaper to produce abroad and ship back the product for sale here. It is stated that the different production cost factors and necessary copyrights account for this turnabout trade. This may be so, but it is hardly any explanation for the disparity in rates.

One page is devoted to the exports and imports of distilled liquors. The rate from North Atlantic to United Kingdom ranges from $48.50 to $50.00 for 40 cubic feet. Inbound the rate is $30.75 to $34.75 for 40 cubic feet. The conclusion states that the United Kingdom has a very high tariff on imported whiskey. It is stated that the tariff in Great Britain of $6.57 per fifth is a far cry from the 11 or 12-cent freight-rate per fifth to Great Britain. The fact that there is a discriminatory tariff is hardly justification for a discriminatory rate.

One table after another explains away the adverse freight-rate situation on the basis that the value of our products are higher and therefore they can bear a higher freight rate. In fact, in some cases it is added that the difference in value is so great that in reality the items are not comparable.

There is a table in regard to sewing machines. The United States imported one-half million units, whereas we exported less than 5,000 units. Our sewing machines average in value from $88.00 to $500.00. The imports average from less than $3.00 to about $150.00. Unquestionably, not only is there a great difference in the cost of production for a comparable item in this country as opposed to United Kingdom, but also there appears to be a greater range of proficiency in the machines imported. Nevertheless, all sewing machines are made for the purpose of sewing; in this sense there is competition in varying degrees in the market for sewing machines. In spite of this obvious fact, the higher rates which American exporters of sewing machines must pay as opposed to the import rate, are explained away simply because it is said our machines cost more. The justification offered would be more convincing if it were on the basis of value per pound, rather than value per unit. It might be, for example, that a ton of small cheap sewing machines is no less valuable than a ton of large expensive machines.

There are four additional sections in this study. Section "G" deals with the trade to Italy; Section "H" with the trade to Sweden; "I" with Brazil; and "J" with the trade with other South American countries. Although some of the material is interesting and informative, discussions of these sections is unnecessary; the thinking of the Carriers in the matter of rate disparity is sufficiently revealed by the first five sections.

CHAPTER III

The Freight Rate Structure with West Germany

As earlier stated, the inbound and outbound ocean freight-rate levels between the United States and any other nation cannot be judged solely by the rates in either direction, by the rates on all of the commodities without reference to the volume of movement, nor by the rates on the major-moving commodities.

In both the general and important-commodity approaches, the tariffs issued by the respective conferences were used exclusively. The inbound tariff, "Tariff H," is the product of the Continental North Atlantic Westbound Freight Conference. This conference has a membership of nine companies, of which four are American. The outbound conference also has a membership of nine companies, of which three are American.* This conference, North Atlantic Continental Freight Conference, is the author of "Tariff 25."

General. In order to ascertain the level of general-cargo ocean freight rates between U. S. North Atlantic ports and West Germany, two 10-percent samples were taken: one of the inbound tariff and the other of the outbound tariff. In addition, the rate in the opposite direction was obtained for each of the sample rates. This method

*Nearly all members belong to both conferences. See note at the end of this chapter.

is exactly the same as that earlier used to ascertain the inbound and outbound general rate levels with Japan. Appendix tables 3 and 4 contain the rates used.

The outbound tariff shows the rates also to the Belgium and Netherland ports. The rates to the German ports are higher by about 10 percent, and the distance is about 10 percent greater. Note, however, that westbound the rates are the same from the two ranges of ports.

Westbound the weight ton is 2204 pounds, about 1.6 percent smaller than the eastbound weight ton of 2240 pounds. Further, the import measurement ton of 35.314 cubic feet is approximately 14 percent smaller than the export measurement ton of 40 cubic feet. In other words, the inbound measurement ton amounts to 56 pounds per cubic foot, as opposed to 62.5 pounds outbound. It will be recalled that in both directions in the Japanese trade the weight ton of 2000 pounds and the measurement ton of 40 cubic feet applies, amounting to 50 pounds per cubic foot.

The effect of these differences in the size of the weight and measurement ton, outbound versus inbound, is that the conversion of an inbound rate of, for example, $66.00 w/m (weight or measurement) is to produce two rates:

$67.06 per weight ton of 2240 pounds and $74.76 for a measurement ton of 40 cubic feet. In other words, complete comparability cannot be obtained on the basis of the present definitions of the presently-used units of weight and measurement.

This source of incomparability could be eliminated. Railroads construct rates according, among other things, to the method of packaging and the bulk-to-weight ratio. As a result, practically all railroad rates are quoted in terms of weight. By and large, people are encouraged to buy if they have a good knowledge beforehand of the cost. This situation would seem to be just as confusing to our foreign customers, actual and potential, as it is to our importers.

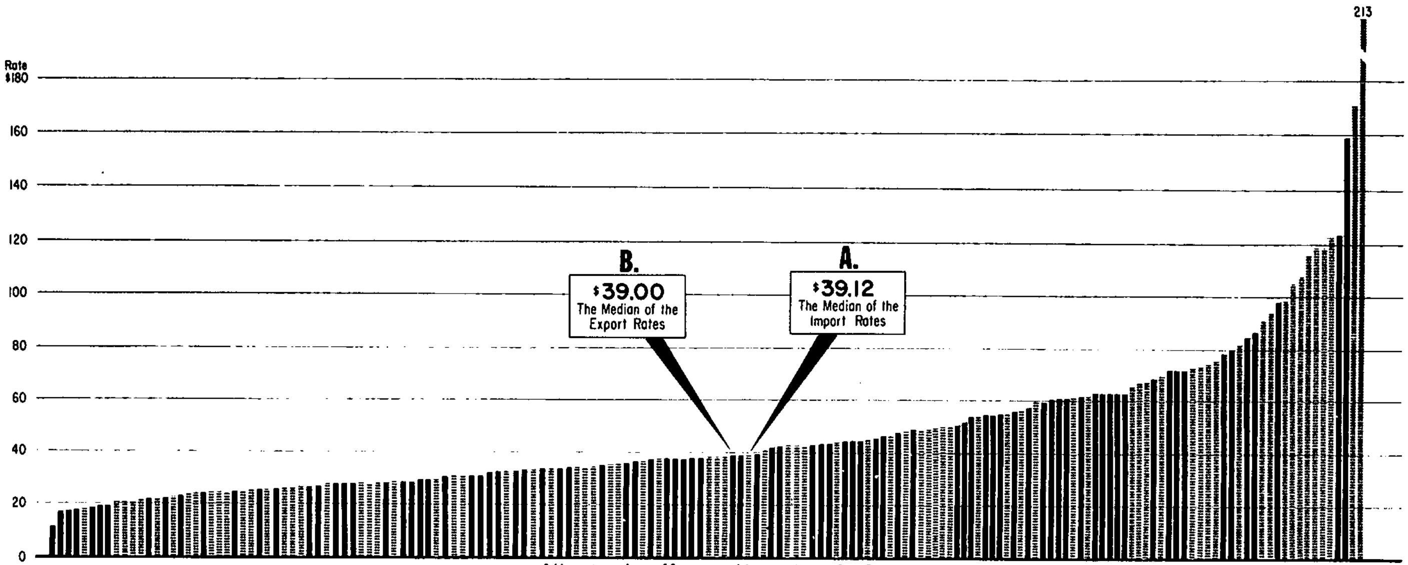
The appendix tables show freight rates inbound on both weight and measurement ton bases when there is a difference. In the charts, however, whenever there are two separate rates, the weight basis is used. It is believed that the use of weight in this study probably causes the difference in the inbound and outbound general rate levels to be understated. In Chart IV, for the purpose of plotting, the size of the sample was halved - every other one of the sample rates.

Chart IV

OCEAN FREIGHT RATES BETWEEN WEST GERMANY AND U.S. NORTH ATLANTIC PORTS

A. 10 Percent Sample of the Import Tariff

B. 10 Percent Sample of the Export Tariff



All rates in effect on November 19, 1963

In this chart only one-half, every other rate, of the sample used

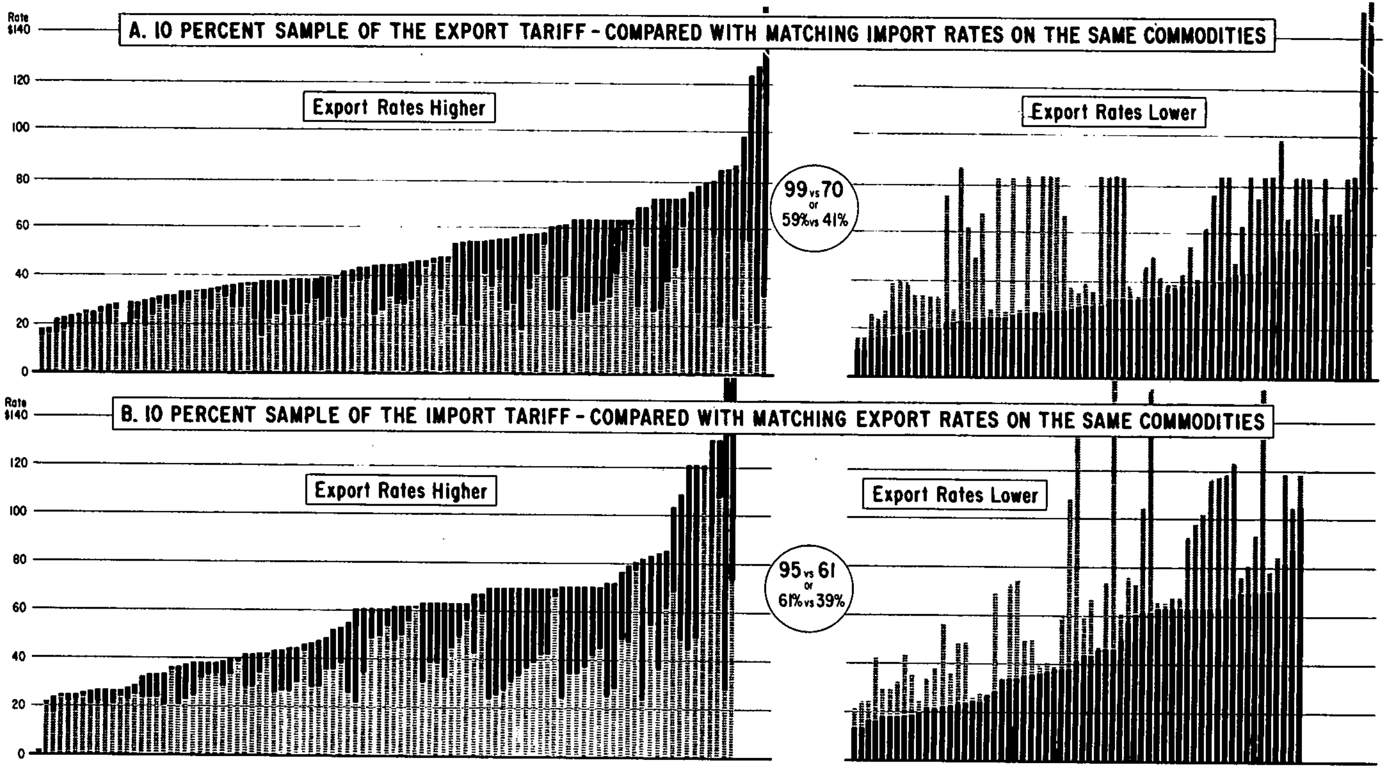
In other words, Chart IV shows a 5-percent sample of the outbound and inbound rates. Checking showed that the medians remain virtually the same as though the entire 10-percent sample of each of the two tariffs had been used. Some twenty rates were unusable: they being quoted in such terms as "per each;" "percent ad valorem;" instructions to "ask the conference for a rate quotation;" and rates quoted on different bases by direction on the same commodity.

Both medians were virtually $39.00. It will be recalled that in the Japanese trade the outbound median was distinctly higher than the inbound median. As explained then, the chief value of this measurement of inbound and outbound general rate levels is simply one of establishing a bench mark for general information and from which to proceed to more refined methods of ascertaining the difference between comparative rate levels.

Chart V shows the result of matching rates in and out. The return or inbound rate was found, commodity by commodity, for each rate in the export 10-percent sample. The top panel of the chart shows that in 59 percent of the cases, the export rate was found to be higher than the inbound rate on a given commodity - and, of course, lower outbound than inbound in 41 percent of the cases.

Chart V

OCEAN FREIGHT RATES BETWEEN WEST GERMANY AND U.S. NORTH ATLANTIC PORTS



All rates were in effect on November 19, 1963

In the lower panel of the chart is shown the results of taking a 10-percent sample of the import tariff and matching thereto our export rates, commodity by commodity. In 61 percent of the cases, the outbound rates were found to be higher than the matching rates inbound.

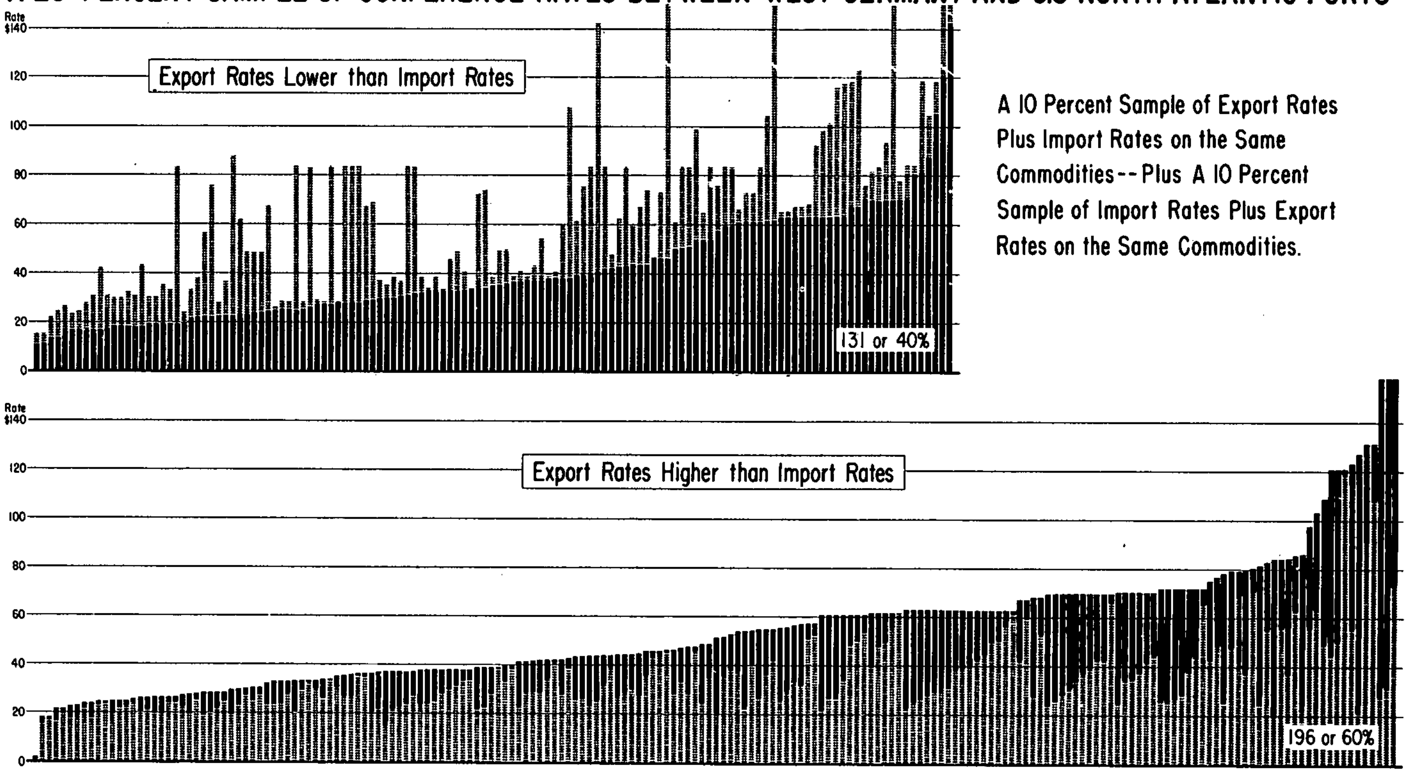
The results shown in the lower panel are expectable, and perhaps acceptable. One might tolerate a foreign nation having rates on its exports to us lower than our rates in return on the same commodities. In the case of Japan and Germany, however, both have the advantage in both directions.

Chart VI shows the extent of the net or over-all general freight-rate level of West Germany in its trade with the North Atlantic ports of the United States. As might be predicted from the percentage figures of the two panels of Chart V, Chart VI shows that, over-all, in 60 percent of the cases, our rates, commodity by commodity, are higher outbound than inbound. This is the general rate-level picture in this trade.

For various reasons, this measurement is probably an understatement of the situation. The principal reason is that it is easier to find in the export tariff a description

Chart VI

A 20-PERCENT SAMPLE OF CONFERENCE RATES BETWEEN WEST GERMANY AND U.S NORTH ATLANTIC PORTS



All rates were in effect on November 19, 1963

that will fit a commodity in the inbound tariff sample than is the case of the reverse comparison. This is due, partially at least, to two facts working together: First, the outbound tariff is the larger. This causes a greater use of "not otherwise specified" or general cargo rates in the search of the inbound tariff for rates to match the outbound tariff sample rates. This is germane because miscellaneous rates are almost invariably higher than those for specifically-described commodities. The problem is compounded by the fact that the two tariffs employ different names, descriptions, and groupings of the same or similar commodities.

The freight-rate structure with West Germany--major-moving commodities. It is highly important to know the general rate level, inbound versus outbound, between the United States and each of the nations with which we have ocean-borne foreign trade. It is important also to know the comparative situation in regard to the so-called important commodities.

The Carriers submitted to the Committee a table of thirty-five commodities which, according to the title, are major-moving from U. S. North Atlantic ports to ports in Belgium, Holland, and West Germany. They are not represented to be the most important thirty-five; on the other hand, the degree of their importance is not indicated. In fact, there is no statement either as to the method of selection or the terms of their importance--whether revenue, space occupied, or weight. No figures of any kind are shown except freight rates.

At an earlier time, however, the Committee was supplied a copy of a conference-prepared list of exports by commodity group--complete with tonnage figures. This list of ninety-three commodity groups has been

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rearranged in the descending order of tonnage and comparisons made between it and the table of thirty-five major-moving commodities submitted by the Carriers for the November 19, 1963, Hearings before the Committee. The table of thirty-five major-moving commodities to West Germany, Belgium, and the Netherlands, and the Conference list of ninety-three commodities appear at the end of this section.

Comparison between the Conference list of ninety-three and the Carriers' table of thirty-five shows no obvious pattern of selection, except that the items of the table appear in bunches on the Conference list. This can be seen by reference to the column which has been added to the Conference list. Certain other observations can be made. The thirty-fifth item of the list of ninety-three accounted for 1,700 tons. In contrast, items were included in the Carriers' table of thirty-five having tonnages as low as twelve and as high as thirty thousand. In fact, eleven commodities were included having less than 1,000 tons.

Actually, there are only thirty-four comparable items in the table because, as the table states, there is no tariff provision westbound for one of the rates. Secondly, the rates quoted by the Carriers show that in six, or possibly seven, instances the rates outbound are higher than they are inbound. Finally, after ascertaining the correct rates, two or more commodities have higher rates outbound than inbound. Thus, in about 25 percent of the cases the rates are higher outbound than inbound.

Since the Conference list of ninety-three commodity groups shows that there are forty-six items accounting for over 1,000 tons each, it seems unnecessary for the Carriers in their table of thirty-five major-moving commodities to have included twelve items having tonnages of a few hundred each, and one as low as twelve tons. Possibly the reason those twelve were chosen is that in eleven of the twelve cases, the outbound rates are lower than the inbound.

In regard to the relative rate levels between U. S. North Atlantic ports and West Germany, two statements are in order. First, the data relative to the so-called important commodities, both inbound and outbound, are either unavailable or inadequate to warrant a decisive answer.

Secondly, the general rate level favors West Germany to the extent that in 60 percent of the cases contained in a 10-percent sample of each of the tariffs, the rates outbound are higher than they are inbound, commodity by commodity.

"Footnote to the first page of this chapter.

With possibly one exception all foreign companies either directly or indirectly through subsidiaries belong to both conferences. Three of the American companies--United States Lines, Moore-McCormack Lines, Inc., and Black Diamond Lines--belong to both conferences. The fourth, American Export Lines, Inc., resigned from the outbound conference three days before the November 19, 1963 Hearings. See Page A of Correction No. 1545 of N.A.C.T. No. 25, issued November 15, 1963; and Original Page No. 1 of C.N.A.W.F.C. Tariff H, effective October 1, 1963.

Table 3

OUTBOUND versus INBOUND RATES

Rates on major-moving commodities from U. S. North Atlantic to ports in Belgium, Holland and Germany and from those European ports to U. S. North Atlantic ports on the same commodities.

