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SUBSIDIES TO SHIPPING BY ELEVEN COUNTRIES

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LETTERS OF TRANSMITTAL

JULY 16, 1964.

To Members of the Joint Economic Committee:

Transmitted herewith is Paper No. 6, entitled "Subsidies to Shipping by Eleven Countries," prepared as an aid to increased understanding of the international implications of the subsidy policies in the United States as compared with similar policies in other developed nations of the world. The paper was prepared by the Maritime Administration in the Department of Commerce at the request of the Joint Economic Committee. It contains detailed information on subsidies paid to merchant fleets in the United States and in 10 foreign countries. The material for each foreign country was verified by the respective foreign government.

This study is the sixth of a series being issued as aids to an increased understanding of economic policies and institutions in the various industrial countries. No precise pattern is being followed in the series. I believe, however, that by making data more readily available for a comparison of national policies and practices in various areas, members of the committee, other Members of Congress, and the general U.S. reader will be aided in understanding economic problems within the framework of the enterprise and free market "rules of the game" as practiced by the leading industrial nations. The views expressed in these papers are exclusively those of the authors and do not necessarily represent the views of the committee or individual members thereof.

The Joint Economic Committee gratefully expresses its appreciation to Hon. Nicholas Johnson, Maritime Administrator; Irwin M. Heine, Chief, and Muriel W. Coe, foreign shipping analyst, Office of Statistics; and Edward Aptaker, Chief, and Louis Ervin, examiner, Officer of Government Aid.

PAUL H. DOUGLAS,
Chairman, Joint Economic Committee.

JULY 15, 1964.

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

DEAR SENATOR DOUGLAS: Transmitted herewith is a paper entitled "Subsidies to Shipping by Eleven Countries" prepared by the Maritime Administration, Department of Commerce, at the request of the Joint Economic Committee. The study is a summary of the principal subsidies and aids granted by the major maritime nations to their shipping and shipbuilding industries. The study is the sixth of the committee's series on "Economic Policies and Practices."

JAMES W. KNOWLES,
Executive Director, Joint Economic Committee.

FOREWORD

The following is a summary, compiled from the latest available information, of the principal direct and indirect aids granted by the governments of the major maritime nations to their shipping and shipbuilding industries. (Nations were selected on the basis of gross tonnage, but Panama, Liberia, and the U.S.S.R. were excluded.)

When I arrived at the Maritime Administration on March 2, 1964, one of my first requests was for a survey of the government-aid practices of other major shipping nations. Not only does such a survey provide a source of ideas for improving our own merchant marine programs, but it also sets a comparative stage of the industry's needs that have been recognized, worldwide, and the competitive market in which the U.S. merchant marine must operate.

It was with no little reassurance, therefore, that I received from the alert Maritime Administration staff the word that such a study was already underway and would be ready shortly. Admittedly, some of the impetus had come from Senator Paul Douglas' Joint Economic Committee and its able staff, but the fact remained that, for whatever reason, my request had been anticipated.

Now the report is here.

Necessarily, a study of this kind will be somewhat incomplete. Government assistance programs vary widely, are imaginative and sophisticated, and are often difficult of comprehension even inside of the economic society in which they have their being, and may be almost impossible for an outsider. But the material has been reviewed with shipping representatives of the governments involved, and the difficulties are not so severe as to counsel that the need be ignored and the effort be abandoned. We would hope, however, that the report would be received in this spirit of its creation.

Four countries, France, Italy, Japan, and the United States, stand out with regard to the amount of direct operating and construction aid which each grants its maritime industry.

Other financial aids are used by many countries, including tax relief, accelerated depreciation, and loans. In many cases, assistance may be indirect, such as the reservation of a country's coastal trade (cabotage) to its own flag ships. Subsidies for carrying mail and for services in essential areas which would not ordinarily be operated on a commercial basis, as well as certain tax benefits and depreciation allowances applicable to other industries as well, have also been included in this study.

It is apparent that a number of the major shipping nations have had to grant some form of assistance, financial or otherwise, to maintain their fleets and to compete as effectively as possible in international shipping.

According to data compiled by the Maritime Administration, each of the countries studied carried a greater percentage of foreign trade in its own flag ships than the 9 percent of the U.S. trade carried by

U.S.-flag ships. In fact, in some cases foreign nations are carrying as much as 60 percent of their trade on their own flag ships.

This study was compiled by Irwin M. Heine, Chief, and Muriel W. Coe, foreign shipping analyst, Office of Statistics, and Edward Aptaker, Chief, and Louis Ervin, examiner, Office of Government Aid. Theirs are the satisfactions, limitations, and glories of all pioneers.

NICHOLAS JOHNSON,
Maritime Administrator.

MAY 1964.

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SUBSIDIES TO SHIPPING BY ELEVEN COUNTRIES

A SUMMARY OF THE PRINCIPAL SUBSIDIES AND AIDS GRANTED
BY THE MAJOR MARITIME NATIONS TO THEIR SHIPPING
AND SHIPBUILDING INDUSTRIES

U.S. DEPARTMENT OF COMMERCE
MARITIME ADMINISTRATION
WASHINGTON, D.C.