Commodity	Eastbound rates		Westbound rates				
	Benelux	Germany	Quoted by Carriers	Corrections and notes			P. No.
Aluminum sheets	$38.00 W	$41.75 W	$24.90 W				SR 1
Aluminum strip	38.00 W	41.75 W	24.90 W	$40.64 W			25
Automobile, used, unpacked, thru 8960 lbs.	31.50 W/M	35.00 W/M	37.38 W/M	16.00 W	$17.84 M		SR 2
Automobile parts	15.00 W/M	16.50 W/M	21.24 W/M	19.05 W	21.24 M		SR 2
Blocks, foam glass thru 275 cu. ft. per ton	76.50 W	79.25 W	104.22 W/M	23.12 W	25.77 M	Glassware N.O.S.	61
Cigarettes	26.50 W/M	29.25 W/M	41.35 W/M	37.09 W	41.34 M		43
Clothing, N.O.S.	25.25 W/M	27.75 W/M	41.91 W/M	37.60 W	41.91 M		118
Copper, basic forms thru 6720 lbs.	16.50 W	16.50 W	29.25 W	23.12 W			SR 2
Fiber, acetate tow	20.75 W	22.75 W	46.75 W				121
Fiber, acetate staple	20.75 W	22.75 W	31.15 W/M	27.94 W	31.14 M		54
Fibers, polymide, bobbins, tubes, etc.	45.00 W	45.00 W	73.68 W	27.94 W	31.14 M	Synthetic in Cases	54
Film, Kodak, not for cine-kodaks	57.25 W/M	63.00 W/M	55.51 W/M or 1% ad.val.	20.32 W/M	22.65 M	or 1% ad. val.	54

Table 3 (Continued)

Commodity	Eastbound rates Benelux	Eastbound rates Germany	Quoted by Carriers	Westbound rates Corrections and notes			P. No.
Fruits, citrus, N.O.S. half box thru 1'4"	$ .65 each	$ .65 ea.	No west-bound rate				
Iron and steel strip plates	13.25 W	13.25 W	$18.04 W				141
Iron and steel tinplate	14.50 W	14.50 W	18.04 W				141
Juke-Boxes, auto record players	15.00 W/M	16.50 W/M	21.24 W/M to 66.27 W/M	19.05 W 21.24 M	to $59.44 W to 66.26 M		SR 7 SR 7
Latex packed	23.00 W	23.00 W	189.74 W/M	46.23 W		Synthetic rubber	
L & T Logs, heavy, not exceeding 5 tons	23.50 W	23.50 W	189.74 W/M	170.19 W	189.74 M	General cargo	59
Lumber pine, North Carolina	23.50 W	23.50 W	34.05 W				129
Machine, metal-working and parts	33.00 W/M	33.00 W/M	32.57 W/M	29.21 W	32.57 M		SR 8
Machinery, mill steel roll, etc.	24.00 W/M	24.00 W/M	32.57 W/M	29.21 W	32.57 M		SR 8
Machinery, N.O.S.	33.00 W/M	36.25 W/M	32.57 W/M	29.21 W	32.57 M		SR 8
Machinery, textile, N.O.S.	19.75 W/M	21.75 W/M	32.75 W/M	29.21 W	32.57 M		SR 8
Machines, air conditioning H. H. etc.	20.50 W/M	22.50 W/M	32.57 W/M	29.21 W	32.57 M		SR 8
Office appliances, N.O.S.	43.50 W/M	47.75 W/M	189.74 W/M	170.19 W	189.74 M	General cargo	59
				55.38 W	60.73 M	Calculating machine	SR 8
				65.03 W	72.49 M	Duplicating machine	SR 8

Table 3 (Continued)

Commodity	Eastbound rates: Benelux	Eastbound rates: Germany	Quoted by Carriers	Westbound Rates: Corrections and notes			P. No.
Oils and Bulk liquids latex liquid synthetic	$27.50 W	$30.25 W	$189.75 W/M	$170.19 W	$189.74 M	General cargo used.	59
				14.73 W		Applicable to oils, caster & cocoanut	SR 9
				27.74 W	31.15 M	Applicable to lubricating oil	89
Road Building equipment packed	15.00 W/M	16.50 W/M	189.74 W/M	170.19 W	189.74 M	Gen. cargo used	59
				27.08 W	30.30 M	Applicable to tractors	SR 12
				29.21 W	32.57 M	Applicable to machinery, N.O.S.	SR 8
Road Building equipment, unpacked	20.00 W/M	22.00 W/M	189.74 W/M	170.19 W	189.74 M	Gen. cargo used	59
				27.08 W	30.30 M	Applicable to tractors	SR 12
				29.21 W	32.57 M	Applicable to machinery, N.O.S.	SR 8
Rosin, resin, synthetic N.O.S. thru $15.00 N.T.	22.25 W	24.50 W	41.34 W/M	37.09 W	41.34 M		105
Scrap aluminum, N.O.S. thru 60 cu. ft. L.T.	19.25 W	19.25 W	33.54 W				126
Scrap aluminum, N.O.S. thru 60/100 L.T.	22.75 W	22.75 W	33.54 W				126
Scrap rubber, M under 2 times	19.00 W	21.00 W	21.60 W				SR 12
Scrap rubber, M over 2 times	19.00 W	21.00 W	23.88 W				SR 12
Tires and tubes, rubber	35.25 W	38.75 W	38.52 W/M to	34.55 W	38.51 M	Applicable to tubes (new)	106
			101.63 W	101.61 W		Applicable to tires (new)	106

Table 3 (Continued)

Commodity	Eastbound rates: Benelux	Eastbound rates: Germany	Westbound rates: Quoted by Carriers	Westbound rates: Corrections and notes		P. No.
Tobacco, unmanufactured, H-Heads	$37.00 W	$37.00 W	$134.67 W	$134.63 W		120
Tobacco, unmanufactured cases, crates	29.75 W	29.75 W	134.67 W	38.61 W	$43.04 M	120
Typewriters and parts	50.50 W/M	55.50 W/M	47.01 W/M	42.17 W	47.01 M	SR 8
Chemicals, N.O.S.	34.75 W/M	38.25 W/M	92.89 W/M to 118.94 W/M	Specific chemical rates:		SR 3
				22.61 W, Barium carbonate		SR 2
				22.61 W, Ammonia chloride		SR 1
				19.56 W, Sodium sulphate		SR 11

Tariff authority:

Eastbound-- North Atlantic Continental Freight Conference Tariff No. 25.
Westbound--Continental North Atlantic Westbound Freight Tariff H.

Abbreviations:

W - Weight, 2240 lbs.
M - Measurement, 40 cu. ft.

F.M.C. notes: Except for the last three columns added by F.M.C., this table is a reproduction of that submitted by the Carriers, to the Joint Economic Committee on November 19, 1963.

Table 4

Abbreviation And Arrangement Into Rank Order By Tonnage Of A Table By:
North Atlantic Continental Freight Conference
Cargo Carryings First Half 1963 (No January Sailings Due To Strike)
Excluding Military And Dry Bulk (Grain, Coals, Ores, Animal Feeds, Soya Beans)

Code No.	Commodity Item	Tonnage (2,240 Lbs.) Number	Rank	Carriers' List
160	Copper: Anodes, Bars, Billets, Cakes, Cathodes, Ingot Bars or Notched Bars, Ingots, Matte, Pigs, Slabs, Wire Rods	30,223.06	1	Yes
255	Iron or Steel: NOT Stainless: Bars, Billets, Blooms, Hoops and Slabs; Plates, Hull, Glat; Plates and Shapes, Ship and Tank	22,133.74	2	
285	Logs, heavy and light	17,843.59	3	Yes
400	Tobacco, Unmanufactured	15,822.78	4	Yes
120	K.D. Assembly and Replacement Parts	13,721.22	5	
380	Road Building Grading or Maintenance Equipment and Parts	13,341.63	6	Yes
375	Resin, Synthetic, N.O.S.	13,015.92	7	Yes
340	Lubricating, Mineral or Synthetic, Packed	8,618.41	8	
190	Feeds: Animal, Pigeon or Poultry, N.O.S.	8,116.66	9	
346	Paper and Paper Products	7,063.43	10	
355	Refrigerator Cargo: Frozen Packing House Products, Beef Cheeks, etc.	5,645.28	11	
260	Stainless: Bands, Hot-Rolled, Semi-Manufactured; Bars; Blooms; Ingots; Plates; Rods; Sheet Bars; Slabs; Strip; Wire, Finished or Unfinished	5,519.16	12	
385	Rubber Synthetic, N.O.S.	5,341.50	13	
210	Fruit, Citrus, N.O.S., Ordinary Stowage (Grapefruit - Lemons - Oranges)	5,294.45	14	Yes
315	Machinery: Industrial, N.O.S.	5,023.96	15	Yes
350	Rags	4,247.42	16	
245	Hides and Splits; Cattle, Dry or Green Salted, including Horse or Sheep	4,030.10	17	
310	Machinery: Auto Tooling; Metal Working, Steel Rolling Mill	3,805.68	18	Yes
415	Wax, Mineral, Paraffin or Petroleum	3,414.83	19	
420	Yarn, Synthetic	3,217.13	20	
265	Tinplate, including Circles, etc. (Strip and Waste)	3,160.81	21	Yes
405	Trucks, Tractors, Trailers and Stackers for Materials Handling, including Parts	3,023.26	22	
225	Goods, Canned	2,859.04	23	
136	Chemicals, Packed (Not Resins, Synthetic)	2,842.29	24	Yes

Code No.	Commodity Item	Tonnage (2,240 lbs.) Number	Rank	Carriers' List
360	Poultry, Frozen, N.O.S. and Parts, N.O.S.	2,686.82	25	
240	Hair Waste, Animal	2,495.35	26	
195	Fiber: Synthetic Staple, N.O.S.	2,493.12	27	Yes
165	Cottonseed Hull Shavings Pulp and Cotton Linter Pulp	2,043.03	28	
401	Tallow: In Bulk	1,990.31	29	
410	Tubes, Television, Finished or Unfinished	1,874.49	30	
395	Tires and Tubes, Rubber, Pneumatic or Solid	1,823.53	31	Yes
290	Machines: Coin Operated	1,816.26	32	Yes
286	Lumber and Timber (Not Logs)	1,801.19	33	Yes
135	Cigarettes	1,780.72	34	Yes
256	Iron or Steel: NOT Stainless: Sheets, Strip or Plates, Plain	1,735.66	35	Yes
150	Cocoa Cake; Nibs; Shells; Waste	1,693.06	36	
365	Chicken and Turkey Parts, Frozen	1,634.97	37	
390	Scrap: Aluminum, including Foil	1,622.62	38	Yes
339	Oils: Lubricating, in bulk, including Additives	1,589.15	39	Yes
185	Fabrics: Cotton, Wool, Synthetic including Mixed or Blended	1,513.21	40	
155	Compounds, Cleaning - Detergents - Soap	1,471.99	41	
105	Additives, Liquid and Dry; Fuel Oil, Gasoline, Grease and Petroleum Lubricating Oils	1,409.24	42	
115	Automobiles: Unboxed, New and Used	1,208.99	43	Yes
295	Machines: Household - Dishwashers; Dryers; Refrigerators and Washing	1,162.89	44	
200	Film: Cellulose	1,069.09	45	Yes
391	Scrap: Brass and Copper	1,020.31	46	
320	Machinery: Textile including Frames and Machines, Knitting	927.02	47	Yes
270	Leather, Finished, N.O.S.	736.42	48	
275	Lecithin, Soybean	733.21	49	
181	Engines, Diesel and Internal Combustion	682.56	50	
305	Machinery: Air conditioning	647.74	51	Yes
175	Dyes and Dyestuffs, including Intermediates	644.20	52	
335	Office Appliances: Machines Accounting, etc. NOT Equipment, Electronic Data Processing or Typewriter)	628.48	53	Yes
140	Clothing: N.O.S.	582.34	54	Yes
261	Iron or Steel: Stainless: Sheets	567.85	55	
110	Aluminum: Anodes, Bars, Billets, Ingots, Alloy Ingots, Pig, Slabs	529.61	56	
220	Glass: Blocks, Foam	487.43	57	Yes
125	Brick and Shapes (all kinds)	473.00	58	

Code No.	Commodity Item	Tonnage (2,240 lbs.) Number	Rank	Carriers' List
100	Abrasive Grains	463.31	59	
111	Aluminum: Sheets, All Kinds	457.71	60	Yes
300	Machines: Sewing, Industrial and Household	440.41	61	
345	Paints, Varnishes, Lacquer and Lacquer Thinners, also Paint Reducers (NOT Turps, or Subs.)	425.66	62	
250	Insulating or Insulation: Glass Fiber; Material, N.O.S. and Rock Wool	402.64	63	
180	Eggs and Egg Products, Ordinary Stowage	391.23	64	
330	Mowers, Sweepers or Grass Catchers, Lawn and Parts, including Engines, with or without power	358.47	65	
191	Feeds: Cocoa Cake, Nibs, Shells, Waste	354.06	66	
289	Machines: Air Conditioning, Household or Industrial Type	352.48	67	Yes
392	Scrap: Rubber, All Kinds	339.82	68	Yes
280	Liquors, Spirits or Wines	328.79	69	
197	Fiber: Fiber, Polyamide, Not Staple or Tow	314.64	70	Yes
130	Bulbs, Fluorescent and Incandescent	282.40	71	
196	Fiber: Acetate, Staple or Tow	277.79	72	Yes
170	Drugs and Medicines	224.69	73	
230	Gum: Chewing	232.26	74	
325	Motors, Outboard and Assembly Parts	216.13	75	
246	Hops	201.16	76	
106	Agricultural Implements, Machinery and Parts, Packed or Unpacked	175.11	77	
235	Gum: Chewing Base	147.02	78	
145	Clothing: Old, Packed (Not Rags)	142.86	79	
370	Refrigerator Cargo: Turkeys, Frozen	125.52	80	
189	Fabrics: Ruberized, Plastic Coated and Leather Artificial	122.91	81	
219	Glass: Blocks (Building)	119.39	82	Yes
215	Fur, Furs or Skins, N.O.S.	82.86	83	
324	Medicinal Products, All Kinds, Ordinary Stowage	69.63	84	
402	Tallow: Packed	62.31	85	
205	Fixtures, Electric Lighting and Replacement Parts thereof, N.O.S.	59.22	86	
134	Canned Goods, Consisting of Fruits, Soups, Vegetables, N.O.S.	24.95	87	
186	Fabrics: Cotton Denim	17.39	88	
411	Typewriters	12.38	89	Yes

Code No.	Commodity Item	Tonnage (2,240 lbs.) Number	Rank	Carriers' List
221	Glass: Bottles and Jars	11.30	90	
	Glass, Ware, Common, N.O.S.	11.21	91	
187	Fabrics: Remnants, Cotton	6.26	92	
188	Fabrics: Tire	3.94	93	
425	All Other Cargo	98,692.65		
		358,851.77		

F.M.C. notes: Last two columns added

CHAPTER IV

Some General Problems Concerning Rate Analysis and Rate Making

There are a number of concepts that need some attention in making rate-level comparisons; and various economic concepts associated with rate-making need to be re-examined.

"Major-moving Commodities."--The matter of major-moving commodities is deceiving in many ways. What might be considered a major-moving commodity in one sense would not be in another sense. Coal, for example, is much more important tonnage-wise than it is in terms of revenue. The Carriers in many cases have not defined their terms nor supplied supporting data. Their tables of "major-moving" commodites are not identified in terms of either dollars, tons, or cubic feet.

When the Carriers speak of "major-moving" commodities, they refer only to exports. But there are also major-moving imports. Not to recognize this fact creates a false impression of freight rates on exports and imports. The reader must realize that if the major-moving commodites are chosen from exports, a comparison of their inbound and outbound rates should show favorably to the exports. On the other hand, if the rates were selected from major imports, the rates thereon, would, in all probability, be much lower than our matching export rates. The problem, therefore, of demonstrating fairly and conclusively that, generally speaking, rates on major-moving commodities are higher in one direction than the other calls for an unbiased scientific sampling of such rates in both directions in each trade. Data for this purpose are meager.

Classification.--There are at least three problems in connection with this subject. One has to do with commodity classification or grouping. Time and again in the November Hearings the Carriers stated that the Committee was not comparing like things--that is, rates on the same commodity in both directions. Part of the trouble lies in the fact that thousands of commodities are necessarily placed in groups of supposedly similar items. The Bureau of the Census has tried for many years to group like things together in order to achieve this essential degree of simplification. Freight tariff committees do likewise. Unfortunately, however, the two groupings have little relation to one another. This is partly understandable because the specific purposes are not the same; on the other hand, the usefulness of both groupings is greatly reduced by this lack of comparability .

In the matter of commodity grouping, some of the difficulties reach the ludicrous stage. Examples will follow: First, the commodity groupings in one direction, as contained in the pertinent tariff, are not the same in the opposite direction. Needless to say, any effort to compare rates inbound and outbound in a given trade is made more difficult by this fact.

Secondly, once an item has been accorded a specific rate because of its volume movement, for any or a combination of reasons, it does not mean that commodity description will them be removed from its original group status in the tariff. For example, assume that there is a commodity group called "hand tools," including such items as hand saws, hammers, and axes. If for some reason there is "developed" a special or separate outbound rate on axes, it would be lower than the rate on the group of which it was formerly a part--or else there would be little reason to detach it. Further, if a specific rate were given to axes, this would not mean that the group title of "hand tools" would no longer apply to axes; it would merely mean that one would not knowingly use the higher group rate.

In the inbound tariff--as opposed to the outbound tariff--"axes" may not have a specific rate; or there may not even be a commodity group called "hand tools;" or again, "axes" might be grouped with still other articles. Under the conditions used in this hypothetical case, the rate on axes would probably be higher inbound than outbound. Further, if one compares a specific outbound rate, on axes for example, with the general rate on an inbound group of items which contains axes, he will be accused of comparing unlike things. The only other alternative would be to compare the group rate in both directions, each containing axes, but again one would be accused of comparing unlike things. The observation also would be made, and properly so, that in any selection of rates one is entitled to use the lowest applicable rate.

Even when the classification of an item in different tariffs is in precisely the same nouns, there are denials that the intentions behind the words were the same. For example, in the recent Hearings before the Joint Economic Committee, the Carriers' testimony was to the effect that "tires and tubes" are not comparable, inbound versus outbound. The claim was that "tires and tubes" outbound are for airplanes and earth-moving machinery, whereas inbound the traffic is composed of "bicycle tires." In regard to "light bulbs," the argument was that inbound, "light bulbs" really were "Christmas tree decorations" from Japan.

If a commodity group in a tariff contains a given item, it would seem that its comparability with any other item of that group, with the group as a whole, or any other group containing that item should not be dehisable, except for the purpose of removing it from the group. And once it is given separate status, common sense would seem to call for removal from its former group status.

The argument of noncomparability, carried to the extreme, literally means that no two items have sufficient comparability to carry the same rate: (1) no two manufacturers produce precisely the same commodity; and (2) even two models of the same item by the same manufacturer, even if the price and use are the same, are not identical. Some argument could be found for claiming that two pairs of shoes, differing only in color, are incomparable for rate-making purposes.

Surely there must be some logical limit to the argument of incomparability. It appears rather clear that classification makes it possible, if not easy, for different people to pay differently for essentially the same service. For the benefit of both the Carriers and the public generally, it would be a public service if the conferences settled upon classifications which are comparable with one another generally, and consolidated and identical as to classification in opposite directions of the same trade.

Value of the good as a determinant of value of the service.--There is yet another facet of this extreme position as to comparability. It seems to be generally true that a lower-priced import is likely to get a lower rate than its higher-priced export counterpart. This is true even if the quality of the two articles is identical; it is even more likely to be true if the lower-priced incoming article is also of lower quality. It is claimed that one of the major determinants of value-of-service is value of the article; for this reason, the value of the article figures largely in the classification of commodities. Close adherence to this principle may be a vicious but inadequately recognized deterrent to the expansion of our exports, for the simple reason that the production costs of foreigners often are lower than ours, for one reason or another.

Competition, substitution, and transportation.--In the final analysis every service and article that exists for sale is in competition with every other article and service for sale; this universe of competition is focused on every dollar which everyone of us has for expenditure. It is not extreme to say--in fact, it is an obvious truth--that a new automobile competes in the desires of everyone of us for a book, a sweater, or a piece of furniture and, therefore, transportation charges, no matter how small, have a bearing on the sale of any item. The fact that this influence exists does not depend upon our meager ability to trace and measure its influence in minute degree over small units of time.

Much of the power of competition comes from substitution in both the narrow and broad senses. The principle of substitutability goes much farther than lower price for equal value. A low-value good often prevents the sale of a high-value good, even though the prices are in keeping with the difference in the quality of the two goods. There are variations of this principle, but one illustration will suffice. For example, although article A may not be superior to article B, if it is materially better priced than article B, a person needing both but having the money for only one will more likely buy article A than article B. This principle of human behavior to price has great significance, but the reasoning displayed by the Carriers in their exhibits in explanation of and justification for adverse inbound-outbound freight rates indicates an inadequate recognition of this principle.

Once the fact is realized that universal competition exists among commodities, including the price of transporting them, it may be seen that freight rates can influence the price of each and every article that is for sale--including those which are not in existence. Freight rates are opportunities, variations therein, and lack thereof. Among other causative factors, wrongly and rightly, freight rates often cause some articles to be introduced or not introduced; to languish or succeed. The entire reason for the Hearings about ocean freight-rates was the inescapable fact that freight-rate opportunities strongly appear to be neither equal nor equitable. The matter of rate inequality by direction obviously can be a favorable or unfavorable item in the balance of payments problem; this is over and above the basic problem of import-export net.

Paper rates.--This is an expression in transportation, used alike by traffic people of all carriers, all shippers and, of course, all regulatory personnel who deal with freight rates and tariffs. The definition is quite simple: it merely means that such a rate is in the tariffs, but that no traffic moves thereon. The rate exists only "on paper."

Paper rates are always high; the traffic moving thereon is not sufficient to give the shipper the necessary bargaining leverage whereby to obtain lower rates.

One of the curious things about paper rates is the justification given for their being so much higher than the rates which move substantial traffic.

Freight rates are the result of bargaining between shippers and carriers, directly, or through the conferences, continually or intermittently.

A shipper has a large or small amount of traffic that he can withdraw from a given carrier; or he may have a large or small amount of new traffic that he could generate, especially with some rate-reduction help from the carrier. The carrier also has bargaining points, as well as points for his own quiet consideration. The degree of his interest may vary depending upon several conditions. There may be more lucrative traffic that he would like to carry instead of what he is already carrying, or instead of what the shipper is offering in the way of extra traffic. There is nothing in the law that requires a common carrier to be just as enthusiastic about low-paying cargo as high-paying cargo with the same high enthusiasm that he might display for either a high-paying cargo or cargo strategically located.

As already stated, paper rates are high rates. If one questions this fact, he is told that it does not matter, because nothing moves on the high rate. If that true, that is all the more reason why the Conferences should not object to lowering those rates to eliminate the disparity.

The statement that paper rates are unused rates is not always true. Probably the usual situation is that not very much moves on most paper rates. If the carrier or the conference sees no hope of increased flow of a given commodity, then a reduction of the paper rate to a low level would merely mean in its accounting, a small loss of revenue. There are, however, numerous paper rates. Further, the carrier feels that paper rates must be high in order that there be plenty of room thereunder in which to charge a variety of lower rates--the amount lower depending, of course, upon the length of the arms of the bargainers. It is much easier for the carrier to reduce a rate than raise one; much easier to reduce a very high one than one that is less high; and much easier to remain in control generally by the process of granting reductions.

This does not mean that every time a shipper has a shipment to make that he bargains for a rate, or that another shipper cannot use the same rate. On the other hand, there are so many, many ways in which to differentiate rate situations. A truly common-carrier, nondiscriminatory freight-rate structure is more difficult to attain under such circumstances. Perhaps the economists' advice in regard to "differentiation of the product" is overly applied in pricing ocean common-carrier service.

In view of the fact that a shipper cannot bargain successfully unless he is skilled, most bargaining is conducted by large shippers through their own hired experts. Small shippers silently pick up the crumbs or stay away. It is a brave soul, indeed, who is able and willing to enter the arena without previous traffic experience and successfully convince carriers that there is a future in the traffic which he hopes to bring to the carrier. In any event, it is a hat-in-hand posture which is hardly in keeping with the common-carrier principle of responsibility, and yet, it was the desire for this self-same common-carrier service which entered substantially into the Federal Government's willingness to subsidize the liner service.

The lowest legal rate.--One of the most intriguing aspects of freight rates is the difficulty of their ascertainment. In fact, a layman has difficulty in understanding whether or not and the extent to which it is the shipper's or the carrier's legal responsibility to quote the correct rate.

Picture a customer going into a large grocery store and finding no prices on any of the commodities. Upon inquiry, suppose that he were told that the prices are in books in a back room, and that he is entitled to the lowest legal applicable price on each and every item. Suppose those price books proved so exasperatingly cross-indexed, footnoted, and rendered otherwise complex in scores of ways that at length the customer sought the services of a high-priced expert to help him find the lowest applicable price--there usually being more than one legally applicable in the matter of freight rates. A small purchaser could not afford such extra cost; on the other hand, he could not afford to pay more than the lowest price.

Only in transportation is the customer faced with a problem of price ascertainment of such vintage and complexity. We have something like a one-price system in most stores, but not in transportation. An excellent doctoral dissertation could be written on the cost of pricing in transportation. If all the hours of all the people who have to do with freight rates, from lawyers to clerks, from customers to carriers, from competitors to complainants; and if the cost of all of the paper and all of the printing that goes into making rates and auditing rates could be found and totalled, it might be found that rates could be cut drastically, the foreign trade of the United States increase, and the Carriers' profit improve accordingly.

Tailored rates.--One occasionally hears the expression, "tailored rates." It sounds as though the Carrier were more interested in the success of the shipper, large or small, present or potential, than the customer is himself, and certainly more qualified as to the business acumen requisite to the customer's business success. All the customer has to do to obtain the Carrier's solicitous interest in a customer's success, is lay all of his cards on the table. In return, the Carrier will go as far down as his own cost in order to help the customer--provided, of course, that nothing stands in the way of traffic increasing except a reduction in the freight rate. All other bottlenecks or difficulties must first have been solved. This is called pricing on the basis of the ability to pay. More realistically described, such pricing is on the basis of varying degrees of ability to resist paying.

By this process, customers do not pay on the basis of value of the service in the long run, or even on a basis which will maximize profits to the Carrier in the long run. Instead, this approach is discriminatory to shippers and short-sighted on the part of the Carriers; in the true sense of the word the developmental attitude in pricing is not as strong as it should be. The steamship industry has a long way to go for all shippers to be treated equally and equitably; in the meantime the Merchant Marine, in spite of subsidy and in spite of increasing government traffic, is not advancing with the Nation.

Chaos.--"Legislative rate-making", "unbridled competition", and "rate chaos" are the defensive phrases which seem to arise spontaneously from the Carriers whenever any criticism is voiced about the current status of ocean conferences and their freight rates. Study of the Carriers' exhibits and other materials suggests that what exists now is close to rate chaos. The need for better economic ground rules, particularly in the matter of freight rates, seems overdue. If improvements were made in such matters, it would hardly be possible for the shippers, the Carriers, and the balance of payments not to be benefitted.

Appendix Table 1

TEN PERCENT SAMPLE OF EXPORT RATES TO JAPANESE PORTS FROM U. S. ATLANTIC AND GULF PORTS

Sample Item No.	Commodity Description	Export Rate	Matching Import Rate	Import Tariff Item No.
1	Acetic Anhydride (Import: Rate applies on chemicals, Industrial, N.O.S.)	$ 83.75 W/M	$ 44.50 W/M	420
2	Acid, Cresylic (Import: Rate applies on chemicals, Industrial N.O.S.)	48.50 W/M	44.50 W/M	420
3	Acid, Phosphoric (Import: Rate applies on chemicals, Industrial N.O.S.)	65.75 W/M	99.00 W/M	1315
4	Air Conditioning and Heating Ducts, metal	43.50 W/M	31.00 W/M	993
5	Aluminum, Bars, Plates, Sheets, Strips, Slugs (Import: Tariff rate is $25.75 W/M for W. of 2240 lbs. In order to be comparable, the import rate has been converted to 2000 lbs.)	33.50 W	22.99 W/M	45
6	Aluminum Sulphate	27.25 W	41.50 W	1705
7	Aniline Oil (Import: Rate applies on chemicals, Industrial, N.O.S.)	82.75 W/M	44.50 W/M	420
8	Asbestos, crude or fiber	26.50 W	62.25 W/M	755
9	Automobiles, passenger, N.O.S. Freight and trailers (Equipped with special ex-ray and radio transmitting facilities -- No comparable inbound item.)	71.50 W/M		
10	Barrels and Drums, Aluminum or Stainless Steel	52.00 W/M	32.00 W/M	595
11	Bearings, Ball and Roller	63.50 W/M	62.25 W/M	951
12	Beer - The export rate is 83¢ per case. (In order to be comparable with the matching import rate, the export rate of $30.75 W/M for Beer, Ale and Stout has been used as shown in item 295 of export rate.	30.75 W/M	40.25 W/M	190
13	Blood Meal, Animal food	40.50 W/M	No rate	
14	Bone, Char or Bone Black, Animal, Charcoal N.O.S.	51.75 W/M	No rate	
15	Brake fluid, hydraulic	60.00 W/M	No rate	
16	Butyraldehyde (Import: Rate applies on Chemicals, Industrial, N.O.S.)	84.50 W/M	44.50 W/M	420

Item No.	Commodity Description	Export Rate	Matching Import Rate	Import Tariff Item No.
17	Candy and Confctionery (No import rate published; used item 805 of tariff applying to groceries and provisions, N.O.S.)	$ 76.50 W/M	$ 57.50 W/M	805
18	Carbon Black	22.00 W/M	No rate	
19	Catalyst, Spent (Import: Rate applies on chemicals, Industrial, N.O.S.)	35.25 W	44.50 W/M	420
20	Chemicals Moisture Absorbent (Import: Rate $44.50 W/M on chemicals N.O.S., value not exceeding $500.00 per 40 cu. ft.)	59.50 W	44.50 W/M	420
21	Clay Ground N.O.S. (Import: Rate of $37.75 W applies to china clay in drums. No import clay ground N.O.S.	23.00 W	37.75 W	432
22	Coke and Coal	55.00 W	No rate	
23	Conduit Fiber over 6" I.D. (Import rate applies on electrical goods and supplies N.O.S., value not exceeding $500.00 per 40 cu. ft.)	51.00 W/M	40.00 W/M	635
24	Corn Products, Flour and Starch (On starch only, the export rate is $28.00)	47.25 W	57.50 W/M	805
25	Cottonseed in bags	52.25 W	38.25 W	1495
26	Cotton Linters, compressed less than 32 lbs. cu. ft.	40.00 W	No rate	
27	Cream sterilized	55.75 W/M	28.00 W/M	376
28	Dicalcium Phosphate (Import: Rate applies on chemicals, Industral, N.O.S.)	43.75 W/M	44.50 W/M	420
29	Dip, Liquid, Animal or Poultry (Cresol in import tariff)	41.50 W/M	48.50 W/M	Special Rate P.96
30	Dyes, Dyestuffs, Dye Intermediates	84.00 W	80.00 W/M	615
31	Ethly Hexanol The published export rate is $49.25 gross ton. In order to be comparable with import rate, the export rate has been converted to net tons. Import rate applies on Chemicals Industrial, N.O.S.	43.98 W	44.50 W/M	420
32	Fertilizer Export and Import rates published per gross ton or 2240 lbs.	20.00 W	18.00 W	670
33	Filter Tips for Cigarettes	41.50 W/M	No rate	

Sample Item No.	Commodity Description	Export Rate	Matching Import Rate	Import Tariff Item No.
34	Flotation Reagents, Dry or Liquid (Import: Rate applies on chemicals, Industrial, N.O.S.	$ 69.25 W/M	$ 44.50 W/M	420
35	Food Packages - C.A.R.E.	58.50 W/M	28.00 W/M	375
36	Gasoline Service Stations, Mobile S/U. (Machinery and Parts, N.O.S. in import tariff)	61.50 W/M	42.00 W/M	1095
37	Glass Fibre; Roving, Mats, Staple	56.25 W/M	55.50 W/M	685
38	Glycerine, In Bulk (Export rate $49.50 converted 2000 lbs.) (Import: Rate applies on Chemicals, Industrial, N.O.S.)	44.20 W	44.50 W/M	420
39	Hair, Animal	49.50 W/M	48.50 W/M	815
40	Honey, In Bulk (Export rate $43.75 converted 2000 lbs.)	39.06 W	57.50 W/M	805
41	Insulating Material N.O.S. (Fibre N.O.S. in import tariff)	36.00 W/M	55.50 W/M	685
42	Iron and Steel, Bars The export and import rates published per gross ton or 2240 lbs.	30.50 W/M	18.50 W/M	950
43	Iron and Steel Fabric, Wire and Wire Mesh (Not exceeding 80' per 2240 lbs. in import tariff) Both rates for 2240 lbs.	40.50 W/M	29.00 W	975
44	Iron and Steel Pipe, Cast Both rates for 2240 lbs.	42.75 W/M	24.25 W/M	964
45	Iron and Steel Pipe 6" to 10" I.D. Both rates for 2240 lbs.	35.50 W	24.25 W/M	964
46	Iron and Steel Tanks K/D The export rate is $48.25 per gross ton (2240 lbs.) In order to be comparable with the import rate, conversion made on export rate for 2000 lbs.	43.08 W/M	31.00 W/M	993
47	Junk, Old Clothing as Rags Export rate applies on compressed density exceeding 64 cu. ft., but not 72 cu. ft. per 2000 lbs.	78.25 W	47.25 W	1365
48	Junk, Scrap Metal, Brass Shells or Cartridges Published import rate of $25.50 W/M applies on 2240 lbs./40 cu. ft. Converted to 2000 lbs./40 cu. ft. to match export rate.	41.25 W	22.77 W/M	285

Sample Item No.	Commodity Description	Export Rate	Matching Import Rate	Import Tariff Item No.
49	Junk, Scrap Metal, Radiator-Brass or Copper Loose Published import rate of $25.00 W/M applies on 2240 lbs./40 cu. ft. Converted to 2000 lbs./40 40 cu. to match export rate.	$ 54.75 W	$ 22.77 W/M	285
50	Lead Pipe, Sheets, Slabs, Wire (Import - Lead ware)	66.75 W	43.50 W/M	80
51	Lime, Hydrated (Import: Rate applies on Chemicals, Industrial, N.O.S.)	51.75 W	44.50 W/M	420
52	Live Animals, Cows, Donkeys, Horses and Mules	288.25 ea.	No Rates. Must make application to Conference	
53	Lumber and Logs, Light (No import rate on logs)	53.75 W	52.00 MBM	1090
54	Magnesite, Dead, Burned	35.25 W/M	45.00 W/M	1105
55	Marble and Granite	50.50 W/M	31.00 W/M	1700
56	Milk, Sterilized	40.50 W	57.50 W/M	805
57	Monasodium Glutamate	45.75 W/M	54.25 W/M	1180
58	Newspaper, Old 60 cu. ft. to 75 cu. ft. per 2000 lbs.	24.19 W	No Rate	
59	Nursing Units, Glass Bottles, Caps and Nipples	45.00 W/M	No Rate	
60	Oil, Core	61.00 W/M	63.00 W	1237
61	Oil, Tung	58.00 W/M	44.75 W	1225
62	Ores, Bauxite, Manganese, Nickel, Copper, Lead, Zinc in Bulk	42.00 W	53.00 W	1252
63	Paper Bags, Aluminum interior and insulated	60.25 W/M	24.50 W/M	115
64	Paper, Insulating, Wadded	50.50 W/M	52.00 W/M	1270
65	Paper, Tissue Soap Impregnated	54.25 W/M	52.00 W/M	1270
66	Paper Waste for Pulping (2240 lbs.)	23.35 W	No rate	
67	Peat Moss	51.75 W	27.00 W/M	1190
68	Phosphorus, Red	75.00 W/M	99.00 W/M	1315
69	Pipe, Clay 24" to 36" I.D.	87.75 W	No rate	
70	Polyacrylamide (Import: Rate applies on chemicals, Industrial N.O.S.)	54.50 W/M	44.50 W/M	420
71	Potassium Carbonate (Import: Rate applies on chemicals, Industrial N.O.S.)	50.00 W/M	44.50 W/M	420
72	Pyridine, in Drums (Import rate applies on chemicals, Industrial N.O.S.	83.50 W/M	44.50 W/M	420

Sample Item No.	Commodity Description	Export Rate	Matching Import Rate	Import Tariff Item No.
73	Refrig. Cargo; Cheese Dressing (Import: Rate applies on groceries and provisions N.O.S.)	$112.50 W/M	$ 57.50 W/M	805
74	Refrig. Cargo; Fruit, Citrus N.O.S.	114.25 W/M	85.25 W/M	480
75	Refrig. Cargo; Meat, Tenderloins (Import: Rate applies on cold storage cargo N.O.S.)	115.75 W	135.25 W/M	505
76	Refrig. Cargo; Soups, Frozen (Import: Rate applies on cold storage cargo N.O.S.)	122.50 W/M	135.25 W/M	505
77	Relief Cargo; Butter, Cheese and Pork (Import: Rate applies on groceries and provisions N.O.S.)	53.25 W/M	57.50 W/M	805
78	Relief Cargo; Vegetable Shortening (Import rate applies on groceries and provisions N.O.S.)	43.75 W/M	57.50 W/M	805
79	Rope and Twine, N.O.S.	51.75 W/M	82.00 W	1422
80	Rubber, Synthetic, Crude and Synthetic Latex in Drums. Published export rate is $45.00 per gross ton. Converted to be comparable import rate per net ton. (Import: Rate of $44.50 W/M used applying to chemicals industrial N.O.S.)	40.38 W	44.50 W/M	420
81	Sausage Casings	60.75 W/M	No rate	
82	Shells, Mussels to 55 cu. ft. per 2000 lbs.	28.50 W	27.50 W/M	1520
83	Silicon Carbide, Fused (Import: Rate of $44.50 W/M used, applying to chemicals, industrial N.O.S.)	33.00 W	44.50 W/M	420
84	Soda, Caustic in Drums or Bags	28.50 W	52.00 W/M	1625
85	Soda, Phosphates Export and import rates apply 2240 lbs.	34.25 W	18.00 W/M	670
86	Solder	60.75 W/M	37.25 W	1655
87	Soup, Canned Export rate published 77¢ per case. Converted to 2000 lbs. rate same as import rate.	46.20 W	28.00 W/M	375
88	Staves, Fibreboard	45.75 W/M	34.00 W/M	1830
89	Tabulating Cards, New	53.00 W/M	52.00 W/M	1270
90	Tape, Paper, Cloth or Composition Gaummed and Not Gummed N.O.S.	48.25 W/M	51.00 W/M	1695
91	Tire Inflator	50.00 W/M	43.50 W/M	945

Sample Item No.	Commodity Description	Export Rate	Matching Import Rate	Import Tariff Item No.
92	Tractors, Trailers, Unboxed	$ 61.25 W/M	$ 65.50 W/M	1415
93	Vans, K/D; Cargo Containers, Steel	39.25 W/M	38.25 W/M	1797
94	Weed Killing Compounds N.O.S. (Import: Rate of $44.50 W/M used, applying to chemicals, industrial N.O.S.)	60.00 W	44.50 W/M	420
95	Yarns, Synthetic, N.O.S.	56.25 W/M	41.00 W/M	1380
96	Zinc Sulphate	60.50 W/M	41.50 W	1705
97	Corn Gluten Feed in Bags	48.50 W	41.50 W/M	1690
98	Flour, Rye or Wheat in Bags	22.00 W	No Rate	
99	Rice, in packages other than bags, including Rice Bran, Rice Screenings, Polished Rice, Rice Flour, Rice Starch (Groceries and provisions in import tariff)	41.75 W/M	57.50 W/M	805
100	Wheat, Gluten, Dried, in Bags	44.25 W	41.50 W/M	1690
101	Oil; Lubricating, Batching Cordage and Mineral in bulk. (No import rate on Mineral Oil) Both rates for 2240 lbs.	24.55 W	38.25 W	800

Tariff authorities and notes:

Outbound - Far East Conference Freight Tariff No. 23, as of November 1, 1963.

Inbound - Japan Atlantic and Gulf Freight Conference Tariff No. 32, as of November 1, 1963.

W, M, W/M = 2000 lbs. or 40 cu. ft., unless stated to the contrary.

MBM = 1000 Feet Board Measurement (Lumber).

Appendix Table 2

TEN PERCENT SAMPLE OF IMPORT RATES FROM JAPANESE PORTS TO U. S. ATLANTIC & GULF PORTS

Sample Item No.	Commodity Description	Import Rate	Matching Export Rate	Export Tariff Item Number
1	Acid, ascorbic	$ 62.25 W/M	$ 84.25 W/M	30
2	Alumina, aluminum oxide Import rate of $27.75 for 2240 lbs. changed to $24.78 for 2000 lbs. in order to be comparable to the matching export rate.	24.78 W	33.00 W/M	132
3	Animals, Live, Domestic - Cats and Dogs	86.75 ea.	104.00 ea.	1508
4	Asphalt Felts and Roofing Matching export rate for 2240 lbs. adjusted to 2000 lbs.	45.00 W/M	29.69 W	3500
5	Bamboo, Chip, Reed and Wooden material - Blinds	23.50 W/M	83.75 W/M	520
6	Beer -- Matching export rate is 83¢ per case; in order to be comparable with import rate, the matching export rate of $30.75 W/M for Beer, Ale, and Stout has been used, as shown in item 295 of the Export Tariff.	40.25 W/M	30.75 W/M	295
7	Binoculars, Opera Glasses, Telescopes - to $500.00 Value per 40 cu. ft.	44.00 W/M	83.75 W/M	520
8	Boats - when carried under deck - minimum weight 8,000 lbs.	19.00 W/M	52.50 W/M	345
9	Brass - Angles, Bars, Ingots, Rods, etc.	25.75 W/M	43.50 W	400
10	Bronzeware, N.O.S.	52.75 W/M	83.75 W/M	520
11	Cakes and Meals, Fish	35.75 W	43.50 W	991
12	Cameras, Photographic Enlargers and Accessories	31.00 W/M	58.75 W/M	2072
13	Canned Pet Food	28.00 W/M	55.75 W/M	468
14	Chalk, precipitated	41.75 W/M	83.75 W/M	520
15	Chillies	88.75 W	83.75 W/M	520
16	Cold Storage - Fish, N.O.S.	100.50 W	122.50 W/M	2244
17	Copper; Bars, Ingots, Sheets, Strips, etc.	25.75 W/M	20.20 W/M	685
18	Cotton Piece Goods	28.00 W/M	65.50 W/M	2080
19	Curios, Rosaries and Parts	62.25 W/M	83.75 W/M	520
20	Drugs, Medicines - Value exceeding $500.00 per 40 cu. ft.	97.75 W/M	128.00 W/M	876