MAY 1964

INTRODUCTION

A nation's desire for maritime status is motivated by many factors. For some the elements of prestige or national defense may be most important. Others look to shipping as a means of improving their balance of international payments. Still others see their national shipping as a protection against shipping discriminations that might affect their foreign trade. Whatever the reasons, there are today 82 nations, excluding British colonies, that have from 1 to 2,656 oceangoing ships of 1,000 gross tons and over in their merchant marines. Together they comprise a world fleet¹ of 17,836 ships totaling 136,573,000 gross tons.

The costs associated with establishing a fleet of merchant ships are enormous. Building a new ship or buying one in the second-hand market involves the commitment of a large capital outlay that may be extended for many years in the form of mortgage payments and interest charges. There are relatively few industries compared with shipping that require so large an investment to provide capital equipment in relation to total investments.

Unlike other industries which involve large capital expenditures, shipping produces only one product—service—and this intangible item must be sold in one of the most competitive of all markets. Because a ship is subject to constant overhead, the operator must seek to keep it continually employed. The more a ship is at sea moving cargo and the less it is in port loading and discharging cargo, the larger will be the return to the operator on his investment. There are few fixed assets that deteriorate as rapidly and at so high a cost as an idle ship.

Shipping is a highly cyclical industry. It is very sensitive to fluctuations in the volume of activity in the basic commodities of world trade. Over the long run, shipping will usually be profitable in only a few years with long periods of marginal returns, if any, on invested capital. It is subject, as few other industries are, to the vagaries of international political and economic forces. In periods of world prosperity, but more usually in times of international crises, when the demand for shipping space is urgent and supply is relatively inflexible, rates rise rapidly and even marginal operators prosper.

It may be said that during the so-called normal periods of world trade there is a surplus of tonnage in the world fleet. At least this has appeared to be so during the last 50 years. Such surplus has resulted from the construction of large numbers of ships in the United States during and after two world wars, the postwar replacement of tonnage losses during those wars by major maritime nations, construction of faster, larger, and more efficient types to replace inefficient or obsolete tonnage, the establishment of merchant fleets by newly independent nations and older countries which did not acquire their

¹ If ships registered in British colonies are included, the world fleet total would be 18,033 ships of 137,657,000 gross tons.

merchant marines until during and after World War II,² and low scrapping rates. Even when inefficient tonnage is laid up, it exerts an influence on the world charter and ship sales markets, since such tonnage can be made available in the event of any upsurge in demand for shipping. This was demonstrated by the activation of almost 650 ships from the U.S. national defense reserve fleet during the Korean crisis and about 175 ships from the same source during the Suez hostilities, to cite only two examples.

Since the quantum of international trade and ocean shipping engaged in carrying that trade are to a large degree mutually dependent, both may be said to depend upon an international division of labor for their existence which in turn is governed to a considerable degree by the principle of favorable comparative costs. Of the 82 nations having merchant marines, few enjoy a comparative cost advantage in ocean transportation. Costs of ship construction, capital costs involved in acquiring the ships, costs of wages and social services, maintenance and repair, insurance, subsistence, interest charges on borrowed funds for operating purposes, among other costs, vary considerably among the 82 maritime nations. To overcome cost disparities, many governments grant various forms of indirect and direct aids to their shipping and shipbuilding industries. Many believe that a national merchant marine is as basic to their national economic and defense interests as their railroads, highway systems, and inland waterways. Whatever the reasons, the fact remains that such assistance is not new, but has been granted by seafaring nations, in one form or another, for centuries as an encouragement to their maritime industries, and there are few, if any, governments today which do not assist their shipping and shipbuilding industries in some way, however indirect.

The manner in which this aid is given by the major maritime nations is described in the following pages, preceded by a summary of each country's basic economic factors.

Summary of government aids to maritime industries

Country	Direct		Indirect			
	Oper- ating subsidy	Construc- tion subsidy	Tax benefits	Depre- ciation	Loans and in- terest on	Other
Denmark.....				X	X ¹	
France.....	X	X		X ²	X	X
West Germany.....			X		X	X
Greece.....			X	X ¹	X	X
Italy.....	X	X	X	X	X	X
Japan.....	X	X	X ²	X	X	X
Netherlands.....				X ²	X	X
Norway.....	X ¹		X ²	X	X	X
Sweden.....	X ¹	X ¹	X	X	X	X
United Kingdom.....	X ¹		X ²	X	X	X
United States.....	X	X	X	X	X	X

¹ Domestic only.

² Not exclusively to shipping.

³ 38 nations have acquired their merchant fleets during and after World War II, with a total of 1,625 ships of 16.1 million gross tons. Even if the Lebanese and Liberian merchant fleets totaling 1,138 ships of 13.6 million gross tons are excluded, since they are owned primarily by foreign nonresident nationals, the remaining nations still control almost 500 ships of about 2.5 million gross tons—enough to influence world shipping rates.