Sample Item No.	Commodity Description	Import Rate	Matching Export Rate	Export Tariff Item Number
21	Electrical Goods and Supplies Value exceeding $500.00 per 40 cu. ft.	$ 55.00 W/M	$ 68.75 W/M	885
22	Ferro Manganese, in bulk Import rate of $10.00 for 2240 lbs. adjusted to 2000 lbs.	8.93 W	30.00 W	947
23	Fireworks	58.25 W/M	83.75 W/M	520
24	Flashlights, battery operated	44.50 W/M	83.75 W/M	520
25	Glass and other Lens, Spectacles and Sun	64.75 W/M	83.75 W/M	520
26	Gunny Bags and Waste	24.25 W/M	65.00 W/M	240
27	Hardware, Shovels	38.25 W	103.25 W	2500
28	Household Goods	69.25 W/M	83.75 W/M	520
29	Insect Powder and Insecticides	69.00 W/M	63.25 W/M	1264
30	Iron and Steel articles -- Bearings, Ball and Roller	62.25 W/M	63.50 W/M	285
31	Iron and Steel articles -- Pipe and Tubes (2240 lbs./40 cu. ft.)	24.25 W/M	36.00 W/M	1341
32	Iron and Steel articles -- Wire-not exceeding 80 cu. ft. per 2240 lbs. Import rate of $19.00 for W. of 2240 lbs., 80 cu. ft., changed to $16.97 for W. of 2000 lbs., 72 cu. ft. to be comparable to matching export rate.	16.97 W	32.75 W/M	1369
33	Iron and Steel articles -- Wire exceeding 80 cu. ft. per 2240 lbs. Import rate of $30.25 for W. of 2240 lbs., 80 cu. ft., changed to $27.00 for W. of 2000 lbs., 72 cu. ft., to be comparable to matching export rate.	27.00 W	32.75 W/M	1369
34	Isinglass	52.00 W	83.75 W/M	520
35	Lamps and lanterns - Value exceeding $200.00 per 40 cu. ft.	32.00 W/M	45.00 W/M	1426
36	Lumber	59.75 MBM	53.75 W	1602
37	Magnesium Scrap	32.75 W/M	36.00 W	1638
38	Mineral Water	52.00 W/M	40.00 W/M	2930
39	Motorcycles - Value under $595.00	23.50 W/M	55.25 W/M	1738
40	Oils, Camphor	85.75 W/M	83.75 W/M	520
41	Oils, Fish	47.50 W	55.00 W/M	1796
42	Ore, N.O.S.	53.00 W	41.50 W	1870
43	Pepper, white	98.75 W/M	83.75 W/M	520

Sample Item No.	Commodity Description	Import Rate	Matching Export Rate	Export Tariff Item Number
44	Plumbing Supplies	$ 32.00 W/M	$ 45.00 W/M	2109
45	Potatoes in bags or crates	45.00 W/M	53.25 W	2912
46	Ramie Noils	44.00 W/M	83.75 W/M	520
47	Rope, decorative	36.75 W/M	51.75 W/M	2370
48	Sake, canned, bottled	49.50 W/M	83.75 W/M	520
49	Shells, Mother-of-Pearl	46.25 W/M	83.75 W/M	520
50	Shoyu, Barbecue Sauce, canned or bottled	30.50 W/M	55.75 W/M	468
51	Silk Staple Fiber (mixed goods)	59.50 W/M	54.25 W/M	2700
52	Skins, sheepskins pickled	62.25 W	50.00 W	1216
53	Sodium Sulphate	21.50 W	52.00 W/M	2625
54	Sporting Goods N.O.S. - Value exceeding $400.00 per cu. ft.	61.25 W/M	83.75 W/M	520
55	Tea, Black	30.00 W/M	55.75 W/M	2805
56	Titanium Dioxide	35.00 W/M	45.50 W/M	3004
57	Toys, N.O.S.	23.50 W/M	59.50 W/M	2862
58	Wall board, Plywood and Veneer	29.75 W/M	45.25 W/M	1610
59	Woolen manufactured, mixed other synthetic fibers	43.00 W/M	83.75 W/M	520
60	Zinc manufactures, N.O.S.	43.50 W/M	55.00 W	2988

Tariff authorities and notes:

Outbound - Far East Conference Freight Tariff No. 23, as of November 1, 1963.

Inbound - Japan Atlantic and Gulf Freight Conference Tariff No. 32, as of November 1, 1963.

W, M, W/M = 2000 lbs. or 40 cu. ft., unless stated to the contrary.

MBM = 1000 board feet.

APPENDIX TABLE 3

TEN PERCENT SAMPLE OF EXPORT RATES FROM U. S. NORTH ATLANTIC PORTS TO WEST GERMAN PORTS -- PLUS MATCHING IMPORT RATES

Export Rate			Matching Import Rate			
Sample item number	Commodity description and comment re matching import item	To West Germany	2204 lbs. or 35.3 cu. ft.	Extended to 2240 lbs.	Extended to 40 cu. ft.	Tariff page number
1	Bomb Shells, Aluminum Empty (Inbound: No matching rate)	$ 36.25 W/M	-	-	-	-
2	Housing for Bombs Fins - (Inbound: No matching rate)	43.50 W/M	-	-	-	-
3	Additives for Fuel Oil, Gas, Grease, etc. (Inbound: Chemicals, N.O.S.)	30.50 W/M	$ 82.00 W/M	$ 83.32	$ 92.88	SR 3
4	Alloy, Manganese Copper	63.00 W/M	50.00 W	50.81	-	23
5	Aluminum, Honeycomb	55.00 W/M	34.50 W/M	35.06	39.08	25
6	Antennas, Television	24.25 W/M	27.50 W/M	27.94	31.14	27
7	Appliances, Small Kitchen, electric	21.75 W/M	74.50 W/M	75.70	84.39	26
8	Asphalt: Bridge Plank and Paving Joints (Inbound: No matching rate)	42.75 W	-	-	-	-
9	Automobile Hose Clamps	29.75 W/M	18.75 W/M	19.05	21.24	SR 2
10	Automobile Tools, Hand, including Portable Electric	36.25 W/M	34.50 W/M	35.06	39.08	121
11	Bags, Plastic (Inbound: Containers empty, N.O.S.)	86.25 W	20.75 W/M	21.08	23.50	46
12	Barrels or casks (Inbound: Contains empty, N.O.S.)	36.89 W/M	20.75 W/M	21.08	23.50	46
13	Batteries, N.O.S. To $350.00	61.50 W/M	39.00 W/M	39.63	44.18	30
14	Bedsteads and Springs - To $300.	37.25 W/M	42.50 W	43.18	-	113
15	Bicycles, Tricycles and Parts	37.25 W/M	14.25 W/M	14.50	16.14	SR 2
16	Blocks, Limestone and Marble, Rough 5 Tons	38.00 W	22.75 W	23.12	-	81
17	Bladders, Dry (Inbound: Containers, empty, N.O.S.)	127.00 W	20.75 W/M	21.08	23.50	46
18	Boards, Asbestos (Sheets)	60.75 W	25.75 W	26.16	-	27
19	Boats, Cruisers, Row, Motor, Sails	18.00 M	14.00 W/M	14.23	15.86	132
20	Bottles, Glass, empty	44.00 W	38.00 W	38.61	-	61
21	Brass, Bars and Billets	30.00 W	22.75 W	23.12	-	SR 2
22	Bristies (Inbound: Hair, animals, N.O.S)	98.00 W/M	55.00 W	55.89	-	SR 6

Export Rate			Matching Import Rate			
Sample item number	Commodity description and comment re matching import item	To West Germany	2204 lbs. or 35.3 cu. ft.	Extended to 2240 lbs.	Extended to 40 cu. ft.	Tariff page number
23	Buttons and Blanks	$ 57.50 W/M	$ 50.00 W/M	$ 50.81	$ 56.64	SR 3
24	Cans, empty, N.O.S. Tin, K.D.	56.75 W/M	17.25 W	17.53	-	SR 3
25	Carriers, Cranes	16.00 W/M	26.00 W/M	26.42	29.45	SR 8
26	Catalyst, Carrier for Refractories (Inbound: Chemical, N.O.S.)	41.75 W	82.00 W	83.32	-	SR 3
27	Cement, Gasket, Automobiles	44.00 W/M	24.50 W	24.89	-	40
28	Cereals (Inbound: Flour and meal, N.O.S.)	57.50 W	52.00 W	52.84	-	SR 5
29	Cheese - Ordinary Stowage	42.75 W	61.50 W	62.49	-	41
30	Clay, Ground, Fire, Fuller's Earth	23.50 W	21.75 W	22.10	-	SR 3
31	Coal, in Bags (Inbound: Fuel, Dry)	32.75 W	33.00 W/M	33.53	37.38	56
32	Coffee, Roasted, in Bags	68.25 W	27.00 W	27.43	-	SR 4
33	Compound, Boiler (Inbound: Chemicals, N.O.S.)	59.50 W	82.00 W/M	83.32	92.88	SR 3
34	Compound, Cleaning, Soap Base, Napalm (Inbound: Cleaning compounds and detergents)	32.00 W/M	38.00 W	38.61	-	43
35	Compound, Fuel Oil Treatment (Inbound: Chemicals, N.O.S.)	60.75 W	82.00 W/M	83.32	92.88	SR 3
36	Compound, Textile Processing and Finishing (Inbound: Chemicals, N.O.S.)	31.75 W	82.00 W/M	83.32	92.88	SR 3
37	Conveyors, Portable Freight (Inbound: Machinery N.O.S. and parts)	63.00 W/M	28.75 W/M	29.21	32.57	SR 8
38	Copper; Wire, Bare	43.75 W	22.75 W	23.12	-	46
39	Corpse-Stowage Ship's Option (Inbound: No matching rate)	454.75 Each	-	-	-	-
40	Covering, Asbestos	72.00 W	25.75 W	26.16	-	27
41	Dangerous Cargo, N.O.S. (Inbound: No matching rate)	87.25 W/M	-	-	-	-
42	Documents, Negotiable (Inbound: Printed matter)	80.00 W	36.50 W/M	37.09	41.34	SR 10
43	Druggist Sundries, N.O.S. (Inbound: No matching rate)	61.50 W/M	-	-	-	-
44	Eggs, N.O.S.-Ordinary Stowage	39.50 W/M	74.50 W	75.70	-	50
45	Equipment; Refrigerating, Industrial	28.00 W/M	25.25 W/M	25.66	28.60	SR 10

Export Rate			Matching Import Rate			
Sample item number	Commodity description and comment re matching import item	To West Germany	2204 lbs. or 35.3 cu. ft.	Extended to 2240 lbs.	Extended to 40 cu. ft.	Tariff page number
46	Fabrics, Bagging, on rolls	$ 44.00 W	$ 30.50 W/M	$ 30.99	$ 34.55	118
47	Fans, Electric	63.00 W/M	67.00 W/M	68.11	75.89	53
48	Feed; Meal, Blood	16.50 W	30.50 W	30.99	-	53
49	Feed; Whey, Animal	18.00 W	30.50 W	30.99	-	53
50	Ferro Titanium (Inbound: Titanium Dioxide)	35.50 W	26.00 W	26.32	-	120
51	Fillers, Beverages Dispensing Tanks	36.00 W/M	25.75 W/M	26.16	29.17	146
52	Filters Tips-Cigarette (Inbound: No matching rate)	26.25 W/M	-	-	-	-
53	Flakes, Vegetable Oil-Hydro. Bags	35.00 W	38.00 W	38.61	-	43
54	Flour; Wood-over 100' per ton (Inbound: Wood pulp N.O.S.)	54.50 W	21.00 W	21.33	-	SR 13
55	Flour; Corn, Potato Flour or Meal	27.50 W	19.00 W	19.31	-	SR 5
56	Flowers, Artificial	63.00 W/M	24.00 W/M	24.39	27.18	SR 10
57	Food Packages "CARE" Gifts (Inbound: Meats, canned)	56.00 W	28.50 W	28.96	-	SR 10
58	Freezers; Commercial, Ice Cream (Inbound: Refrigerators)	78.50 W	24.25 W/M	24.64	27.47	SR 10
59	Fruit; Dried, N.O.S. Boxed-Strapped	43.75 W	73.00 W	74.18	-	56
60	Furniture-Value $175.00 to $250.00	37.25 W/M	26.75 W/M	27.18	30.30	57
61	Gears, Railway Car Draft	38.00 W	40.00 W/M	40.64	45.31	145
62	Glass, Rough Rolled or Wire	39.00 W	21.75 W	22.10	-	SR 5
63	Glassware, Plain or Decorated	37.25 W/M	22.75 W/M	23.12	25.77	61
64	Gluten, Wheat, Dry, in Bags	34.00 W	33.00 W	33.53	-	56
65	Guns, Paint and Spray and Parts (Inbound: Machines-Sprayers)	37.25 W/M	20.75 W/M	21.08	23.50	80
66	Handkerchiefs (Inbound: Cotton goods Manufactured)	63.00 W/M	60.50 W/M	61.47	68.53	118
67	Hides, Cattle, Horse, or Sheep, Green Salted	19.00 W	30.00 W	30.48	-	SR 11
68	Hose, Clamps (Inbound: Hardware, general, to $300.00 value)	29.75 W/M	34.50 W/M	35.06	39.08	66
69	Insecticides, N.O.S. Value to 10¢ lb.	39.50 W	60.50 W/M	61.47	68.53	70

Export Rate			Matching Import Rate			
Sample item number	Commodity description and comment re matching import item	To West Germany	2204 lbs. or 35.3 cu. ft.	Extended to 2240 lbs.	Extended to 40 cu. ft.	Tariff page number
70	Insulation, Foam Glass, Glass Fibre Asbestos	$ 32.75 W/M	$ 45.00 W/M	$45.72	$ 50.97	71
71	Iron or Steel, Ingots (Inbound: No rate--used billets and bloom up to 2 tons)	24.75 W	19.25 W	19.56	-	141
72	Iron or Steel, Structurals, etc. 40'	28.50 W	19.75 W	20.07	-	141
73	Iron or Steel, Hoops Barrel	41.25 W	22.00 W	22.35	-	143
74	Iron or Steel, Ry. Equipment Brake Shoes	33.25 W	40.00 W/M	40.64	45.31	145
75	Iron or Steel, Stapping - Seals (Inbound: Used band and strip rate)	30.25 W	27.25 W	27.69	-	141
76	Iron or Steel, Wire, N.O.S.	63.00 W/M	21.75 W	22.10	-	146
77	Iron or Steel, Wire Aluminum, Brass or Copper Clad	30.50 W	36.00 W	36.58	-	146
78	Juice, Apple	38.00 W	27.50 W	27.94	-	74
79	Lanolin (Inbound: Wool grease - in cases)	63.00 W/M	40.00 W	40.64	-	64
80	Leather, Artificial	42.00 W/M	47.00 W/M	47.76	53.24	77
81	Livestock, Cattle and Horses - live	266.75 Each	440.00 Each	440.00 Ea.	440.00 Ea.	139
82	Animals, Cats - Live	53.25 Each	97.00 W/M	98.56	109.87	138
83	Lumber and Timber, Logs - 5 Tons (Inbound: No matching rate)	28.25 W	-	-	-	-
84	Lumber and Timber, Squares and Billets (Inbound: Wood boards - no specific rate)	47.25 W	33.50 W	34.04	-	129
85	Machinery, Plastic Moulding (Inbound: Machinery, N.O.S.)	33.55 W/M	28.75 W	29.21	-	SR 8
86	Machines, Dryer, Hair	30.50 W/M	25.00 W/M	25.40	28.32	26
87	Machines, Sanding (Inbound: Machinery, N.O.S.)	33.50 W/M	28.75 W	29.21	-	SR 8
88	Matzos (Inbound: Flour and meal, N.O.S.)	68.25 W	52.00 W	52.84	-	SR 5
89	Metal, Bismuth or Residues	41.25 W	27.50 W	27.94	-	145
90	Netting, Woven Wire (Inbound: In cases or crates)	72.00 W	25.00 W/M	25.40	28.32	146

Export Rate			Matching Import Rate			
Sample item number	Commodity description and comment re matching import item	To West Germany	2204 lbs. or 35.3 cu. ft.	Extended to 2240 lbs.	Extended to 40 cu. ft.	Tariff page number
91	Nuts, Filberts (Hazel) in Shell	$ 53.75 W	$ 64.00 W	$ 65.03	-	87
92	Oils - Grease, Inedible, Bulk	10.50 W	15.00 W	15.24	-	SR 9
93	Oils, Vegetable, Coconut - Bulk	10.50 W	15.00 W	15.24	-	SR 9
94	Oils, Citrus, Distilled, in Drums (Inbound: Oil, palm kernel)	60.75 W	26.00 W	26.42	-	SR 9
95	Oil, Fusel (Amyl Alcohol) (Inbound: Mineral Oil)	27.50 W	27.50 W	27.94	-	89
96	Oil, Safflower, in Drums (Inbound: Vegetable oil N.O.S.)	42.75 W	38.00 W	38.61	-	89
97	Onions, in Bags	37.25 W	53.50 W	54.36	-	90
98	Ore, Manganese	22.00 W	27.25 W	27.69	-	90
99	Pads, Sanitary (Inbound: Textile - cotton goods - tissue and yarns 3X)	30.50 W/M	26.75 W/M	27.18	30.30	118
100	Paper, Absorbent, N.O.S. (Inbound: Tissue)	54.50 W/M	39.50 W	40.14	-	93
101	Paper, Board, Wood Pulp, N.O.S.	39.00 W	20.75 W	21.08	-	SR 2
102	Paper, Covers for Records (Inbound: Paper ware, N.O.S. envelopes)	55.00 W/M	41.50 W/M	42.17	47.01	94
103	Paper, Newsprint, in Rolls	25.00 W	27.25 W	27.69	-	SR 9
104	Paper, Printing, Plain under 300 lb. Rolls	44.50 W	27.25 W	27.69	-	SR 9
105	Paper, Tags Stock, in Rolls (Inbound: Paper N.O.S.)	72.00 W	64.50 W	65.54	-	92
106	Paper, Waste, to 110' per G.T.	26.50 W	24.25 W	24.64	-	SR 12
107	Paste, Printing (Inbound: Glue, liquid, in cans, in cases)	72.00 W	36.50 W/M	37.09	41.34	63
108	Periodicals (Inbound: Books)	54.25 W	36.50 W/M	37.09	41.34	SR 2
109	Pipe, Lead to 4" O.D. (Inbound: In cases)	38.00 W	23.00 W/M	23.37	26.05	98 & SR 5
110	Plates, Electrotype (Inbound: Printing plates)	63.00 W/M	27.50 W	27.94	-	62
111	Potatoes, Dehydrated, Packed (Inbound: Potato, flour or meal)	28.50 W	19.00 W	19.31	-	SR 5

Export Rate			Matching Import Rate			
Sample item number	Commodity description and comment re matching import item	To West Germany	2204 lbs. or 35.3 cu. ft.	Extended to 2240 lbs.	Extended to 40 cu. ft.	Tariff page number
112	Preserves, Marmalade	$ 75.75 W	$ 41.50 W	$ 42.17	$ -	101
113	Products, Fat Backs, Dry Salted	26.50 W	28.50 W/M	28.96	32.28	SR 10
114	Putty (Inbound: In cases)	63.00 W/M	29.75 W	30.23	-	102
115	Radium	Ad. Val. 6/10%	½% Ad.Val.	½% Ad.Val.	½% Ad.Val.	104
116	Refrigerator List-Apples and Pears-Case (Inbound: Fruits N.O.S.)	2.40 Ea.	91.00 W/M	92.46	103.08	136
117	Refrigerator List-Grapes-Boxes	1.40 Ea.	62.00 W/M	63.00	70.23	136
118	Refrigerator List-Medicinal	120.00 W	167.50 W/M	170.20	189.73	136
119	Refrigerator List-Lard (Inbound: Meat preserved, N.O.S.)	84.25 W	54.50 W/M	55.38	61.73	136
120	Refrigerator List-Horse Meat (Inbound: Meat preserved, N.O.S.)	123.25 W	54.50 W/M	55.38	61.73	136
121	Remnants, Cotton	45.00 W	26.75 W/M	27.18	30.30	118
122	Rock, Garnet, Crushed (Inbound: Abrasives, N.O.S. in bags)	35.00 W	29.75 W	30.23	-	SR 1
123	Roofing, Paper (Inbound: Insulating material N.O.S.)	47.50 W	45.00 W/M	45.72	50.97	71
124	Rubber Goods, Hose (Inbound: Rubber ware N.O.S.)	60.75 W/M	72.00 W/M	73.16	81.55	106
125	Rugs, N.O.S.	33.00 W/M	49.00 W/M	49.79	55.50	39
126	Scrap, Aluminum-To 60' per Ton	19.25 W	33.00 W	33.53	-	126
127	Scrap, Lead, N.O.S. (Inbound: Iron and steel scrap rate used)	28.50 W	27.50 W	27.94	-	145
128	Scrap, Monel Metal (Inbound: Iron and steel scrap rate used)	42.25 W	27.50 W	27.94	-	145
129	Screens, Motion Picture Projection (Inbound: Instruments)	28.00 W	66.00 W	67.06	-	70
130	Seed, Grass	84.25 W	19.25 W	19.56	-	SR 10
131	Shingles, Asbestos (Inbound: Asbestos slates)	33.50 W	32.00 W	32.52	-	27
132	Silver-Val. $200,000.00 to $250,000.00	Ad. Val. 7%	½% Ad.Val.	½% Ad.Val.	-	111
133	Skins, Calf, Green Salted	19.00 W	30.00 W	30.48	-	SR 11
134	Slag, Selenium (Inbound: Iron scrap)	33.00 W	27.50 W	27.94	-	145
135	Spices, N.O.S.	80.25 W	83.00 W	84.34	-	113
136	Springs, Furniture, Coiled	46.00 W	42.50 W	43.18	-	113
137	Stationery, N.O.S.	60.50 W/M	65.00 W/M	66.05	73.63	SR 11