Summary of statistics

Country	Estimated population (millions)	Area (square miles)	Estimated gross national product (billions)	Value of total foreign trade in 1963 (millions)		Merchant fleet ¹				Gross tons increase (thousands)	Principal countries of construction for ships delivered in 1963 for national registry	Shipbuilding ² prices as a percentage of U.S. prices	Government participation in ownership of fleet	Percent of oceanborne cargo in foreign trade carried by national vessels
				Out	In	Dec. 31, 1955		Dec. 31, 1963						
						Number	Gross tons (thousands)	Number	Gross tons (thousands)					
Denmark.....	4.6	16,900	\$7.9 (1963)	\$1,904	\$2,128	313	1,547	346	2,199	652	Denmark, Netherlands.....	45-55	No....	23 (1963)
France.....	46.2	212,737	66.5 (1962)	8,085	8,727	570	3,663	604	4,800	1,146	France.....	50-65	Yes....	59 (1962)
West Germany ³	57.8	95,928	94.2 (1963)	14,622	13,023	662	2,494	863	4,787	2,293	West Germany.....	45-55	No....	37 (1962)
Greece.....	8.4	50,550	4.2 (1963)	290	804	201	1,180	828	6,781	5,601	Japan, Yugoslavia, France, and Spain.	(⁴)	No....	47 (1963)
Italy.....	50.5	117,000	39.5 (1962)	5,048	7,539	598	3,811	609	5,049	1,238	Italy.....	50-65	Yes....	33 (1962)
Japan.....	95.1	147,000	49.2 (1961-62)	5,453	6,737	622	3,436	1,267	8,676	5,240	Japan.....	40-50	No....	46 (1962)
Netherlands.....	11.9	12,865	13.0 (1962)	4,961	5,968	535	3,403	527	4,597	1,194	Netherlands.....	45-55	No....	16 (1963)
Norway.....	3.6	124,500	5.9 (1962)	1,073	1,821	1,102	7,145	1,401	13,417	6,272	Norway, Sweden, West Germany, Spain, United Kingdom, and Denmark.	45-55	No....	⁵ 43 (1962)
Sweden.....	7.5	173,423	17.0 (1963)	3,202	3,389	571	2,586	507	3,951	1,365	Sweden, Finland, and West Germany.	45-55	No....	33 (1963)
United Kingdom.....	53.3	94,204	69.5 (1962)	11,857	13,497	2,526	17,601	2,206	20,138	2,537	United Kingdom, Sweden, Netherlands, Spain, and West Germany.	50-60	Yes....	⁶ 52 (1962)
United States.....	190.0	3,615,211	585.1 (1963)	23,249	18,600	7,304	725,250	7,266	722,520	-2,730	United States.....	100	Yes....	9 (1962)
Subtotal.....				79,744	82,233	10,996	72,116	11,814	96,924	24,808				
Total, world.....				135,200	142,500	15,148	92,949	18,033	137,657	44,713				

ECONOMIC POLICIES AND PRACTICES

¹ Ships of 1,000 gross tons and over.
² The level of shipbuilding prices in any country is not precise. The market level is dependent on the business judgment of the shipyards and shipowners, as well as pressures of supply and demand which may vary from time to time in any one country. In addition, there are other matters which affect the price, such as the type of ship, number of ships involved, and whether the ship is a new or repeat design. The shipbuilding price level in France and Italy is unpredictable because of the operation of Government subsidy programs.
³ Excludes trade with East Germany.
⁴ Not applicable. Data on prices in Greece are not strictly comparable since there is only 1 shipyard.
⁵ Excludes Swedish iron ore exported through Narvik. The ratio was 28 percent including the ore shipments.

⁶ Net tonnage of vessels with cargo.
⁷ Privately owned:

	Number	Gross tons (thousands)
Dec. 31, 1955.....	1,075	9,177
Dec. 31, 1963.....	974	10,076

Source: Office of Statistics, Maritime Administration, May 1964.

COUNTRY SUMMARIES

DENMARK

ECONOMIC BACKGROUND

Denmark is a relatively small country of 16,900 square miles and has a population of about 4.6 million. One-third of the population lives by agriculture. Its principal exports are meat and meat products, dairy products, machinery, and electrical equipment. Imports consist mainly of solid fuels and petroleum products, machinery, metals, transportation equipment, foodstuffs, and grain.

In 1963 the value of Denmark's exports was \$1.9 billion and imports \$2.1 billion, or a total foreign trade of \$4 billion. Its gross national product was \$7.9 billion in 1963.

Denmark's merchant fleet has increased from 315 vessels totaling 1.5 million gross tons in 1955 to 346 vessels of 2.2 million gross tons in 1963. The majority of the ships are constructed in Denmark, and all of the fleet is privately owned. It is estimated that from 85 to 90 percent of the merchant fleet's earnings comes from trade between foreign ports.

About 23 percent of the cargo tonnage in foreign trade is shipped on Danish vessels.

GOVERNMENT AIDS

Depreciation

According to the ordinance of June 4, 1958, for ships whose cost exceeds \$29,000, advance depreciation cannot exceed 30 percent of the cost. It may be apportioned over the years between the signing of the contract and delivery of the ship, but not more than 15 percent is chargeable to a single year (e.g., 15 percent per year for 2 years).

Loans and interest on loans

As an aid to operators of small ships in the coastal service, the Danish Government, pursuant to the act of November 24, 1961, grants loans and guarantees for the construction or conversion of freighters of 500 gross tons or under, up to \$1.12 million per year.

The greater part of this sum is used as a guarantee for ship construction loans procured in commercial banks at regular interest rates. The loans must be secured by mortgages up to 80 percent of the building cost, and must be paid in equal installments over a 15-year period.

FRANCE

ECONOMIC BACKGROUND

France, with an area of 212,737 square miles and a population of 46.2 million, has an economy finely balanced between agriculture, manufacturing of highly finished products (such as automobiles, aircraft, textiles, electronic equipment, and perfumes), and mining. Its principal exports include petroleum products, crude steel, iron

and metal products, machinery, lime and cement, coal, grain, and wines. It is the most important vinery in the world, producing about 1 billion gallons a year. Imports are comprised mainly of petroleum, chemicals, industrial machinery, cotton, coal, fats, lumber, grain, and sulfur.

In 1963 France's total foreign trade was valued at \$16.8 billion, of which \$8.1 billion consisted of exports and \$8.7 billion of imports. The gross national product was about \$66.5 billion in 1962.

The merchant fleet is a major factor in the national economy, chiefly because it serves the widely separated overseas departments and territories of France. As evidence of the importance of the fleet, nearly 60 percent of the cargo tonnage in the country's foreign trade is carried on French ships.

The fleet has grown from 570 ships totaling 3.7 million gross tons in 1955, to 604 ships of 4.8 million gross tons in 1963. These vessels are built principally in France. The liner *France*, a luxurious passenger ship, and the longest merchant ship afloat, was placed in service between Cherbourg, Southampton, and New York in December 1961. The Government has a controlling interest in the two largest liner companies, and a share in the tanker fleet.

GOVERNMENT AIDS

Operating subsidy

1. *Subsidies to semipublic companies.*—Pursuant to the conventions approved by law of December 23, 1948, amended, subsidy is allocated annually in the budget appropriations to the "national interest" services (mail and general interest) operated by the Compagnie General Transatlantique³ (French Line) and the Compagnie des Messageries Maritimes.

(a) The maximum allowable subsidy is determined periodically by additional clauses to the conventions. Payments are for services the companies have undertaken in the national interest⁴ according to specifications set forth in the conventions.

(b) Subsidies in 1962 totaled approximately \$17.3 million.⁵

2. *Aid to coasting.*—Government aid to enterprises fitting out vessels of 500 gross tons or under for coasting was instituted in January 1955.

(a) The present allocation amounts to \$408,000 a year.

(b) This amount is allocated on an annual basis by budget appropriation.

(c) This aid was instituted to compensate in part for the heavy taxation of shipowners. Social charges (pension, welfare, overtime) are higher than those in neighboring countries, and crew complements are larger for security reasons.

³ The Compagnie General Transatlantique's passenger ships are subsidized on the following routes: Le Havre-New York; Le Havre-West Indies; Marseille, Nice-Corsica.

⁴ The services in the national interest consist of the carriage of passengers, mail, and parcels on passenger liners on specific routes that are not usually economically beneficial to the company which would not provide the service unless subsidized.

⁵ The major French companies have two types of operations: "contractual lines" and "free lines." Contractual lines are subsidized and consist of the operation of passenger ships between specific ports, e.g., Le Havre-New York. Free lines are nonsubsidized and consist of the operation of cargo ships on their regular trade routes. If the profit from the "free lines" is sufficiently high (no set figure, but a complicated formula, which is not obtainable), then subsidy is not paid for the "contractual lines." This rarely happens. The last occasion was in 1954 with Messageries Maritimes trade to the Far East during the Vietnam crisis.

3. *Compensatory allowances in favor of shipping.*⁶—Conditions for these allowances, designed to offset the difference between the operating costs of French ships and those of other countries, were contained in the Finance Act of December 1961.

(a) The amount voted for 1963 was \$7.96 million.

(b) Allowances are through annual budget appropriation and vary according to the economic situation⁷ (competitive value, trading conditions, distance covered by the vessel).

(c) Practically all shipping companies feeling the effects of international shipping are entitled to participate in this aid.

Construction subsidy

Based on the Defferre law of May 24, 1951, as amended, a direct subsidy is paid, on a lump-sum basis, to the builder to compensate for the difference between French and foreign ship construction costs. Prior to 1962 this amounted to between 15 and 20 percent of the cost of a ship. For delivery of orders after January 1, 1962, subsidy was allocated only for those yards which were considered able to stand international competition, and the amount of subsidy was on a smaller scale.

Under Common Market plans (Rome treaty) France expects to eliminate shipbuilding subsidies by 1972, and as of April 1963 had reduced subsidies by about 45 percent.

Depreciation

The law of December 28, 1959, effective January 1, 1960, instituted a reducing depreciation system which replaced the previous accelerated depreciation system⁸ for a firm choosing to use this newer system.

Capital goods purchased or manufactured on or after January 1, 1960, may qualify either for a straight-line depreciation or to reducing depreciation.

Thus, for shipping, reducing depreciation is on an 8-year basis (the minimum period allowed). The rate of the reducing depreciation is obtained by applying the coefficient of 2.5 to a linear depreciation over 8 years ($\frac{100}{8}$); i.e., 12.5 percent. Therefore it amounts to 31.25 percent and is applied to the residual bookkeeping value of the ship each year.

Ships acquired between January 1, 1960, and January 1, 1965, may qualify for either the accelerated or reducing system of depreciation, but once the system is chosen it cannot be changed, and applies to all ships acquired in that period.

Depreciation allowances deferred from years in which a loss was incurred may qualify for tax relief against the results of the next years which show a sufficient profit, in addition to the annual allowance for those years.