Export Rate			Matching Import Rate			
Sample item number	Commodity description and comment re matching import item	To West Germany	2204 lbs. or 35.3 cu. ft.	Extended to 2240 lbs.	Extended to 40 cu. ft.	Tariff page number
138	Sugar, Raw or Refined	$ 38.00 W	$ 29.25 W	$ 29.72	$ -	115
139	Syrup, Maple (Inbound: Syrup N.O.S. in cases)	72.00 W	42.50 W/M	43.18	48.14	116
140	Tape, Adhesive (Inbound: Insulating materials N.O.S.)	46.25 W/M	45.00 W/M	45.72	50.97	71
141	Televisions and Parts (Inbound: $300--$500)	39.00 W/M	38.00 W/M	38.61	43.04	27
142	Tile, Acoustical	51.25 W	30.00 W	30.48	-	120
143	Tobacco, Unmanufactured (Inbound: Case and crates)	37.00 W	38.00 W/M	38.61	43.04	120
144	Traps, Fly, Wire (Inbound: Hardware)	46.00 W/M	34.50 W/M	35.06	39.08	66
145	Tungsten, Ore Mfg. N.O.S.	159.00 W/M	31.00 W/M	31.50	35.11	123
146	Utensils, Egg Beater - with Covers (Inbound: Apparatus up to $500 value)	24.00 M	66.00 W/M	67.06	74.76	26
147	Vegetables - Bags, Bbls. and Drums	79.25 W	68.00 W/M	69.09	77.02	137
148	Waste, Cotton Refuse	55.50 W	25.25 W	25.66	-	SR 12
149	Wire, Cloth (Inbound: Wire netting)	63.00 W	25.00 W/M	25.40	28.32	146
150	Wood Pulp, Chemicals to 60' per Ton	23.00 W	18.00 W	18.29	-	SR 13
151	Yarn, Glass (Inbound: Glass fiber)	32.50 W/M	33.50 W	34.04	-	60
152	Zinc, Ingots	22.50 W	17.25 W	17.53	-	SR 13
153	Chemicals viz.: Borax Acid	23.75 W	48.00 W	48.77	-	22
154	Chemicals viz.: Naphthalic Acid (Inbound: Chemicals N.O.S. to $1,500)	19.25 W	82.00 W/M	83.32	92.88	SR 3
155	Chemicals viz.: Tannac Acid	22.50 M	61.00 W	61.98	-	23
156	Chemicals viz.: Alumina Hydrated	16.50 W	27.50 W	27.94	-	24
157	Chemicals viz.: Ammonium Phosphate (Inbound: Fertilizer, phosphate	21.50 W	16.25 W	16.51	-	SR 4
158	Chemicals viz.: Arsenic	29.00 W	36.50 W	37.09	-	27
159	Chemicals viz.: Butylamine (Inbound: Chemicals N.O.S.)	27.50 W	82.00 W/M	83.32	92.88	SR 3

Export Rate			Matching Import Rate			
Sample item number	Commodity description and comment re matching import item	To West Germany	2204 lbs. or 35.3 cu. ft.	Extended to 2240 lbs.	Extended to 40 cu. ft.	Tariff page number
160	Chemicals viz.: Calcium Phosphate (Inbound: Fertilizer, phosphate)	$ 18.00 W	$ 16.25 W	$ 16.51	$ -	SR 4
161	Chemicals viz.: Carbon Tetrachloride (Inbound: Cleaning compound liquid, N.O.S.)	29.75 W	38.00 W	38.61	-	43
162	Chemicals viz.: N.O.S. (Inbound: Chemicals, N.O.S.)	69.75 W/M	82.00 W/M	83.32	92.88	SR 3
163	Chemicals viz.: Cryolite (Inbound: Chemicals, N.O.S.)	25.75 W	82.00 W/M	83.32	92.88	SR 3
164	Chemicals viz.: Diethylamine (Inbound: Chemicals, N.O.S.)	54.00 W	82.00 W/M	83.32	92.88	SR 3
165	Chemicals viz.: Dipentine (Inbound: Chemicals, N.O.S.)	26.75 W	82.00 W/M	83.32	92.88	SR 3
166	Chemicals viz.: Ethyl Chloroformate (Inbound: Chemicals, N.O.S.)	59.50 W	82.00 W/M	83.32	92.88	SR 3
167	Chemicals viz.: Glycol Ethylene (Inbound: Chemicals, N.O.S.)	27.50 W	82.00 W/M	83.32	92.88	SR 3
168	Chemicals viz.: Hydroquinone (Inbound: Chemicals, N.O.S.)	50.50 W/M	82.00 W/M	83.32	92.88	SR 3
169	Chemicals viz.: Lythium Salts (Inbound: Chemicals, N.O.S.)	40.00 M	82.00 W/M	83.32	92.88	SR 3
170	Chemicals viz.: Magnesium Sulphate	51.50 W/M	19.75 W	20.07	-	80
171	Chemicals viz.: Methyl Isobutyl Ketone (Inbound: Chemicals, N.O.S.)	43.00 W	82.00 W/M	83.32	92.88	SR 3
172	Chemicals viz.: Nickle Oxide	22.25 W	86.00 W	87.38	-	87
173	Chemicals viz.: Oxide Chromium (Inbound: Chemicals, N.O.S.)	50.25 W/M	82.00 W/M	83.32	92.88	SR 3
174	Chemicals viz.: Perchloro-ethylene (Inbound: Chemicals, N.O.S.)	24.50 W	82.00 W/M	83.32	92.88	SR 3
175	Chemicals viz.: Picoline (Inbound: Chemicals, N.O.S.)	27.50 W	82.00 W/M	83.32	92.88	SR 3
176	Chemicals viz.: Sodium Ash (Inbound: Sodium Carbonate)	34.00 W	25.00 W	25.40	-	112

Export Rate			Matching Import Rate			
Sample item number	Commodity description and comment re matching import item	To West Germany	2204 lbs. or 35.3 cu. ft.	Extended to 2240 lbs.	Extended to 40 cu. ft.	Tariff page number
177	Chemicals viz.: Sodium Hydrosulphite (Inbound: Fertilizer, N.O.S. in bags)	$ 48.75 W/M	$ 23.50 W	$ 23.89	-	54
178	Chemicals viz.: Sodium Phosphate-Tet or Tri (Inbound: Fertilizer, N.O.S. in bags)	16.50 W	23.50 W	23.89	-	54
179	Chemicals viz.: Sodium Sulphite (Inbound: Fertilizer, N.O.S. in bags)	24.50 W	23.50 W	23.89	-	54
180	Chemicals viz.: Sulphur	17.00 W	30.50 W	30.99	-	115
181	Chemicals viz.: Trichloroethylene (Inbound: Cleaning compound N.O.S. used)	32.50 W	38.00 W	38.61	-	43

Tariff authority:

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

Inbound - Continental North Atlantic Westbound Freight Conference Tariff H.

Appendix Table 4

TEN PERCENT SAMPLE OF IMPORT RATES FROM WEST GERMANY TO U. S. NORTH ATLANTIC PORTS -- PLUS MATCHING EXPORT RATES

	Import Rate				Matching Export Rate	
		From West Germany				
			Extended to			
Sample item number	Commodity description and comment re matching export item	2204 lbs. or 35.3 cu. ft.	2240 lbs.	40 cu. ft.	To West Germany	Tariff page number
1	Acid, Benzoic (Outbound: Chemicals, N.O.S.)	$ 41.50 W	$ 42.17	-	$ 69.75 W/M	127
2	Acid, Formic (Outbound: Chemicals, N.O.S.)	30.00 W	30.48	-	69.75 W/M	127
3	Acid, Oxalic	33.00 W	33.53	-	21.25 W/M	125
4	Acid, Sulfamic	30.00 W	30.48	-	63.00 W	125
5	Albumen (Outbound: Egg)	48.00 W	48.77	-	109.00 W/M	87
6	Almonds, Edible	67.00 W	68.08	-	103.50 W	65
7	Alumina Oxide (Outbound: Chemical N.O.S.)	26.75 W	27.18	-	69.75 W/M	127
8	Aluminum Bars, in Cases	29.50 W/M	29.97	33.41	18.00 W	4
9	Aluminum Foils	32.50 W	33.02	-	40.00 W/M	28
10	Aluminum Pipe 5 to 7X (Outbound: Aluminum Tubing)	117.00 W	118.88	-	67.00 W	5
11	Aluminum Solder, in Boxes or Cases (Outbound: Aluminum rods)	121.00 W	122.95	-	67.00 W	5
12	Amonium Bicarbonate (Outbound: Chemicals N.O.S.)	24.75 W	25.15	-	69.75 W/M	127
13	Ammonium Thio Sulphate	38.00 W	38.61	-	21.50 W	126
14	Apparatus, N.O.S., Value to $500.00.	66.00 W/M	67.06	74.76	43.50 W/M	6
15	Apparatus, Photographical, Value to $500.00	66.00 W/M	67.06	74.76	63.00 W/M	15
16	Apparatus, Television and Parts Value to $300.00	27.50 W/M	27.94	31.15	39.00 W/M	106
17	Army Surplus, Old Arms - Spare Parts (Outbound: New)	35.00 W	35.56	-	52.00 W/M	CC
18	Asbestos, Sheets, Honeycomb Panel	33.50 W	34.04	-	60.75 W	11
19	Bicycles, Equipped Small Auxiliary Motor	23.50 W/M	23.88	26.62	26.50 W/M	108
20	Blankets, in Cases	68.00 W/M	69.09	77.02	28.50 W/M	11
21	Bobbins, Empty	72.50 W	73.67	-	46.00 W/M	116
22	Brass Screws	60.00 W	60.97	-	50.00 W	96
23	Brick, Fire	23.75 W	24.13	-	16.50 W	13

Sample item number	Commodity description and comment re matching export item	Import Rate: From West Germany: 2204 lbs. or 35.3 cu. ft.	Extended to 2240 lbs.	Extended to 40 cu. ft.	Matching Export Rate: To West Germany	Tariff page number
24	Brushes, N.O.S., Value $350.00 to $750.00	$ 54.50 W/M	$ 55.38	$ 61.73	$ 61.50 W/M	14
25	Buttons, N.O.S., Value $400.00 to $500.00	74.50 W/M	75.70	84.39	57.50 W/M	14
26	Caffeine, in Cases or Drums (Outbound: Drugs, N.O.S.)	60.50 W/M	61.47	68.53	61.50 W/M	29
28	Calcium Nitrate, in Bags (Outbound: Chemicals N.O.S.)	23.50 W	23.88	-	69.75 W/M	127
29	Cans, Empty	17.25 W	17.53	-	23.75 W/M	16
30	Cardboard, N.O.S., in Cases	48.00 W	48.77	-	76.75 W	74
31	Carnival Articles, N.O.S. (Outbound: Devices, amusement park and related articles)	20.00 W	20.32 W	-	33.50 W/M	27
32	Cartridges, Safety, in Cases - Hunting	41.00 W/M	41.66	46.44	70.25 W/M	AA
33	Casks, up to 30 Liters (Outbound: Used barrels or casks, beer, empty, wood)	.94 each	-	-	1.10 each	8
34	Cerstein (stone, flint)	116.00 W/M	117.88	131.39	63.00 W/M	35
35	Charcoal Briquettes	34.50 W	35.06	-	48.75 W	19
36	Chemicals for Films - Value to $1,000.00. (Outbound: Chemicals N.O.S.)	65.00 W/M	66.05	73.63	69.75 W/M	127
37	Chloroform (Outbound: Chemicals N.O.S.)	80.00 W/M	81.29	90.62	69.75 W/M	127
38	Chromos (Chemical derived from Chronium) (Outbound: Chemicals N.O.S.)	38.50 W/M	39.12	43.61	69.75 W/M	127
39	Cider, in Demijohns	32.50 W/M	33.02	36.81	38.00 W	52
40	Clock Accessories and Parts, Alarm in Travel Cases	25.25 W/M	25.66	28.60	55.00 W/M	20
41	Cocoa, Cake in Bags	25.50 W	25.91	-	24.25 W	20
42	Coffee Grinders (Not Electric) Value over $300.00.	41.50 W/M	42.17	47.01	67.00 W/M	30
43	Colors and Paints	49.00 W	49.79	-	61.50 W/M	21
44	Containers (Empty, Metal) (Outbound: Containers, N.O.S.)	20.75 W/M	21.08	23.50	26.25 W/M	23
45	Copper Discs	26.25 W/M	26.67	-	44.50 W	24
46	Copper ware, Spring Rings for Necklaces (Outbound: 4½% ad. val. on $17.00 min. charge per package--not comparable	22.75 W/M	23.12	25.77	-	52

Import Rate					Matching Export Rate	
		From West Germany				
		2204 lbs.	Extended to			
Sample item number	Commodity description and comment re matching export item	or 35.3 cu. ft.	2240 lbs.	40 cu. ft.	To West Germany	Tariff page number
47	Cresol Parachlorometa (Outbound: Drugs, N.O.S.)	$103.00 W	$104.66	-	$ 61.50 W/M	29
48	Diacetyl, in Bottles in Cases (Outbound: Chemicals, N.O.S.)	92.00 W/M	93.48	$104.21	69.75 W/M	125
49	Disinfectants, Agricultural in Cases or Crates	40.00 W/M	40.64	45.31	42.00 W/M	47
50	Duraluminum Bars in Cases (Outbound: Aluminum alloys)	29.50 W/M	29.97	33.41	18.00 W	4
51	Effects (Household) Up to 7 cbm	58.50 W/M	59.44	66.26	67.00 W/M	30
52	Electric Poles	48.00 W	48.77	-	23.50 W	59
53	Epsom Salts (in Bags)	19.75 W	20.07	-	21.50 W	129
54	Magnetos, Finished	64.50 W/M	65.54	73.06	63.00 W/M	62
55	Marble Slabs, Rough, in Crates	38.00 W	38.61	-	38.00 W	11
56	Mats, Bath, in Cases - Value to $500.00	49.00 W/M	49.79	55.50	60.75 W/M	93
57	Mattresses, Plastic Foam in bales	275.00 W	279.43	-	24.25 W/M	62
58	Mercury N.O.S.-Oxyde	117.00 W/M	118.88	132.53	105.00 W	63
59	Metal Polish, Value $500.00	24.75 W/M	25.15	28.03	43.50 W/M	79
60	Metallic Cloth, over $1,000.00	97.00 W	98.56	-	63.00 W/M	115
61	Methyl, Ethyl, Keton Peroxide (Outbound: Drugs, N.O.S.)	167.50 W	170.20	-	61.50 W/M	29
62	Mopeds (Outbound: Motorcycle or scooter type)	21.75 W/M	22.10	24.64	37.25 W/M	65
63	Movements - Musical Boxes	47.00 W/M	47.76	53.24	61.50 W/M	47
64	Napthalene Balls and Blockets	41.50 W	42.17	-	63.00 W	130
65	Nickel Alloy, Strip	140.00 W	142.25	-	41.00 W	65
66	Nicotine Sulphate, in Cases--crates	40.00 W/M	40.64	45.31	36.75 W	130
67	Oats, in Bags	27.50 W	27.94	-	41.50 W	36
68	Oils, Lubricating including Grease Drums	27.50 W	27.94	-	47.50 W	69
69	Onions in Bags or Cartons	47.00 W	47.76	-	79.25 W	113
70	Organs, Pipe - Value $300.00 to $600.00.	38.00 W/M	38.61	43.04	63.00 W/M	72
71	Paintings - Value to $250.00	26.75 W/M	27.18	30.30	159.00 W/M	73
72	Paper, Aluminum (Outbound: Aluminum foil)	38.00 W	38.61	-	40.00 W/M	38
73	Paper, Jacquard (Outbound: Paper, N.O.S.)	38.00 W	38.61	-	63.00 W	75

		Import Rate			Matching Export Rate	
		From West Germany				
		2204 lbs.	Extended to			
Sample item number	Commodity description and comment re matching export item	or 35.3 cu. ft.	2240 lbs.	40 cu. ft.	To West Germany	Tariff page number
74	Paper, Serpentines (Outbound: Paper, N.O.S.)	$ 66.00 W	$ 67.06	-	$ 63.00 W	75
75	Paper; Tracing, in Bales (Outbound: Paper, N.O.S.)	64.50 W	65.54	-	63.00 W	75
76	Paper, Flowers (Outbound: Paper articles, N.O.S.)	115.00 W	116.85	-	63.00 W/M	73
77	Paste-boards, in Cases up to 3X (Outbound: Paper boards, N.O.S.)	48.00 W	48.77	-	60.75 W	74
78	Peat, Flower Pots in Crates (Outbound: Vermiculite,exfoliated, in bags or cases	55.50 W	56.39	-	21.75 W/M	113
79	Pepper, Red in Bags	69.00 W	70.11	-	80.25 W	102
80	Petroleum, Refined,Kerosene in Drums (Outbound: Oil, N.O.S.)	42.50 W	43.18	-	18.25 W	68
81	Photographic Films	49.00 W/M	49.79	$ 55.50	63.00 W/M	15
82	Pins, Hair (Outbound: General cargo)	33.50 W/M	34.04	37.95	70.25 W/M	41
83	Pipe, Asbestos Cement 24"x36" (Outbound: General cargo)	43.50 W	44.20	-	70.25 W/M	41
84	Plastic Clothes Pins (Outbound: General cargo)	34.00 W	34.55	-	70.25 W/M	41
85	Plastic Sheeting	32.00 W	32.52	-	18.00 W/M	79
86	Plastic Ware - Value over $750.00. (Outbound: General cargo)	83.00 W/M	84.34	94.01	70.25 W/M	41
87	Resin, Artificial in Cases (Outbound: General cargo)	36.50 W/M	37.09	41.34	70.25 W/M	41
88	Rifles, Air	91.00 W/M	92.47	103.08	63.00 W/M	89
89	Rope, Wire in Coils or Rolls	29.50 W	29.97	-	44.50 W	50
90	Rubber, Raw (Outbound: Synthetic rubber)	48.00 W	48.77	-	23.00 W	93
91	Rubber Ware (Except Tires) (Outbound: Rubber goods, N.O.S.)	72.00 W/M	73.16	81.55	60.75 W/M	93
92	Salt, Aniline (Outbound: Chemicals, N.O.S., restricted to stowage on deck)	74.50 W	75.70	-	69.75 W/M	127
93	Sand, N.O.S.	23.25 W	23.62	-	33.00 W	94
94	Scales, Semi-Automatic $450.00 - $600.00 (Outbound: Machinery, N.O.S.)	38.50 W/M	39.12	43.61	36.25 W/M	60

Sample item number	Commodity description and comment re matching export item	Import Rate: From West Germany: 2204 lbs. or 35.3 cu. ft.	Extended to 2240 lbs.	Extended to 40 cu. ft.	Matching Export Rate: To West Germany	Tariff page number
95	Seeds, N.O.S. in Bags	$ 60.00 W	$ 60.97	-	$ 43.50 W/M	96
96	Shoes, Leather	100.00 W	101.61	-	63.00 W/M	12A
97	Silex Lining (Outbound: Silica)	23.50 W	23.88	-	33.00 W	94
98	Skins, N.O.S. in Cases (Outbound: Value exceeding $1.00 per skin)	117.00 W/M	118.88	132.53	81.25 W/M	39
99	Skins, Trimmings, Green Salted (Outbound: Scrap - skins)	34.50 W	35.06	-	19.00 W	99
100	Soap, Toys 4X (Outbound: Soap, N.O.S.)	41.50 W/M	42.17	47.01	16.50 W/M	21
101	Sodium Chloride in Bags (Outbound: Salt)	23.50 W	23.88	-	25.50 W/M	94
102	Sodium Monocholoracetate in Drums (Outbound: Chemicals, N.O.S. restricted to stowage on deck)	41.50 W	42.17	-	69.75 W/M	127
103	Sodium Silico Fluoride	20.00 W	20.32	-	26.00 W	132
104	Soups, N.O.S. Dehydrate	33.00 W/M	33.54	37.38	38.00 W	15
105	Sponges, Plastic Foam	210.00 W	213.38	-	46.00 M	102
106	Springs, Iron or Steel	42.50 W	43.18	-	46.00 M	102
107	Stoves, Iron and Cast	36.00 W/M	36.58	40.78	22.00 W/M	6
108	Sweets, Boiled up to $200.00 (Outbound: Confectionery - ordinary stowage)	21.00 W/M	21.34	23.79	60.75 W	23
109	Tapestry N.O.S. $500.00 - $1,000.00	72.00 W/M	73.16	81.55	159.00 W/M	73
110	Teeth, False - Value $750.00 (Outbound: Dental goods, N.O.S.)	103.00 W/M	104.66	116.67	87.25 W/M	27
111	Textiles, Cloth (Canvas)	71.50 W	72.65	-	34.00 W/M	32
112	Textiles, Flax Tissues	33.50 W/M	34.04	37.95	34.00 W/M	32
113	Textiles, Lace N.O.S.	73.00 W/M	74.18	82.69	34.00 W/M	32
114	Textiles, Nylon Tops	49.00 W/M	49.79	55.50	35.25 W/M	32
115	Textiles, Upholstry - Up to $500.00 (Outbound: Synthetic fabrics)	49.00 W/M	49.79	55.50	35.25 W/M	32
116	Thallium Sulphate (Outbound: Chemicals, N.O.S. restricted to stowage on deck)	167.50 W/M	170.20	189.73	69.75 W/M	127
117	Tiles, N.O.S., Not Glased (Outbound: Tile flooring, wall or facing)	27.50 W	27.94	-	46.50 W	107