Loans and interest on loans

Pursuant to the Finance Act of December 31, 1953, amended, the Government gives a rebate on interest over 4½ percent on loans

⁶ This is an indirect subsidy which varies from year to year, as it is entirely dependent on an amount set aside annually by the Ministry of Finance. At the end of the year, that amount is distributed proportionately, according to a variable formula, to all shipping companies with the highest amount usually going to tramp operators and liner operators on the routes that need it most.

⁷ Allowance is based upon a complicated variable formula which gives consideration to a ship's dead-weight, number of days at sea, cargo carried, distance traveled, and the importance of the route.

⁸ Accelerated system: A maximum of half the accounting value of the ship may be depreciated in the first 3 years, one-fourth in the next 2 years, and one-fourth in the last 3 years.

obtained by owners for the construction or modernization of vessels of over 20 gross tons. (The average interest rate obtainable from banks is 6½ to 7 percent. In 1962 the value of rebates amounted to about \$2 million.)

Other

1. *Scrap and build.*—The Government has allocated approximately \$3 million for 1964 to aid in scrapping obsolete vessels and replacing them with new vessels.

2. *Government ownership.*—The Government owns the principal shares in the two largest shipping companies: 63 percent of the Compagnie Generale Transatlantique (French Line) and 79 percent of the Compagnie des Messageries Maritimes; as well as 30 percent of the Societe Francaise de Transports Pétroliers.

3. *Cargo preference and cabotage.*—There is a statutory stipulation that two-thirds of the crude oil imported for metropolitan France must be carried in French ships or on ships of which the charter parties have been approved by the Ministries concerned (i.e., Ministry of Fuel and Ministry of Merchant Marine). However, waivers are frequently granted.

French-flag ships have a monopoly on coastwise traffic in France and Algeria, and between ports of metropolitan France, Algeria, and Tunisia, and between ports of the French Departments of Guadeloupe, Guyane, and Martinique. Traffic between France and the so-called ex-territories and/or Morocco is not reserved to French-flag ships.

The Government has statutory authority to restrict the freedom of French shipowners to charter their own and/or foreign ships. These laws require that the chartering of all ships over 500 gross tons be approved by the Government. This authority has been extended primarily to cover the needs of the Algerian disturbances and refers to such transportation as arms, ammunition, troops, and the like, and is not aimed at guaranteeing full utilization of cargo space.

Foreign ships calling at French ports must go through the intermediary of maritime brokers ("courtiers maritimes").¹⁰

FEDERAL REPUBLIC OF GERMANY

ECONOMIC BACKGROUND

The Federal Republic of Germany has an area of 95,928 square miles and a population of 57.8 million. The country is principally industrial and leads Western Europe as a steel producer, much of it coming from the Ruhr district. The oil industry has a refining capacity of more than 10 million tons annually. Germany's principal

⁹ Frequently these companies make a profit from their cargo service (free lines), but the profit is often offset by losses in the passenger service (contractual lines). If the companies do not make an overall profit, the Government makes up any loss they have sustained, with a sufficient amount over to pay a small dividend to their public stockholders.

The Government's interest in owning so large a part of these companies is consistent with French policy of a certain amount of state control in those industries which are in the national interest, e.g., shipping, railroads, electricity, gas, and coal.

¹⁰ The practice of compulsory use of a "courtier maritime" by foreign-flag ships dates from 1810. It is required by the Harbor Section of the Ministry of Public Works. While their use by French-flag ships is not compulsory, in actual practice any French ship entering a port where it does not have its own office would use an agent, and such an agent is a "courtier maritime."

The agency fee for any ship includes the cost for acting as "courtier maritime" when that fee is based on a percentage of freight for cargo discharged or loaded. Any ship entering for fuel or water, however, and not handling cargo, is charged a direct fee by the agent for acting as "courtier maritime."

exports are coal, coke, iron and steel, automobiles, petroleum, grain, and fertilizers. It also has a high level of exports of finished products. It imports ores, petroleum, machinery, chemicals, coal, coke, and foodstuffs, and depends heavily on industrial raw materials and agricultural products from overseas. The value of its foreign trade in 1963, which excludes trade with East Germany, was \$27.6 billion, of which \$14.6 billion consisted of exports and \$13 billion of imports. The gross national product was \$94.2 billion in 1963.

The resurgence of shipping and shipbuilding since the war has been remarkable. Although the fleet contributes substantially each year to the country's foreign exchange earnings, the volume of German cargoes shipped on foreign-flag vessels is large enough to incur a deficit in its ocean freight account.

The merchant fleet has increased from 652 ships totaling 2.5 million gross tons in 1955, to 863 ships of 4.8 million gross tons in 1963. Most of the ships are constructed in West Germany, and the fleet is privately owned.

About 37 percent of the country's total cargo tonnage in foreign trade is carried on West German-flag ships.

GOVERNMENT AIDS

Tax benefits

Tax-free reserves are not generally permissible. However, special applications may be approved whereby the book profit from the sale of a vessel may be transferred to a replacement vessel. In such a case, depreciation on the new vessel is permissible only after the transferred book profit is deducted from the price.

Under the German taxation law, it is possible to carry over losses of the 5 preceding years.

Partial compensation amounting to 3 percent is granted for the tax on the sale of materials manufactured in Germany and used in ships built for export.

German shipyards receive a turnover tax reimbursement of 7 percent to "eliminate existing discrimination" against the yards. It is computed on the final price of the ship to the foreign buyer.

Depreciation

There is no special depreciation applicable to shipping (i.e., initial allowance, advance depreciation, etc.). Depreciation of ships is based on the normal period of usefulness: 14 years for dry-cargo ships and 12 years for tankers. The depreciation may be made in equal annual amounts (straight-line method) or in decreasing annual amounts (degressive method). In the latter case the percentage of the ship's value used in calculation of depreciation must not exceed twice the percentage applicable in using the straight line method. Depreciation must not exceed the acquisition value or go below the scrap value of the vessel.

Loans and interest on loans

For the first time, pursuant to the Federal Gazette No. 74 of April 14, 1962, a sum of \$20.1 million was appropriated in the 1962 budget to cover interest relief, breakup premiums, and loans for new ship construction.

The Government gives a rebate on interest over 4 percent, but with a maximum rebate of 3 percent, on private shipbuilding credits if

these credits are used for the building or rebuilding of ships which has taken place or been contracted for before July 1, 1961. The rebate is limited to \$138,380 for any one firm, and is subject to recapture based on subsequent breakup premiums, new building loans, and profits.

Loans can be given for the construction of new vessels ordered after June 30, 1961, if the entire financing can be arranged in conformity with market conditions, and the firm can supply a minimum of 20 percent of the cost.

The loans are for a maximum of 20 percent of the cost, with a maximum of \$1,132,200 per vessel. The interest is 4 percent a year, and repayment depends on the taxable life of the vessel; for example, 14 years for dry-cargo ships and 12 years for tankers.

Interest on the loan is deferred if the firm did not make a profit in the preceding year, and is forgiven entirely if there was no profit for a 4-year period.¹¹ However, the principal must be repaid. This payment may be deferred for a maximum of 24 months if the firm has not earned the normal depreciation in the previous year. Interest on the deferred payment is 4 percent per annum:

Other

1. *Breakup premiums.*—According to Federal Gazette No. 74 of April 14, 1962, breakup premiums, which are not predicated on the building of new ships, can be given for vessels which have belonged to the owner at least since December 31, 1960. The premiums range from \$30.20 per gross ton for vessels of up to 300 gross tons, to \$25.16 for vessels over 360 gross tons. The premiums for vessels over 300 gross tons up to 360 gross tons is a flat rate of approximately \$9,000.

2. *Cargo preference and cabotage.*—Foreign ships are allowed in the coastal trade only if no German ship is available, or available at substantially less favorable rates and conditions.

The Government can restrict the conclusion of freight contracts and charters between residents of the Federal Republic of Germany and carriers which are residents of countries which exclude German ships from free competition. As regards freight contracts in liner services (general cargo with freight exceeding \$250 as of January 1, 1964), all such contracts to be concluded with carriers which are residents of Brazil, Burma, Guatemala, Indonesia, Morocco, and Venezuela must be licensed by the Wasser-und Schifffahrtsdirektionen, Bremen and Hamburg offices, which are acting on behalf of the Federal Republic of Germany.

GREECE

ECONOMIC BACKGROUND

Greece has a land area of 50,550 square miles, with a population of about 8.4 million. While it is chiefly an agricultural country, industrialization is increasing. Major exports include tobacco, olives, wine, brandy, fruits, yarns and leather. Imports consist principally of foodstuffs, petroleum products, raw materials, chemicals, and machinery. The value of the foreign trade of Greece in 1963 amounted to \$1.1 billion, of which exports totaled \$290 million and imports

¹¹ Such deferment and forgiveness of interest is very closely supervised by the Ministry of Transport. If a company has trouble making a profit and if the condition persists, the Ministry assigns expert accountants of recognized accounting firms to audit the steamship company's books.

\$804 million. The gross national product was estimated at \$4.2 billion in 1963.

The expansion of shipping has enhanced Greece's international position so that the nation now has a voice in all international maritime conferences. Total earnings from shipping in 1963 amounted to \$125.3 million. They are the largest of the invisible earnings (receipts from tourism and remittances from Greeks living abroad are next in importance) which almost cover the deficit in the merchandise account of Greece's balance of international payments.

Despite the growth of the merchant marine registered under Greek flag from 201 ships totaling 1.2 million gross tons in 1955, to 828 ships of 6.8 million gross tons in 1963, it is believed that there are more ships owned by Greek nationals under foreign flags than under Greek flag. The progress made by the Greek Government in encouraging owners to place their ships under Greek registry has been the result of special inducements offered by the Government. New ships delivered for Greek registry in 1963 were constructed principally in Japan, although the Greek fleet as a whole is comprised of ships built in many countries. The Greek Government has no ownership in the merchant marine.

Greek-flag ships carry about 47 percent of the cargo tonnage moving in the country's foreign trade.

GOVERNMENT AIDS

Tax benefits

By decision of the Minister of Merchant Marine on December 17, 1963, a cargo ship brought under Greek flag is exempt from taxes on its earnings until the 10th anniversary of the date of its launching.

For ships converted or reconstructed in Greek shipyards, Greek law provides an exemption of two-thirds of the normal tax¹² for a period of 7 years from the date of completion of the work, provided more than twice the amount of the current value of the ship has been spent by the company for reconstruction, conversion, or modernization of the ship involved.