Sample item number	Commodity description and comment re matching export item	Import Rate: From West Germany 2204 lbs. or 35.3 cu. ft.	Extended to 2240 lbs.	Extended to 40 cu. ft.	Matching Export Rate: To West Germany	Tariff page number
118	Tin solder in Ingots (Outbound: No matching rate or comparable item)	$ 30.00 W	$30.48	-	-	-
119	Tools, Common Work, N.O.S. Value to $300.00	34.50 W/M	35.06	$ 39.08	$ 36.25 W/M	108
120	Toothpaste	55.50 W/M	56.39	62.86	63.00 W/M	108
121	Toys, Sewing Machines	19.75 W/M	20.07	22.37	36.50 W/M	108
122	Trimethylxanthin (Outbound: Chemicals, N.O.S. restricted to stowage on deck)	36.00 W	36.58	-	69.75 W/M	127
123	Tubes, Bakelite Value $120.00 - $200.00 (Outbound: General cargo)	24.00 W/M	24.39	27.18	70.25 W/M	41
124	Tungsten, Concentrate to $300.00	31.00 W/M	31.50	35.11	38.00 W	72
125	Twine, N.O.S.	58.50 W	59.44	-	38.00 W	110
126	Vanilla Beans and/or Sticks (Outbound: Dried beans)	106.00 W	107.71	-	38.00 W	9
127	Wadding, Cotton Waste Ebonite	61.00 W	61.98	-	85.50 W	114
128	Waste, Leather N.O.S., to $400.00 (Outbound: Value over 15¢ per lb. or over $336.00 per long ton)	23.50 W	23.88	-	81.75 W	95
129	Waste, Nylon, Orlon, and Perlon 4X	23.50 W	23.88	-	24.50 W	114
130	Waste, Plastics 7X (Outbound: Resin polyethylene packed)	54.00 W	54.87	-	83.00 W	95
131	Waste, Skins and Hides Rabbit N.O.S.	36.00 W	36.58	-	84.50 W	39
132	Waste, Yarns, Cotton	24.25 W	24.64	-	28.50 W	114
133	Willow ware, N.O.S. (Outbound: General cargo)	77.00 W	78.24	-	70.25 W	41
134	Wire, Electric, Insulated (Outbound: Magnet Wire, N.O.S.)	43.50 W/M	44.20	49.27	63.00 W/M	24
135	Wire, Netting, In Cases	25.00 W/M	25.40	28.32	72.00 W	65
136	Wood, Ordinary Boards and Planks, N.O.S. (Outbound: Light - N.O.S.)	33.50 W	34.04	-	42.00 W	59
137	Wooden Ware, N.O.S. - $500.00 - $1,000.00	45.50 W/M	46.23	51.54	46.00 W/M	116
138	Wool, Noils, Raw and Greasy (Outbound: 150 cu. ft. to 2240 lbs.)	53.00 W	53.85	-	60.75 W	118

Sample item number	Commodity description and comment re matching export item	Import Rate: From West Germany 2204 lbs. or 35.3 cu. ft.	Extended to 2240 lbs.	Extended to 40 cu. ft.	Matching Export Rate: To West Germany	Tariff page number
139	Xylol (Outbound: No matching rate)	Accepted only after special arrangement				
140	Zinc Cyanide (Outbound: Chemicals, N.O.S. restricted to stowage on deck)	$ 33.00 W	$ 33.53	-	$ 69.75 W/M	127
141	Zinc, White (Outbound: Zinc, Oxide)	22.75 W	23.12	-	32.25 W	130
	Refrigerated Commodities:					
142	N.O.S.	117.00 W/M	118.88	132.53	121.00 W	89
143	Fish, Bream	90.00 W	91.45	-	131.50 W	87
144	Fish, Plaice	106.00 W	107.71	-	131.50 W	87
145	Flower, Lily of the Valley	48.50 W/M	49.28	54.94	121.00 W	89
146	Plants	44.00 W/M	44.71	49.84	121.00 W	89
	Animals, Live:					
147	Small, in Cages (Outbound: Not comparable rates)	97.00 W/M	98.56	109.87	53.25 each	57
148	Giraffe, Young (Outbound: Apply to Conferences for rates)	250.00 each	250.00 each	250.00 each	-	-
149	Rhinocerous, Grown (Outbound: Apply to Conferences for rates)	400.00 each	400.00 each	400.00 each	-	-
	Iron and Steel:					
150	Angles, 75'-80'	24.50 W	24.89	-	28.50 W*	48
	Bands, 75'-80'	24.50 W	24.89	-	22.75 W*	48
	Strips, 75'-80'	24.50 W	24.89	.	13.25 W*	48
	Bars, 75'-80'	24.50 W	24.89	-	13.25 W*	48
	Beams, 75'-80'	24.50 W	24.89	-	28.50 W*	48
	Plates, 75'-80'	24.50 W	24.89	-	13.25 W*	48
151	Grinding Balls, up to $100.00	24.00 W	24.39	-	38.00 W	49
152	Billets, 5 - 6 Tons	21.50 W	21.85	-	13.25 W	48
153	Chains, N.O.S. up to 1 Ton	37.50 W/M	38.10	42.48	53.25 W	49
154	Hinges (Outbound: Hardware)	28.00 W/M	28.45	31.72	42.00 W/M	45
155	Nails, N.O.S.	19.75 W	20.07	-	26.50 W	49
156	Pipes and Tubes, in Cases up to 30" I.D.	21.50 W	21.85	-	24.75 W/M	49
157	Pipe and Tubing, Up to 30" I.D. Loose or bundles	22.25 W	22.61	-	24.75 W/M	49

*Average of 6 rates, Angles, Bands, Strips, Bars, Beams and Plates, $19.92.

Import Rate					Matching Export Rate	
		From West Germany				
		2204 lbs.	Extended to			
Sample item number	Commodity description and comment re matching export item	or 35.3 cu. ft.	2240 lbs.	40 cu. ft.	To West Germany	Tariff page number
158	Plate and Sheet, Galvanized	$ 24.00 W/M	$ 24.39	$ 27.18	$ 13.25 W	48
159	Scrap, Loose	27.50 W	27.94	-	26.75 W	122A
160	Tanks, N.O.S. up to 2 Tons	25.75 W/M	26.16	29.17	43.50 W/M	106
161	Wire, Black, in Coils on Skids	21.75 W	22.10	-	27.25 W	50
162	Wire, Mesh, over 6X	27.50 W	27.94	-	72.00 W	49
163	Wire Staples N.O.S. to $300.00	19.75 W	20.07	-	26.50 W	49

Note:
Item #27 was not assigned to any commodity.

Tariff authority:

Eastbound - North Atlantic Continental Freight Conference Tariff No. 25.
Westbound - Continental North Atlantic Westbound Freight Tariff H.

Abbreviations:

W - Weight, 2240 lbs.
M - Measurement, 40 cubic feet

Senator DOUGLAS. What page in the report does that appear on?

Mr. MAY. It is on page 676.

Mr. MATER. May I state, again, that these rates that I have used were all in effect on November 19, 1963. This is particularly important because, in the German trade, for example, there has been an increase in the outbound rates of generally 10 percent.

I believe that is also true in the Japanese trade, or will be shortly. What I show you will be understanding the case as to what it is now. (See p. 676.)

Now the top panel——

Chairman DOUGLAS. Just a moment. Those are outbound rates from the United States?

Mr. MATER. Yes, sir.

Chairman DOUGLAS. But since the date of your rates, those rates have increased 10 percent?

Mr. MATER. Yes, sir. I made this study when the rates were 10 percent lower than they are now. There are two panels to this chart, the top panel and the lower panel.

The top panel shows a 10-percent sample of rates from the export tariff, and for each one of those rates in that export tariff sample, there was ascertained the return rate or the import rate for each of those commodities. Therefore in this top panel is a pair of rates for each item in the 10-percent sample of the outbound tariff; notice that these pairs have divided into two groups. In such a study one is forced to ultimate simplicity of statistics. Any kind of averaging gets almost immediately into apples and oranges. So the statistical method used is just counting 1, 2, 3. So in the first——

Chairman DOUGLAS. Is not this the method which steamship lines use themselves?

Mr. MATER. They made similar rate comparisons, yes. But this is an across-the-board sample of all of the rates in the book, both books, and the return rates for each of those sample rates. On the left-hand side of the upper panel are all of the pairs in which the export rate was found to be higher than the import rate.

Chairman DOUGLAS. Just a moment. You have two bars, a black line——

Mr. MATER. Black bars always represent export rates. In all of these charts black lines represent export rates.

Chairman DOUGLAS. The shaded lines are imports?

Mr. MATER. That is right. Notice that in every one of these pairs of bars in the upper left-hand corner, the export rate is higher than the import rate. To the right in the top panel the reverse is the case, that is, the export rate is lower than the inbound rate.

Now the main point to notice is that there are more in the first group that there are in the second group: 63 percent versus 37 percent. Now going to the bottom half of the chart——

Chairman DOUGLAS. Let's go a little bit more slowly. In other words, in approximately two-thirds of the cases, the export rates were higher?

Mr. MATER. Yes, sir. And may I remind you that this was starting from our own tariff, our export tariff, the one that would reflect our potential for exporting.

Chairman DOUGLAS. These are outbound rates from the United States?

Mr. MATER. And the matching import rate in each case—commodity by commodity.

Chairman DOUGLAS. Go ahead.

Mr. MATER. The bottom half of the panel——

Representative CURTIS. In other words, these would tend to be commodities that we are shipping?

Mr. MATER. Yes, sir. The starting point is our tariff.

Representative CURTIS. Yes.

Mr. MATER. Yes, sir; that is correct.

Representative CURTIS. All right.

Mr. MATER. Now to start from the other side of the ocean in the bottom panel, taking a 10-percent sample of Japan's export tariff, which is our import tariff, and likewise finding the matching rates, commodity by commodity, you see that we are even more on the short end of the stick. In this case 80 percent of the outbound rates from the United States are higher than the inbound rates; and, of course, in only 20 percent of the cases do we have the advantage.

Chairman DOUGLAS. Yes. Now, Mr. Mater, may I go one step further. This is very clear and very illuminating.

As I look at the lower panel, it seems to me obvious that the differences in the case of the 80 percent where the export rates are higher, are much greater than the case of the 20 percent where the export rates are lower, and that, therefore, this adds to the disparity in rates.

Mr. MATER. It very definitely is true. I meant to bring that out in discussing the next chart. (See p. 678.)

Chairman DOUGLAS. I am sorry.

Mr. MATER. That is quite all right. It shows up in both charts.

Proceeding now to the second chart of this series. The second chart is simply a putting together of these four pieces of the first chart, so that all of the rates that appeared in the first chart now appear in the second chart, but reduced only to two series instead of four.

There you notice that in regard to the overall general rate level between Japan and United States Atlantic and gulf ports, the rates are higher outbound than inbound in 70 percent of the cases.

Now, to get to the point which you mentioned, Senator, and back to the one which I mentioned earlier. It is impossible to use arithmetic on this material in the way of averages because of the apples and oranges nature of the data. But the eye can see that which you mention.

If you will look at the bottom panel, you will see that the import rates are lower than the export rates by the amount of the white space which is revealed. Then when you glance up to the top half of the chart, you can see that many of the rates are neck and neck. Only the occasional one is substantially higher inbound than outbound. So as you say, not only is the percentage against us, but the amount of the difference is also against us.

Now before turning to the so-called important commodities, let me describe the German situation; and then I will discuss the important commodities in both trades. I might say there was just one criterion used in searching for matching rates.

In view of the complexity of the rates——

Representative CURTIS. What page?

Mr. MAY. This is page 31. (See p. 702.)

Mr. MATER. One of the complexities of the tariffs is that even the two tariffs covering the trade between this country and another describe and classify or group the same commodities differently. And that causes a great deal of hard searching to find the lowest legal applicable rate to match the sample rates in each given case.

And to state again, the only criterion used in the effort to match rates, the inbound with the outbound or vice versa, was the lowest legal applicable rate which the tariff description, of the articles would substantiate.

Now going to the West German situation, the pictures are exactly the same except the tariffs are a lot larger. So it was necessary to use a little different pattern of charting.

The black ones stand behind and stick up above. But just as you noticed in the first set of charts, the pairs are arranged in the ascending order of the black bars, or the export rates. Throughout these charts this is the order in which they have been arranged.

The rate disparity situation of the trade between United States north Atlantic ports and West German ports is not as serious as in the case of the trade with Japan.

Chairman DOUGLAS. Hasn't there been a rate war on outbound cargoes for 2 years?

Mr. MATER. Well, there was, yes.

Chairman DOUGLAS. Might that not have had some effect?

Mr. MATER. Yes, and now that the rate war is over I notice that a general rate increase of 10 percent has been made.

The top panel of the chart shows that 59 percent of the export rates are higher than their inbound matching rates. As in the preceding charts, the starting point was a 10-percent sample of the export tariff. And, of course, in 41 percent of the cases the export rate was lower than the import rate.

Now passing to the bottom panel, which shows the rates from the sample of the import tariff plus the matching rates from the export tariff, the percentages are just the reverse of what they are above. In other words, 61 percent of the export rates are higher and 39 percent lower than import rates, commodity by commodity. In view of the fact that the number of rates in the two tariffs were about the same, the 59 percent at the top panel and the 61 in the bottom panel, average out to 60, and of course the 41 and the 39 average out to 40.

The second chart shows this 40 and 60 percent. In other words, in 60 percent of the cases of the general rate level, the rates outbound are higher than they are inbound. (See p. 704.)

Chairman DOUGLAS. And this was after a 2-year rate war?

Mr. MATER. Yes, sir.

Chairman DOUGLAS. On the Atlantic?

Mr. MATER. Yes, sir.

Chairman DOUGLAS. This was only on outbound rates?

Mr. MATER. Yes, sir.

Chairman DOUGLAS. The inbound rates were not subjected to a rate war?

Mr. MATER. That is my understanding, yes, sir.

Chairman DOUGLAS. Now, however the contestants have made up with each other, and the kissing contest is on, and outbound rates have been increased 10 percent?

Mr. MATER. Yes, sir.

Chairman DOUGLAS. So that the disparity as of March 26 would be much greater than as of November 19, is that correct?

Mr. MATER. Yes, sir.

Now if I may, I shall turn to the so-called important commodities. It is a curious thing to me that when anyone speaks about freight rates, immediately the statement is made, "Oh, don't pay any attention to the tariffs generally. Don't pay any attention to 'paper rates.' Just look at the important commodities."

And then one realizes that by important commodities reference is had only to important exports. Well, the Federal Maritime Commission and the economy in general is interested in the important commodities inbound as well as outbound, and interested in all rates, inbound or outbound, whether they move anything or whether they don't.

In one sense of the word the unused rates are the very ones which may have the real potential for growth. Rates are opportunities or the lack thereof or degrees thereof. And when the unused and little-used rates are up around the ceiling some place, whereas the rates that are really moving the traffic are down nearer the floor, you see that this situation constitutes a very severe handicap to the small shippers and no doubt many are discouraged from even trying.

The carriers submitted to you last November quite a bit of material which I was able to use in this presentation. In the Japanese trade, for example, there was a table submitted of 25 major moving commodities outbound, including the freight rates to go with them—that is, the inbound and outbound freight rates on these 25 important exports from the United States to Japan.

That table I have reproduced in this study, along with some additional information. There were some rate corrections, and I think we numbered the rates for easier location. You can see that in 10 of those 25 commodities, the rates outbound were higher than inbound. Now this is their selection of important outbound commodities and their rates. (See p. 681.)

Representative CURTIS. Who is "their," the steamship lines?

Mr. MATER. The carriers.

Representative CURTIS. The carriers?

Mr. MATER. Yes, sir.

Representative CURTIS. Their selection?

Mr. MATER. Yes, sir.

Chairman DOUGLAS. These are important exports from the United States.

Mr. MATER. It is their selection, their statement as to what are the important outbound commodities.

Chairman DOUGLAS. Page 10.

Representative CURTIS. I thought he said 12.

Mr. MAY. I am sorry.

Mr MATER. After correcting what we thought were mistakes in the rates, we found that there were two additional commodities whose rates are higher outbound than inbound, and therefore the total comes to 12 of the 25. An additional commodity was about 50–50. It should have been two commodities instead of one, in other words. And another commodity might better have been left out altogether. So, conservatively speaking, half of the so-called major moving exports, of their own choosing, had higher rates out than in.

Now as you may know, it is not easy to find out what the picture is from the other side of the ocean. What are the important inbound commodities? The carriers almost deny the existence of such information.

I was able, however, from your committee as a matter of fact, to get a Japanese publication showing groups of commodities from Japan to United States, North Atlantic, South Atlantic, and gulf ports. There were 46 groups in that publication, and I reduced the number to 24 by casting out the smallest tonnage items.

May I emphasize one point. Not until the list was reduced to 24 was any attention given to the freight rates.

Chairman DOUGLAS. In other words, you didn't rig this list.

Mr. MATER. No, sir; I did not. As stated earlier, the only rate criterion that has been used throughout this study has been the lowest which the law would permit. In 1 case of those 24 the U.S. export rate was found to be lower than the inbound rate.

Chairman DOUGLAS. That is for ramies, the third commodity on page 12.

Mr. MATER. Yes.

Chairman DOUGLAS. What is that?

Mr. MATER. An Asian plant the fiber of which is used in a cloth resembling linen.

Representative CURTIS. It is a raw material, in other words.

Mr. MATER. Yes, that is right.

Representative CURTIS. Were these same items in the export flow? In other words, here are items you picked that we knew were heavy on the import side.

Mr. MATER. Yes.

Representative CURTIS. I am curious to know whether there was much export of these same items.

Mr. MATER. I don't recall having looked, but I could be almost certain that there is not.

Representative CURTIS. I would imagine that would be so.

Mr. MATER. Yes.

Representative CURTIS. Would the converse be so? This is an interesting point on table I—whether for the export items they thought were important, there was any sizable flow of imports.

Mr. MATER. There wouldn't be in a major way, but you get into this curious difficulty. There are so many divisions of a general commodity group that whereas the group might have heavy movement in both ways, one item therein might move in only one direction and another item move heavily in the opposite direction.

Representative CURTIS. Yes, I can well understand that, because in the Ways and Means Committee, we get into the details of the difference between classification, and the frequent need to reclassify. Economically or industrially, there is quite a difference.

Mr. MATER. And as I earlier stated to come back to your point and go a little further. This difference of classification goes to the fact that the same commodities in the two tariffs very frequently, if not usually, are differently classified and grouped. One would think that at least the articles moving between two nations ought to be classified, grouped, and described the same way.

Representative CURTIS. Yes.

Mr. MATER. Putting the two halves of the important commodities together: half of the important exports have rates which are higher outbound than inbound and 23 of the 24 important inbound commodities have higher rates out than in. As a total, in 73 percent of the cases major moving imports and exports combined have rates which are higher out than in. This is very close to the 70-percent figure for the general, overall, or across-the-board sample of the two tariffs.

Chairman DOUGLAS. So the important items give approximately the same result.

Mr. MATER. Yes, sir.

Chairman DOUGLAS. As the sampling of all the items.

Mr. MATER. Yes, sir.

Now turning to the West German situation, not only are the tariffs larger, they are also more complicated, for several reasons. I will name one.

In the Japanese trade a ton is 2,000 pounds, and measurement ton is 40 cubic feet. In the West German trade, however, the outbound ton is 2,240 pounds or 40 cubic feet, but the inbound ton is 2,204 pounds or 35.314 cubic feet.

As a result, one cannot convert one of their freight rates into ours with a single figure. It becomes two figures, because the number of cubic feet per ton is different. What I was forced to do was to take the lesser figure—that is, the rate by weight.

Representative CURTIS. You have used tons?

Mr. MATER. Yes.

Representative CURTIS. As I understand it, one of the basic problems here is that we tend to import raw materials and we export processed materials. Of course it is very true that on a tonnage basis, you are going to have a lesser rate on raw materials than on processed materials.

Isn't there some other basic measure than tons? Don't you have tons plus another measure? Let me back up a bit, because this shows my ignorance of the subject.

Mr. MATER. I would say, sir, it shows your insight.

Representative CURTIS. No, it doesn't.

Mr. MATER. I think I can answer your question.

Representative CURTIS. Yes, please answer. Maybe you can without my going further.

Mr. MATER. We have in ocean commerce this double method of measuring cargo, or quoting a rate by W/M, weight or measurement, whichever is to the advantage of the carrier.

This source of confusion could be avoided. Railroads, for example, almost exclusively quote rates by the hundredweight. All that is done to account for the fact that some commodities are more bulky than others, is to raise the rate by weight. That is, density differences are reflected in the rates by weight.

Admiral HARLLEE. May I make one comment addressed to Congressman Curtis' remarks. These analyses we are making actually do not go to bulk in the sense of bulk or oil or anything like that, Congressman Curtis, and I think that really in particular trades it is true that we do import in general raw materials and export finished products, but I do believe that in these particular trades with West Germany any Japan, in these particular figures we are analyzing, and Dr. Mater can correct me on this if I am wrong, that we do import an awful lot of finished products from Japan and West Germany.

Representative CURTIS. I noticed the description you list, and that is true, except for some scrap material, although some of these chemicals—these are the inbound—tend to be the materials.

Mr. MATER. Yes.

Representative CURTIS. Yes, there are. In fact, I am surprised that it looks like those that are listed as important—raw cotton, carbon black, scrap metals, resin, rubber, synthetic rubber, and so on.

Chairman DOUGLAS. I think there was testimony yesterday from Mr. Boggs that the average value per payable ton of the inbound was $243, compared with the average value outbound of $225 per payable ton.

Representative CURTIS. What does the term "per payable ton" mean? Does that include going from weight to the capacity?

Mr. MATER. It reflects their choice.

Representative CURTIS. Their choice?

Mr. MATER. Yes.

Representative CURTIS. But that isn't what you were doing, per payable ton, or were you?

Mr. MATER. I am taking the rates as they are quoted.

Representative CURTIS. So a good bit of this could have been per payable ton.

Mr. MATER. Yes, sir.

Representative CURTIS. Well, then that clarifies it, for me, at any rate.

Mr. MATER. Now turning to the West German so-called important commodities moving between North Atlantic ports and West Germany. Another curious thing about the outbound rates from North Atlantic ports to Germany is that they are 10 percent higher to Germany than they are to Belgium. But inbound they are the same for both those countries to the United States. They are about 10 percent higher outbound for about 10 percent greater distance.