Other

Coastal trade is reserved to Greek-flag ships.

ITALY

ECONOMIC BACKGROUND

Italy has an area of 117,000 square miles and a population of 50.5 million. It is primarily an agricultural country, but has made great strides in industrial production since the war. Its principal exports are fruits, olive oil, wines, vegetables, marble, leather goods, fabrics, chemicals, and lubricating and fuel oils. Imports include energy fuels, raw materials, ores, grains, machinery, chemicals, textiles, and manufactured goods. The total value of foreign trade in 1963 was \$12.6 billion, consisting of \$5.1 billion exports and \$7.5 billion imports, and the gross national product was \$39.5 billion in 1962.

¹² Ships must be less than 20 years old and the usual tax is based on the gross income of the ship according to the type of charter under which the income was earned. For example, the normal tax for each of the following types of charters is: (1) Bareboat charter, 6 percent; (2) time charter, 4 percent; (3) voyage charter, 2½ percent. The tax on gross earnings of liners is 1½ percent.

Italy's merchant marine is a vital segment of the nation's economy. The country is dependent on the fleet for the carriage of its foreign trade and for the development of tourism, which also makes an important contribution to the economy.

The merchant fleet increased from 598 ships totaling 3.8 million gross tons in 1955, to 609 ships of 5 million gross tons in 1963. The ships are built principally in Italian shipyards. The Italian Government has a controlling interest in the large FINMARE group of shipping companies.

Italian-flag ships carry about 33 percent of the total cargo tonnage moving in the country's foreign trade.

GOVERNMENT AIDS

Operating subsidy

1. *Subsidies to FINMARE group.*—By law of June 1962 financial aid in the amount of \$37.9 million annually was granted to the four companies of national interest comprising the FINMARE group (Italia, Lloyd Triestino, Adriatica, and Tirrenia), distributed on the basis of their annual operating balance.

Aid is granted as compensation for certain public services: (a) maintenance of particular services, even under uneconomic conditions, such as the carriage of passengers, mail, and the shipments of Government supplies to foreign countries having large Italian communities and (b) maintenance of transport services with the Italian islands (Sicily, Sardinia, Elba, Ischia, Capri, Procida, and smaller islands such as Stromboli, Ponte, and Lleria) at rates below cost.

Revised terms and conditions for subsidies to these companies are under study.

2. *Other.*—Smaller companies receive a total annual subsidy of about \$5.6 million to provide services with the islands.

Construction subsidy

To offset the difference between Italian construction costs and those in foreign shipyards, under the Tambroni law of July 17, 1954, amended, subsidy is paid directly to the shipyard for the construction of merchant ships (including those built for foreign registry) based on the tonnage and speed of the ship to be built. The total allocation for the period July 1, 1960, to June 30, 1966, was set at approximately \$38 million. For cargo ships the subsidy ranges from \$67.69 per ton to \$118.63 per ton; for passenger ships the range is from \$96.63 per ton to \$199.36 per ton. Out of this amount the builder of the propulsion unit receives \$14.19 for each shaft horsepower of the unit. These amounts are subject to revision every 6 months.

Under Common Market plans (Rome treaty) Italy would eliminate shipbuilding subsidies in 1964. However, the Government has requested an indefinite postponement until such time as the European Economic Council can formulate a common shipbuilding policy for all member countries. A special committee of experts of the EEC is presently studying this problem.

Tax benefits

Certain provisions for ships are exempt from customs duties and taxes.

Depreciation

There is no provision for advance depreciation. Depreciation is calculated on a maximum of 8 percent (for passenger liners) per year for 12½ years.

Loans and interest on loans

Under law No. 1 of January 9, 1962, shipowners may be granted loans for the construction, modernization, or repair of merchant ships. These loans cannot exceed 50 percent of the cost (approved by the competent Italian Government office) of the work, except in the case of passenger ships of 20,000 gross tons and over, in which case the limit is 60 percent. They are repayable within 15 years. The loans are made by the independent Shipping Loans Department of the Istituto Mobiliare Italiano with its own funds.

The Government may contribute up to 3.5 percent a year toward the interest on these loans. In 1964, the average interest rate is 8.5 percent, and the total Government contribution to date amounts to approximately \$8 million (\$800,000 for fiscal year 1962; \$1.6 million for fiscal year 1963; \$2.3 million for fiscal year 1964; and \$3.2 million for fiscal year 1965).

Other

1. *Scrap and build.*—The law of January 9, 1962, provides subsidy for owners who scrap vessels built before 1946 and registered as of January 1, 1959, in order to build new vessels of large tonnage amounting to at least half that of the vessels scrapped. The contribution cannot exceed \$56 per ton of the new vessel.

2. *Government ownership.*—The Government, through financial institutions, holds more than 50 percent of the share capital of the FINMARE group of companies.

3. *Cargo preference and cabotage.*—Italy restricts the use of ships which discriminate against Italian-flag ships. Shipments on such vessels are subject to Government authorization.

The navigation code excludes from domestic trade all foreign-flag ships except those belonging to a few countries which have reciprocal cabotage agreements with Italy (i.e., Norway, Sweden, Denmark, Holland, Honduras, and Bolivia).