As in the case of the Japanese trade, the carriers submitted a list of important commodities, meaning exports of course, from the United States to West Germany. I believe there were 35 in the carriers' list. Several had higher rates outbound than inbound, as shown by the rates on the carriers' table.

After correcting some mistakes, fully 25 percent of the commodities are shown to have higher rates outbound than inbound. Again there were minor difficulties in making the tally. Also, one commodity might better have been omitted because no return rate exists. Everything considered as conservatively speaking, however, 25 percent of the important outbound commodities listed by the carriers have rates higher outbound than inbound.

I was not so fortunate to find some way of getting a list of the important inbound commodities as I had in regard to the Japanese trade. I did obtain, however, a list which the conference has earlier prepared of 93 outbound commodities. This list of 93 was complete with tonnages, as opposed to the carriers' table of 35.

I took that list of 93, which was supplied by the conference, I believe to you, and rearranged them in the descending order of the tonnages, and then took the list of 35 which the carriers had put together of the important outbound commodities, and placed them on this list of 93 to see where they would fall.

I was trying to find the carriers' method of selection. The results of the search you can see in the table. The tonnages in the conference list were for 5 months, I think, of 1962. The highest tonnage was about 30,000, and the lowest one got down to about 4 tons—12 of the 35 commodities in the table had tonnages of less than a thousand, compared with the fact that there were 46 in the conference list of 93 which had tonnages of over a thousand. (See tables on pp. 703–715.)

Therefore the carriers could have taken their list of 35 major moving commodities from the first 46 of the conference very easily. But they did not; instead, 12 of the 35 came from commodities having tonnages of less than a thousand, going down as low as 12 tons.

It was interesting to note, in other words, that over a third of the items in the carriers' list of 35 major moving outbound commodities had tonnages of less than a thousand tons—going down as low as 12 tons. After looking at the rates of these 12 commodities, it was found that 11 of the 12 had higher rates inbound than outbound. Now in explanation, possibly some employee down the line was just trying to be helpful.

Chairman DOUGLAS. It is said in the apple trade in the old days that the fine appearing apples will be put at the top of the barrel. In other words, you are saying that the 35 were not the most important.

No. 1 was included, but steel was not included, which was No. 2. No. 5, K.D. assembly, replacement parts was not included, mineral or synthetic lubricating oil, stainless steel, items which we had emphasized in our first study, they were not included. Synthetic rubber was not included. Packinghouse products were not included, paper and paper products not included, animal feeds not included. Those are up in the first 13. But your 93 covers payable tonnage.

Mr. MATER. The conference list had tonnages; yes, sir.

Chairman DOUGLAS. Had you finished your conclusion on this?

Mr. MATER. Yes; I am through except for a few general comments that will take a couple of minutes.

Chairman DOUGLAS. Yes.

Mr. MATER. Regarding the two general rate structures and the rates on the important commodities I have concluded. There are two other chapters in this study, however, in which I have dealt more with what can be called the general economic philosophy which is being used by the conferences.

Before doing so, I might say that when a freight rate structure is against a nation, both in the general rates and in the rates on important commodities, there can hardly be any doubt that such strain, impediment, or difficulty results in lower exports.

Chairman DOUGLAS. This should be printed in italic.

Mr. MATER. The admiral has made the point that in such circumstances the exports are in the position of having to bear the round-trip costs. And the balance of payments can hardly profit under a rate structure that is against our exports.

Chairman DOUGLAS. That is a model understatement.

Mr. MATER. Now turning to chapter 2, which begins on page 15——

Chairman DOUGLAS. Would you summarize this now?

Mr. MATER. That is what I meant to do; yes.

Chairman DOUGLAS. Very good.

Mr. MATER. I have penciled in red some points that I want to bring out. In the carriers' presentations, I notice observations that reflect a philosophy of economics that is not as good as it should be. What I have done thus far is to talk about the pricing of ocean transportation service.

Pricing can be in dollars and cents per ton. It also can be in terms of the way commodities are classified. Perhaps the most used price determinant is value of the service, with which I do not object.

But when the value of the service comes to be interpreted to mean primarily value of the commodity, then I think it is important to notice that the result may be a most insidious and invidious mechanism against our economy and against our foreign trade.

If the foreigners, for whatever legitimate reason or by legerdemain, dumping, or otherwise, can show that they have lower valued goods to bring in, they apparently can almost, ipso facto, get lower rates.

Now how does this affect us? As near as I can work it out, it is something like this. You will remember that the first imports from Japan were very cheap, shoddy imitations. After a while the quality began to come up, and now the quality is as high as ours in many things, and even superior.

And on the other side of the fence, we are less and less able to market our lower priced things abroad. We are being pushed up into higher and higher values of the things that we are able to ship abroad.

Now one of the pertinent points that the carriers have made is this. Japanese automobiles are very cheap automobiles. They don't compete with our expensive automobiles. No. 1, that is true. In the direct sense it is true; but in the indirect sense it is not true.

The cheap import directly competes with our secondhand market, which in turn increases the difficulty of selling the new car. This is one of the insidious forces of which I am speaking.

The carriers' statement goes so far as to say, however, that in reality, these are not comparable things. A $900 import and a $2,600 export, they say are really not comparable items. This is in the same category as one of several others that were made to you at an earlier hearing.

Lamp bulbs, for example, they say aren't really lamp bulbs in both directions. Why, they are just cheap imports of Christmas tree ornaments from Japan. This classification bit goes so far that after a while every size light bulb would have a different rate, and no two bulbs moving in either the same or opposite directions could possibly be comparable. This is carrying "differentiation of the product" a little too far, as far as I am concerned. I think overlamination of the classification is to the detriment of the carriers as well as to the economy.

Perhaps this is enough on that point. But I wish to emphasize that this basic but erroneous psychology or philosophy toward pricing is widely held by the carriers. And yet pricing is extremely important in transportation.

Many times in the materials submitted to you, the statement was made "Well, nothing moves outbound on this or that rate; nearly all of that commodity moves inbound, and therefore it doesn't matter if the outbound rate is high."

These circumstances are no justification for discrimination in rates. There are several variations of this attempt to justify admitted rate disparities, but due to the shortness of time permit me to proceed.

Representative CURTIS. Could I ask one question about these rates? How do loading and unloading costs bear on this? The costs of unloading or handling on imports, if they tend to be bulk, would tend to be less than the loading costs to put aboard more finished products.

Is there a cost differential? I think there is, because of high labor costs in this country. When you interject this other item that you are handling in your imports, your costs would be less, and when you are landing abroad your labor costs are considerably less on your handling. So would you comment on that, Mr. Mater?

Mr. MATER. Briefly. It is almost a study in itself. There are so many variations that the problem becomes one of finding what is the net of the differences. Of course, as you already have surmised, where the handling is by American labor, believe me, the costs are higher than elsewhere.

Representative CURTIS. That is right.

Mr. MATER. There is no question about that whatsoever. But to go one step further, the rates for loading and unloading, even in New York, are different for the same commodity; and in San Francisco, the rates for the same commodity vary from pier to pier. And at the other extreme, in Japan, the price is two and a half dollars per ton for anything and everything, either out or in.

Representative CURTIS. In the same way that you have been drawing conclusions from these studies to get a net picture, don't you end up with a net picture showing a higher cost to export than to import, if you start from a country that has high labor costs, and shipping finished products vis-a-vis importing bulk.

I think that would be so, but I don't know. If it is so, what variance would it give us on this bias, which I think you are demonstrating quite clearly that exists? How much is economically understandable, and how much is the result of the peculiar system that is developed?

Mr. MATER. There is truth in what you say, unquestionably. The most important aspect of your point is in regard to the so-called third country rates.

Representative CURTIS. Yes.

Mr. MATER. There you have cheap loading and unloading from another country to a third country, whereas we don't.

Representative CURTIS. Indeed, yes; but you see—and I think this should be interjected now—the trade advantage of this country is not bilateral, it is multilateral.

Mr. MATER. Yes, sir.

Representative CURTIS. This is our problem right now. The reason I was late today was because I was going over some of the problems of this forthcoming "Kennedy" round. I am one of the four congressional advisers to Gov. Christian Herter, the Trade negotiator. It is very clear that our trade is multilateral, and one of our big problems with Western Europe is this fact that it is many cornered.

Mr. MATER. Yes.

Representative CURTIS. It isn't just United States vis-a-vis Japan. I am not interjecting this in any way to later the impact of these studies because the material you are bringing in here is important.

I am interjecting it to avoid an oversimplification of this thing, not that you are trying to. Once we see this, we are going to have to look at this multilateral thing to see how it——

Mr. MATER. No question about it. I might say, Mr. Curtis, I have just scratched the surface of this thing, what I could do with two pairs of hands.

Representative CURTIS. It has been really splendid in my judgment.

Admiral HARLLEE. Excuse me, may I make a comment, Mr. Chairman, with regard to what Congressman Curtis has said.

We fully recognize that the cargo handling costs are a very important factor which has to be taken into consideration when we analyze these rates, and for this reason we asked for cargo handling costs, in the United States and abroad, in our section 21 orders, and in our negotiations with the Europeans those items are included with the material which we are requesting.

We recognize that it does cost more generally speaking to load than to unload. This is something we have to analyze further. Of course you have these costs on both sides, both ways, but this is part of the information we are in the process of getting.

Representative CURTIS. Thank you.

Chairman DOUGLAS. May I interject and say that Mr. Boggs analyzed these costs for one flag operator on Trade Route 12, that is the United States Atlantic to the Far East, and was able to segregate these items.

The difference in average freight rates was between $44.31 export, $30.71 import, or $13.60. The port and cargo handling charges were $16.91 for exports, and $14.49 for imports or a difference of $2.42. But the difference in freight rates was $14.14.

Representative CURTIS. Let me ask, Mr. Boggs, would that allow for the different kind of export package from the United States compared to the import package?

Mr. BOGGS. These figures are the average expenses of the line for 20 voyages on all items carried.

Representative CURTIS. So this would be—yes, it would.

Mr. BOGGS. It is everything carried by the line. The expenses are directly allocated to the cargo handling charges. It includes everything.

Representative CURTIS. Yes; it would, the same line.

Mr. MATER. I know I am taking more time than perhaps you had hoped.

Chairman DOUGLAS. We are operating under the pressure of the Senate and the House, which is the difficulty.

Mr. MATER. I am trying to find concluding sentences.

Chairman DOUGLAS. Yes.

Mr. MATER. It seems to me perfectly obvious that one of the crying needs is the simplification of not only the rate structure, but also the economic thinking behind pricing generally. It is an antiquated system of pricing, even as to the kinds of tons used in the quoting of rates.

I would make one comment about economic principles. I think the industry has thought that the economists could do more about measuring elasticity and the effect of the reduction of price and all that sort of thing than is actually the case. This defeats them because they seem to think that if they can't see any effect of raising the price, there must not be any.

Well, this is far more complicated than those simple principles in economic text books might indicate. I remember the illustration either in Marshall or Smith of a saucer of marbles. The idea was to move one of the marbles and note that every other marble in the saucer also moved. There is hardly enough mathematics to figure out the movement of each of the many marbles in a practical saucer. Further, in a practical case many forces are at work simultaneously: The interrelated effects of each upon the others is way beyond the ability of economists or even engineers to measure, by any kind of vector analysis or other mathematical tools.

May I read the final paragraph. I have entitled it "chaos."

The phrase is legislative ratemaking, unbridled competition and rate chaos are the defensive phrases which seem to arise spontaneously from the carriers whenever any criticism is voiced about the current status of ocean conferences and their freight rates. Study of the carriers' exhibits and other materials suggests that what exists now is close to rate chaos. The need for better economic ground rules, particularly in the matter of freight rates, seems overdue. If improvements were made in such matters, it would hardly be possible for the shippers, the carriers, and the balance of payments not be be benefited.

This concludes my presentation except to state that Mr. Gordon P. Smith, consulting tariff analyst, with the Department of Commerce was of invaluable aid to me in the rate research effort.

Chairman DOUGLAS. Congressman Curtis will ask some questions.

Representative CURTIS. They are just along one line mainly. I am very disturbed at the report of the difficulty in getting information from foreign countries. How many of the ship lines are actually owned by the United States, but under foreign flags? Is there much of that?

Admiral HARLLEE. There is some of it, but generally speaking the ships which are owned by U.S. citizens and are under foreign flags are bulk carriers or ore carriers and tankers. Most of them are in that category.

However, States Marine Lines has a number of ships under foreign flags. As I look over the list of lines to which section 21 orders were served, that is the only one that I see offhand which does have ships under foreign flags.

Representative CURTIS. Is there any way we have control over getting this information in that kind of an operation?

Admiral HARLLEE. Well, those lines, States Marine is an American line, and it presents the same problem that any other American line would.

Representative CURTIS. Yes; I understand, but not because they operate under foreign flag.

Admiral HARLLEE. That doesn't introduce any difficulty.

Representative CURTIS. That is what I wanted to be sure of. Now then, what sort of relationship have you, if at all, with GATT, as far as giving information or using them to get information in this area?

Admiral HARLLEE. We have a very close liaison, Congressman Curtis, with the Ambassador of the United States to the OECD, who is John M. Leddy.

Representative CURTIS. I will ask you about OECD later, but first what about GATT? And then I was going to ask you about the U.N. and OECD.

Admiral HARLLEE. The answer to your question is that we have no direct liaison with GATT, but rather through the State Department. We have been in very close coordination with the State Department in our negotiations with the countries whose lines are concerned about these matters, whose steamship lines are concerned. And the matter of the GATT negotiations is a matter of considerable concern of course to our OECD people and our State Department people.

Representative CURTIS. What I am really directing attention to now is the question of getting information. Of course you have been unable to get information, whether or not through these channels.

Admiral HARLLEE. These are the best channels, Congressman Curtis. The OECD is a better channel than the U.N. because all of the countries whose steamship lines are involved in this information belong to the OECD.

It is a smaller body. Japan has just recently entered into the OECD in these operations. Japan participated in the talks in Paris that we had in February, and when you are in an operation of this type, I think the smaller international organization you deal through the better, as long as that organization does include all of the countries involved.

Representative CURTIS. But even working with OECD, as you have expressed it here, you found difficulty in getting the information.

Admiral HARLLEE. But I must say it is extremely important, Congressman Curtis, that I clarify the point that while it has been difficult, delicate, and in the eyes of the Joint Economic Committee no doubt, long drawn out, at the same time we have the very highest hopes of success in this area.

We are now at the very final stages. There is an agreement in principle, and I am not here to report that we cannot get the information. I am rather here to report that we are just about to get it.

Representative CURTIS. I am very pleased because throughout this inquiry I was most disturbed about this seeming inability to get information.

But you are reporting real progress in that area?

Admiral HARLLEE. Yes, we are very glad to be able to report this. And also I would like to mention that we also can report real progress on the matter of getting information from the American steamship lines. Almost all of the American subsidized lines have complied with our section 21 orders, and have either given us this information or in two cases promised to give it to us as soon as we declare a deadline.

We put the deadline in abeyance for them in order that there would be equity between them and the foreign lines. They would not be discriminated against.

Representative CURTIS. In this preparation for the "Kennedy" round, the Committee on Trade Information has been doing a lot of work, and I am tremendously pleased with the manner in which our own industries and businesses concerned have availed themselves of this forum and are presenting data.

Have you been working with the development of these various background materials and information that the Committee on Trade is developing?

Admiral HARLLEE. No. We haven't been working with them.

Representative CURTIS. Have they called upon you for information from time to time?

Admiral HARLLEE. No. I don't believe they have, Congressman Curtis. But we are working in close cooperation not only with the State Department but also with the Department of Commerce.

Representative CURTIS. Yes, I understand all that. One of the reasons we set up the Committee on Trade Information was because we wanted it centralized and not to deal with the State Department or the Department of Commerce, but to get right to the people involved.

Admiral HARLLEE. Well, we will contact the Committee on Trade Information immediately then.

Representative CURTIS. I wish you would. Of course, I am going to pass on some of this, because although in your prepared statement you were listing these various trade barriers other than tariffs——

Admiral HARLLEE. Yes.

Representative CURTIS (continuing). And thought that your freight rates were not a——

Admiral HARLLEE. They are not the only. They are one of several.

Representative CURTIS. They are very important I think. Would you agree that they are quite important?

Admiral HARLLEE. I certainly would.

Representative CURTIS. Yes.

Admiral HARLLEE. Of course, their importance varies with the commodity, and that is what we are in the process of determining.

Representative CURTIS. Of course, the Committee on Trade Information is studying it on the basis of specific commodities, going down the list.

Admiral HARLLEE. Yes, but I can say this, Congressman Curtis. We do, however, know that that Committee does not have the information that we are looking for from the carriers, if that is what you mean.

Representative CURTIS. Oh, no; no.

Admiral HARLLEE. You mean cooperation with them other than that?

Representative CURTIS. I had started talking about the inabiliyt to get information, which is disturbing. Having finished that, I was then turning over to an area where you would become the source of information.

Admiral HARLLEE. Yes, I understand.

Representative CURTIS. For our people to a large degree.

Admiral HARLLEE. We definitely will make it known to them that we will have information which will be useful to them.

Representative CURTIS. This should be extremely useful data to Governor Herter.

Admiral HARLLEE. Yes.

Representative CURTIS. And to this Committee on Trade Information.

Chairman DOUGLAS. I want to commend my colleague for what he says on this point, that our negotiators should consider not merely comparative tariff rates, but comparative freight rates.

Admiral HARLLEE. Mr. Chairman, could I handle two items very, very briefly?

Chairman DOUGLAS. Yes.

Admiral HARLLEE. I am very sorry that I neglected earlier to introduce my two colleagues, Mr. Timothy J. May on my right who is our managing director and Mr. James E. Mazure who is my special assistant. Secondly, I would to submit a list of the 13 Conferences, outbound Conferences which refuse to comply with the section 21 orders in the matter of shippers complaint, and which we are now taking to court to get compliance.

Chairman DOUGLAS. For the sake of the press, the Far East Conference, Pacific Coast Australasian Tariff Bureau, Pacific Westbound Conference, Pacific Coast/Caribbean Seaport Conference, Pacific West Coast of South America Conference, Pacific Coast European Conference, Pacific/Straits Conference, Pacific Indonesian Conference, CAPCA Freight Conference, Pacific Coast River Plate Brazil Conference, Pacific Coast/Panama Canal Freight Conference, Atlantic & Gulf-Singapore, Malaya and Thailand Conference, Great Lakes/Japan Rate Agreement.

It is all the Pacific trade?

Admiral HARLLEE. Yes, Mr. Chairman, although the Far East Conference is an important conference to the Far East from our North Atlantic range.

Chairman DOUGLAS. What is CAPCA?

Admiral HARLLEE. The Central America Pacific Coast Agreement.

Chairman DOUGLAS. I would like to start off if I may by asking some questions about pooling arrangements. It may be that just as yesterday some of my questions addressed to the Department of Commerce were also addressed to the Maritime Administration, it is possible that some of my questions to you may be addressed over your shoulder to the Maritime Administration. Is there any representative of Maritime Administration here?

Miss PROCTOR. I am here as an observer, Senator.

Chairman DOUGLAS. Purely as an observer?

Miss PROCTOR. Yes.

Chairman DOUGLAS. Will you come forward so you may observe more observantly.

I was somewhat struck yesterday. Did I understand that Mr. May is the administrative head of the Commission?

Admiral HARLLEE. That is correct, Mr. Chairman.

Chairman DOUGLAS. I was somewhat struck yesterday with the statement that one of our subsidized carriers was in a pool covering the movement of coffee from Brazil to the United States, and that there had been a transfer of approximately $800,000 from the American carrier to the Brazilian carrier. Have you a chance, Mr. May, to go over the record on this matter?

Mr. MAY. I have, Senator. There are two coffee pool agreements; one out of the North Atlantic and the other one out of the gulf. I believe you have reference specifically to the gulf coffee pool. This particular pool is presently pending before the Commission.[1]

Chairman DOUGLAS. Has there been a past pool?

Mr. MAY. There has been a past pool that has been in effect for, I believe, about 5 years.

Chairman DOUGLAS. Yes, and were there any payments? Did any payments take place under the past pool?

Mr. MAY. Yes, they have. The most recent payment which took place was for the 6-month period August 29 to February 28, 1963. Since that time over the past year the payments have been in abeyance pending the Commission's decision.

But for that 6-month period, there was a payment of $337,000 for just the 6 months.

Chairman DOUGLAS. For 6 months?

Mr. MAY. Just 6 months, to the Lloyd Brasiliero Line which is the Brazilian national flag line in that pool. That was paid by Delta Lines and Nopal Line.

Chairman DOUGLAS. Roughly you could say therefore between $650,000 and $700,000 a year would be paid by an American subsidized line to this Brazilian line, would that probably be correct?

Mr. MAY. The records show that it has been a total up to this most recent time of $833,000. If you add this $337,000 it brings you to around $1,100,000.

Chairman DOUGLAS. Is this the total for 5 years?

Mr. MAY. Yes, sir; and this was paid to Lloyd Brasiliero. It is interesting to note that during the 6-month period I talk about, the Nopal Line, which is one of the lines in this pool, carried 36 percent of the gulf coffee, and yet the Lloyd Brasiliero Line carried only 1 percent of the coffee, and even though they carried only 1 percent of the coffee, they were still paid by Nopal and Delta Lines the $337,000.

Chairman DOUGLAS. Is Nopal a subsidized line?

Mr. MAY. Nopal is not. Nopal is a Norwegian-flag line. Delta is the subsidized American-flag line.

Chairman DOUGLAS. But the payments of $337,000 came from Delta?

Mr. MAY. Part from Delta and part from Nopal. I don't have the percentages for that 6-month period, but by and large Delta has been paying roughly, oh, one-fourth of the payment to Lloyd Brasiliero. Nopal Line has been paying a greater percentage of that.

This is perhaps one of the reasons why Nopal is contesting the division of the revenue under the pool.

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[1] The American subsidized lines in the coffee pool submitted a memorandum on the pooling agreement. It will be printed, along with additional comments of Mr. May in "Pt. 5. Discriminatory Ocean Freight Rates and the Balance of Payments." scheduled for publication in late May 1964.

Chairman DOUGLAS. Then we can say this. That upward of $250,000 in the last 5 years has been paid by the American subsidized line to the Brazilian line?

Mr. MAY. That is correct.

Chairman DOUGLAS. In other words, the American taxpayer subsidizes the American line. The American line then pays a portion of the subsidy to a Brazilian line?

Mr. MAY. That is correct.

Chairman DOUGLAS. In other words, there is an indirect blood transfusion from the American taxpayer to the Brazilian line.

Mr. MAY. That is correct, Senator. I might also point out that they have just raised the rate of coffee under that pooling agreement from $2.50 to $3 per 60-kilo bag, so that even though under a $2.50 rate the pool carriers were able to make enough revenue in a 6-month period to be able to pay over $337,000, even though they were able to make enough revenue, they have still raised the rate 50 cents, or roughly about a 20-percent increase.

Chairman DOUGLAS. Is it true that coffee can be shipped more cheaply from Brazil to Amsterdam to the United States than directly from Brazil to the United States?

Mr. MAY. Our Bureau of Investigation has looked into that, and they inform us that it is true that it can be shipped more cheaply by routing it through European ports, off-loaded and then put on the ships bound from Europe to the United States. Not only that, we do have a complaint from the Green Coffee Association, and the Green Coffee Association also makes the allegation that they can import coffee more cheaply by sending it this round trip through Europe than they can by bringing it in directly from Brazil.

Chairman DOUGLAS. I think this is a prima facie case of—I was going to say fraud.

Mr. MAY. I might comment the reason I am testifying of course is that this pooling agreement is presently before the Commission, and this is why the Chairman, since he will have to sit in on that case, has referred this question to me. But the staff position, the position of the staff of the Federal Maritime Commission, is quite clear as to what it thinks of this pooling agreement and what recommendations it has made. They are on the record.

Chairman DOUGLAS. Do you think that this pooling agreement is unique in the conferences?

Mr. MAY. I don't think it is necessarily unique. Perhaps some of the advantages under it are unique. It almost amounts to a form of blackmail, if that is perhaps a harsh word to use, but it is almost what it amounts to. The Brazilian Government by governmental decree will not permit coffee to be carried by anybody who is not a member of this coffee pool. And you can't be a member of the pool of course unless you are a member of the conference. And naturally their Brazilian-flag line is a member of the pool.

In effect the Brazilian-flag line carries hardly any coffee at all, and yet consistently gets a large share of the revenues earned under this pool.

Now if any of the carriers don't want to participate in this pool, then they can't carry coffee from Brazil, and coffee is the most important commodity in that trade. It is simply not profitable for the

American-flag lines to go in this trade, unless they can also carry coffee.

Chairman DOUGLAS. Let me put it this way. Doesn't this directly work against the interests of the coffee producers of Brazil, because the price realized in Brazil has a deduction for freight rates. If lower freight rates could be established between São Paulo and New York, São Paulo and New Orleans, the residual left for the Brazilian exporter, grower, planter, or what have you, would be higher; isn't that true?

Mr. MAY. That would be my conclusion. The Brazilian Government of course, when they issued this decree, based it on the ground that they wanted stability in the trade. By stability I think they meant they didn't want fluctuation in the rates. There was no lack of service to the trade. But there was an incidence of rate cutting in that trade. Now it would be my conclusion, however, that it would be to the benefit of the coffeegrowers in Brazil to have more favorable freight rates than they presently have.

Chairman DOUGLAS. As you know, the State Department has negotiated and the Senate has ratified a coffee treaty. The implementing legislation has been reported out by the Finance Committee and is on the calendar of the Senate which makes the United States an enforcing agent for an international cartel refusing to accept coffee from any country outside the cartel or from any maverick inside the cartel who breaks away.

Now I have grave doubts about this coffee agreement. I would like to help the people of Brazil. I would suggest that one of the best ways of helping them would be to smash this shipping cartel so that the Brazilian planters and growers can get more per pound.

Mr. MAY. Yes. It is safe to say that you and I could drink coffee at a cheaper price if that were done also. There may very well be an inconsistency in the purposes of the operation of this pool and the purposes of the coffee agreement that was negotiated.

It is possible that a coffee pool would be beneficial in some respects. But the most insidious part of this pool is the fact that the Lloyd Brasiliero line is guaranteed a large share of the revenues even if they make no carryings whatsoever. Now certainly that aspect of the coffee pool is not necessary for stability in the coffee trade.

Chairman DOUGLAS. Is it true that the president of one of the lines in the pool has requested that the Commission take action to raise the inbound rate from Europe to the United States on coffee?

Mr. MAY. My understanding is that one of the American-flag lines presidents approached the Commission and asked the Commission to investigate as to whether or not there were irregularities or malpractices existing in the trade of that coffee, what is referred to as tourist coffee, that coffee which moves to Europe and then to the United States.

Chairman DOUGLAS. Does the coffee enjoy the Flemish paintings in Brussels and does it enjoy the Rembrandts in Amsterdam?

Mr. MAY. If you could go to Brazil, if you could travel from Brazil and visit Europe on your way back to the United States at a lesser price than coming directly you would probably want to do it.

Chairman DOUGLAS. So that the remedy is to make it more expensive to be a tourist and force you to take the more expensive and more direct route to the United States; is that right?

Mr. MAY. That is right. I might add that our Bureau of Investigation looked into the allegations and found that there were no violations of our laws in the malpractices that were alleged.

There are, however, some irregularities we are looking into as to the question of whether or not a transshipment agreement should be filed with the Commission for its approval, and whether or not they have a rate on file with the Commission which is an applicable rate. But that is a different question than the other; than the allegations that were made.

Chairman DOUGLAS. Do you have the power to turn down this pooling arrangement?

Mr. MAY. The Commission has the power to determine that the pooling agreement is detrimental to or contrary to the public interest of the United States. They have that power.

Chairman DOUGLAS. Have you established any criteria how you will judge whether or not a pooling arrangement is for the best interests of the United States?

Mr. MAY. The staff's position on this, and this is a relatively recent issue for the Commission to face, the staff has made recommendations to the Commission, and as to the last two pooling agreements which have come before the Commission for approval, investigation has been recommended by the staff. The Commission has endorsed the recommendation of the staff in both instances, and has ordered investigations and hearings to determine whether these pools should be approved.

I might say that the staff position is that pooling agreements are prima facie unlawful.

Now, that prima facie unlawfulness can be rebutted, but the burden rests entirely with the applicant.

Chairman DOUGLAS. That is in conformity with the American antitrust laws?

Mr. MAY. That is correct; unless there is some extraordinary reason that they can demonstrate why a pooling agreement should be approved, that it is just prima facie contrary to the public interest.

It is the final anticompetitive device in this trade.

By having a conference agreement they have eliminated all price competition, and once you have a pooling agreement, that is the virtual elimination of any kind of competition whatsoever.

Unless that can be justified by extraordinary circumstances, it would be the staff's position that all pooling agreements are unlawful, unless this showing can be made.

Chairman DOUGLAS. I don't wish to refight old battles or to hit a man when he is down, but Mr. Stakem, when he was Chairman of the Commission, took exactly the opposite point of view. This was one of the points of controversy between the chairman of this committee and Mr. Stakem. You shouldn't comment on that, but I want it stated for the record. He is still a member of the Commission, and a candidate for reappointment.

Now is there a proposed pool which covers the outbound trade from the Atlantic coast to Europe between the Myer Line, which I believe is an independent Norwegian operator, and the North Atlantic outbound conference?

Mr. MAY. There is, Senator. This is the most recent pooling agreement filed for approval by the Commission. The Commission has ordered an investigation and a hearing on this.

Chairman DOUGLAS. Myer has been and is an independent?

Mr. MAY. That is right.

Chairman DOUGLAS. And the Myer Line charged lower freight rates than the conference.

Mr. MAY. That is correct.

Chairman DOUGLAS. Now, however, they have made up.

Mr. MAY. There is every evidence that they have made up in more than one way. There is apparently—well, naturally, with the pooling agreement there is no longer any incentive to the Myer Line to quote lower rates than the North Atlantic.

Chairman DOUGLAS. Because it will share in the profits.

Mr. MAY. It gets a fixed percentage, 16⅔ percent of the revenue regardless of what it carries.

Chairman DOUGLAS. Of gross?

Mr. MAY. Gross, inbound and outbound.

Chairman DOUGLAS. That is one-sixth of gross revenue no matter how much or how little freight it carries?

Mr. MAY. Under certain qualifications, yes, that is the case. Now the curious thing about this pooling agreement is that they are the only ones who pool. Everybody else pools their revenues but gets everything back except what they pay to Myer Line.

Chairman DOUGLAS. In other words Myer, by fighting the conference, was finally able to bust into the conference and get a sixth of the revenue?

Mr. MAY. That is about the case.

Chairman DOUGLAS. Now let me ask you this: When Mr. Mater made his study that was as of the 19th of November.

Mr. MAY. That is correct.

Chairman DOUGLAS. When did the increase in rates go into effect?

Mr. MAY. The effectiveness of the rate increase is March 26. The Myer Line——

Chairman DOUGLAS. Today?

Mr. MAY. Yes, that is March 26. The Myer Line has also filed a rate increase which will be effective April 6. So what has happened, obviously in contemplation of this pooling agreement, the North Atlantic Conference has raised their rates by 10 percent roughly, this is what the increase amounts to is a 10-percent increase, and Myer Line has correspondingly also filed. We have examined and analyzed the two tariffs on similar commodities, and what they show is that there is a parallel increase by Myer, so that Myer is in other words following——

Chairman DOUGLAS. Ten percent or twenty percent?

Mr. MAY. Ten percent.

Chairman DOUGLAS. Ten percent.

Mr. MAY. This still leaves a 10-percent differential roughly speaking, a 10-percent differential in the conference rates and in the Myer Line rates. But what this means is that this will stabilize that differential. It was the instability of that differential in September of 1962 that incited what has perhaps euphemistically been described as a rate war. All the participants in this war have survived, and seemingly have prospered during the period of this rate war.

Chairman DOUGLAS. They not only have survived but they have flourished, haven't they?

Mr. MAY. That would seem to be the case, yes. At any rate, in contemplation apparently of this pooling agreement, the combatants of the rate war have now filed parallel rate increases which in effect restores the rate situation that existed prior to the rate war.

Chairman DOUGLAS. At a 10-percent higher level.

Mr. MAY. During the rate war, the rates were driven down from 10 to 50 percent in different trades. But we have analyzed this, and what this rate increase does in effect is restore the rate levels correspondingly that existed prior to the rate war.

Chairman DOUGLAS. Will not the gulf follow the Atlantic, and Great Lakes?

Mr. MAY. This we don't—this is pure speculation. I think one could expect that this would happen, and the Commission staff is looking very closely at the interrelationships between these different trades, because of the common memberships in different trades by different lines, and to see what perhaps unfiled agreements may also exist between the Myer Line and the conferences. This will be part of the investigation. And of course the rate increases that have been filed by both of these carriers, in the sense that it appears directly to relate to the pooling agreement, will become part of the investigation of the pooling agreement.

Chairman DOUGLAS. Now if competition is suppressed, as I take it it will be, is there any reason to believe that they will stop with the 10-percent increase?

Mr. MAY. It would contradict history if I were to suggest that there were reason to believe it. What can be anticipated is given the fact that the traffic will bear it, increases from time to time as long as the differential is retained. Myer Line has loyal customers who stayed with it through the war. They are getting this 10-percent differential, and apparently the conference believes that it can live with the 10-percent differential.

A differential greater than that, or selective cutting they want to eliminate and this pooling agreement is designed specifically to do that.

Chairman DOUGLAS. And as Mr. Mater said, his evidence on comparative rates was for the period prior to this increase?

Mr. MAY. That is correct.

Chairman DOUGLAS. So that the disparity will be still further deepened.

Mr. MAY. That is quite true, Senator.

Chairman DOUGLAS. Is it permissible to ask whether the staff has any recommendations on this pool or would you prefer not to?

Mr. MAY. It would be prejudging the case. On the basis of what we know now, it would be the recommendation of the staff not to approve it, but that would be a prejudgment. The reason to have an investigation and a hearing is to have a full airing of all the facts and to determine what the true situation is. Conceivably there could be a demonstrable showing on the part of the pooling participants that this was in the interest of the United States. But I emphasize the burden is theirs.

It is not the burden of the Commission to show that this is bad for the United States, because in our opinion pooling agreements are presumptively bad unless there can be some special circumstances shown. And those special circumstances I might add directly relate not to what is good for the carriers, because quite obviously any collusive or combination arrangement is good for the participants or they think it is good for them or they wouldn't enter into it. The question is is this good for the service in the trade.

And absent the pool, will there be deterioration in the regularity and the frequency of service to the essential trade areas?

Those are the key questions, and I believe the carriers are going to have to make a showing that, absent this pooling agreement, the service in the area will deteriorate, that perhaps carriers will have to leave the trade, because they can't remain in under this type of competition, and that therefore necessary service will be affected.

Absent that showing I just think that the pool should not be approved and I believe that is the staff position. Naturally the staff—I have to emphasize that the Commission has to enunciate the final policy on that, but it is the job of the staff to recommend positions to the Commission, and we have a Bureau of Hearing Counsel that takes adversary positions in this. Its job is to protect the public interest and to represent the public interest in this matter.

Chairman DOUGLAS. Thank you very much. Admiral Harllee, the question of the refusal of the 8 outbound conferences to comply with your request for information will be taken to the courts if necessary.

Now suppose the foreign lines and inbound conferences refuse to give the Commission the needed statistical information as the outbound conferences have.

What course of action do you recommend for the Commission? I notice you were very diplomatic in saying that you wanted to preserve the amity with foreign countries. Suppose they take the position that they are just not going to give you information?

Admiral HARLLEE. You are speaking of course of the foreign-based conference?

Chairman DOUGLAS. That is right.

Admiral HARLLEE. I would like to emphasize, Mr. Chairman, once more that we do not believe that we will get enough information to enable us to make the analyses that we should make. But if we do lose, of course we would go to court. It is conceivable we might lose in court. If we did lose in court we would have to seek legislation, and the legislation that we would seek would be along the lines of whether the agreement should be disapproved on the basis of them not furnishing information.

Also we would have to consider whether we would seek legislation allowing us to suspend rates, and thirdly, we would seek legislation which would put the burden of proof definitely on the carriers rather than on the Maritime Commission with regard to the reasonableness of the rates.

Fouthly and finally, we would have to consider recommending then that the conferences be required to maintain a resident headquarters in the United States, which would as a practical matter entail a duplicate set of records. All of these alternatives of course are undesirable from many points of view. But if we just can't get the information in order to do the regulatory job, we would have to make such legislative recommendations.

Of course if we win in court, we would then ask the Justice Department to seek the fines which would accrue.

Chairman DOUGLAS. I have not been able to follow the case of the airlines. Is there anyone here woh has followed that controversy between the domestic airlines and the foreign-based airlines with regard to passenger fares? Yes, Mr. May?

Mr. MAY. I have some familiarity with it, Senator. It is a curious situation when compared with our situation. The foreign governments seem to have taken perhaps a little different approach.

With the air carriers they seemed less reluctant to exercise regulations, and they seemed at times to take inconsistent positions. Without mentioning the country involved, for example, I know of one instance where an American airline was at gunpoint prevented from leaving a foreign capital, one of the European foreign capitals, because that American airline was charging a lower passenger rate than that government thought the rate should be.

Quite obviously the Federal Maritime Commission has never done anything like that, nor would it ever contemplate anything like that in terms of trying to hold the ship down at the port.

Chairman DOUGLAS. What was the final result?

Mr. MAY. The final result was one that——

Chairman DOUGLAS. In essence the European countries threatened to refuse to give landing rights.

Mr. MAY. That is correct.

Chairman DOUGLAS. We had lower transatlantic passenger rates than their lines; isn't that true?

Mr. MAY. That is correct, and this was finally resolved through negotiations of the State Department with foreign governments. The Civil Aeronautics Board, as I understand it, didn't get quite all that they had hoped for, but these are matters that do require accommodations between governments. I would say that the U.S. Government, through its representatives in the State Department, were successful in lowering passenger rates and getting an accord from foreign governments on this.

Chairman DOUGLAS. On its own lines?

Mr. MAY. No, on general passenger.

Chairman DOUGLAS. On general.

Mr. MAY. Yes.

Chairman DOUGLAS. Foreign lines as well?

Mr. MAY. Yes. Now I note also, however, that during this period of time, legislation was introduced to give the Civil Aeronautics Board rate suspension power, and it passed the House. They don't have rate suspension powers now, but this legislation would have given them rate suspension powers. Now what part that played in determining the wisdom of a settlement or an accord I don't know.

Chairman DOUGLAS. Was there any reciprocal threat on our part that if the European countries persisted in their effort, that we would not grant landing rights to their airlines?

Mr. MAY. Not that I am aware, Senator.

Chairman DOUGLAS. Wasn't that always in the background?

Mr. MAY. I am sure that it was at least—the possibility of it happening must have been constantly present.

Chairman DOUGLAS. Would you suggest anything such as that in connection with ships, the possibility that we would deny access to American ports to foreign ships which charged discriminatory rates against the United States? You are not asking for that. But wouldn't it possibly strengthen your bargaining hand if you had it?

Mr. MAY. It would strengthen it to a point where it might even terrify some of the Europeans. I think the admiral is more competent to comment on this matter.

Admiral HARLLEE. I would like to make a couple of brief comments in these connections, Mr. Chairman. I would like to say for the record that not only is the air traffic regulated by an international body, as you know, IATA, International Air Traffic Association, but also the matter of rates, passenger rates in the transatlantic and other trades are relatively simple in that they have first-class and economy rates instead of 3 million rates on file. But with regard to the last point that you brought up, section 14(a)(2) of the Shipping Act includes the following sentence, "The Secretary" (which means the Secretary of Commerce) "shall thereafter refuse such person the right of entry for any ship owned or operated by him or by any carrier directly or indirectly controlled by him, into any port in the United States or any Territory, District or possession thereof, until the board certifies that the violation has ceased or such combination, agreement, or understanding has been terminated."

So under certain circumstances the power which you speak of does reside in the law books but it is a power which, of course, would have to be used with great judiciousness.

But it is an ultimate power which could be used.

Chairman DOUGLAS. If the foreign lines refused to give the information, refused to give you any information, might it not be a good thing to recommend the use of this power?

Admiral HARLLEE. That is not one of the reasons listed, but there are other reasons. But this is something which would be an ultimate power, Mr. Chairman, but one in which we have every expectation of working a solution out before resorting to.

Chairman DOUGLAS. I don't want to compare the European nations to a child or to juvenile delinquents, because I don't wish to insult our honorable friends. I simply say that so far as child psychology is concerned, sometimes behavior is improved by the knowledge that there is a woodshed and a switch therein.

Admiral HARLLEE. I would say that this hearing probably in part accomplishes that purpose.

Mr. APPEL. Could I make a brief comment in the general analogy drawn by Senator Douglas between the air passenger situation and ocean shipping. In years past I think it was true that the percentage of Americans traveling abroad was overwhelming as compared with Europeans and others coming here. Our passenger market eastbound, so to speak, was most lucrative and therefore we had a great deal to offer European nations and great bargaining power in that respect. That I think is no longer true. It is, to a far greater extent, a two-way flow. However with respect to shipping I think Admiral Harllee will agree that, as his predecessor Chairmen have testified before various congressional committees, ships flying the flag of foreign nations carry at least 90 percent of the cargo to and from our shores. With the profit motive still providing the basic motivation, and ours being a large exporting and importing nation, this is a very lucrative market for ships of the foreign merchant marine.

Therefore I think that you will agree, Senator, that in line with impact and thrust of these hearings as well as other congressional hearings, this situation justifies, economically and practically, the full exercise of the Commission's statutory powers in so far as they pertain to regulation of rates, supervision of conference activities, et cetera. I just wanted to make that differentiation between the two situations.

Chairman DOUGLAS. Very good.

Admiral HARLLEE. I agree.

Chairman DOUGLAS. We are getting more and more support, Admiral.

Admiral HARLLEE. I agree with Mr. Appel verbatim.

Chairman DOUGLAS. I want to commend you, Admiral. I want to commend your associates. This has been the best testimony that we have had, and we are tremendously encouraged with the steps that you are taking. I want to say the statistical analysis that Mr. Mater produced is amazingly good, and I hope you are able to hold him over there. Don't let anybody try to get him back, because one of the favorite devices in a bureaucracy if a man is on loan and doing a good job is to recall him and bury him. I hope you keep hold of him. I want to see to it that he is not buried.

Admiral HARLLEE. You can rest assured of that, Mr. Chairman.

Chairman DOUGLAS. I want to thank all of you and commend all of you. This is the first ray of light that I have seen in a long time.

But the road ahead is very arduous. You have got a very difficult—I shouldn't use a terrestrial analogy. The ship isn't in harbor yet.

Admiral HARLLEE. Yes, sir. Thank you very much, Mr. Chairman.

Chairman DOUGLAS. Thank you.

Admiral HARLLEE. I am sure the Commission and staff will join with me in wishing you a very happy birthday.

Chairman DOUGLAS. I do wish that the North Atlantic Conference though would give me a better birthday present than a 10-percent rate increase.

(Whereupon, at 12:15 p.m., the hearing was concluded.)

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