JAPAN

ECONOMIC BACKGROUND

The islands of Japan have an area of 147,000 square miles, with a total coastline of 16,654 miles. Its population is 95.1 million. More than half of the arable land is used for growing rice. The country is heavily industrialized, the principal industries being shipbuilding, electronics, iron and steel products, machinery, chemicals, textiles, ceramics, precision instruments, and fertilizers, which are also the chief exports. Agriculture ranks second in importance. Imports consist mainly of crude oil and products, iron ore, coal, lumber, soybeans, raw cotton, wheat, and scrap iron. The total value of foreign trade in 1963 was \$12.2 billion, of which \$5.5 billion consisted of exports and \$6.7 billion, imports. The gross national product was \$49.2 billion for the year ended March 1962, to which it is estimated shipping earnings contributed just under 2 percent.

Japan's domestic economy is expanding at a greater rate than its merchant fleet. However, the shipping industry ranks with the iron and steel and the textile industries as an earner of foreign currency. Japan has, in recent years, led the world in shipbuilding. On December 31, 1963, 31 percent of the merchant shipping tonnage on order or under construction in the world was in Japanese shipyards. About 70 percent of the ships constructed are for export, much of this for Liberian registry.

The Japanese merchant fleet increased from 622 ships totaling 3.4 million gross tons in 1955, to 1,267 ships of 8.7 million gross tons in 1963. The Government's long-range plan calls for a total of 13.4 million gross tons by 1970, although it does not participate in the ownership of the fleet. All of the ships delivered for Japanese registry in 1963 were built in Japanese shipyards.

Japanese-flag ships carry about 46 percent of the total cargo tonnage in the country's foreign trade.

GOVERNMENT AIDS

Operating subsidy

A sum of \$2.67 million for cross-trade shipping was allocated for the fiscal year 1964 and a sum of \$1.3 million for the purpose of maintaining immigrant services to South America.

A part of the cross trade subsidy is allocated to the five companies in the Japan-New York liner service.¹³

Tax benefits

Under regulations applicable to all industries, a tax exemption is permitted for 3 percent of the total export sales of shipping services, or 80 percent of export net income earned through selling shipping services, whichever is lower.

This is for invisible exports only, since under section 18 of the International Monetary Fund, Japan cannot give a tax benefit or monetary incentive on visible exports.

Depreciation

In addition to the normal depreciation of 13.4 percent per year for 16 years, a special depreciation of 10 percent of the original value of a ship is allowed in the first year, when a ship has been registered by an owner since April 1, 1961.

Loans and interest on loans

The Government budgeted \$68.6 million for loans through the Japan Development Bank to implement the 1964-65 (20th) shipbuilding program, repayable in 13 years for tankers and 15 years for ocean-going cargo vessels at an annual interest rate of 6.5 percent. The loans amount to 80 percent of the cost in the case of cargo liners and 70 percent for tankers and tramp ships.

The Government appropriated \$2 million to pay interest differentials of about 3 percent on private loans, and \$2.6 million for a differential of 1.5 percent (2.5 percent after completion of the merger of shipping

¹³ In accordance with the provisions of art. 32 of the marine transportation law, the Japanese Government ordered the individual companies to establish the "New York Liner Administration Co." The company does not engage in the operation of actual services and is not a profitmaking organization. Its purpose is to oversee the operations of the New York-Japan trade route and bring about the rationalization of the services on the trade route. Sailings will be reduced from the previous 168 per year to not more than 144 in 1964, and the number will be readjusted in subsequent years to meet cargo needs. Sailings for each company will be determined separately. The five companies will be paid about \$12,500 for each eliminated sailing. The treatment for any extra one-way sailing will be established separately.

companies scheduled by July 1964) on loans from the Development Bank. These interest aids are subject to repayment; i.e., when a company has a profit in excess of 10 percent of its capital, the interest aid for the current year must be repaid, and when profits exceed 15 percent the interest aid for previous years also must be repaid.

A law was enacted in July 1963 authorizing the Development Bank to permit shipping companies, after approval of a screening committee, a 5-year moratorium on interest payments on loans from the Bank, which were extended for ship construction in the 1961-62 (17th) program and previous shipbuilding programs.

An export ship construction loan amounting to 80 percent of the total construction cost of an export ship is extended at the rate of 4 percent per year. This is done through the Government-financed Export-Import Bank of Japan.

Other

The Government owns only small coastal ships.

A sum of \$12.5 million was appropriated for loans for the scrap-and-build program for domestic and oceangoing vessels, to be carried out by the Special Vessel Improvement Public Corp. and the Japan Development Bank. These loans are granted provided vessels are built on the basis of more than 1 gross ton replacement for every 1.5 gross tons scrapped.

Approximately \$40,000 was appropriated for the fiscal year 1964 for research on specialized high-tension steel ships for carrying iron ore.

The Nuclear-Powered Ship's Development Corp. was established in August 1963 with a Government grant of \$280,000. The first project is a 6,350-ton ship with the Government furnishing at least two-thirds of the cost with the balance to be paid by the shipping and other industries interested in atomic research.

NETHERLANDS

ECONOMIC BACKGROUND

The Netherlands has the smallest area per capita of any of the countries under review, 12,865 square miles, with a population of 11.9 million. Forty percent of the land is devoted to pasture, 30 percent to farming, and 7 percent to forestry. Some of the major exports are petroleum and petroleum products, machinery, chemicals, textiles, dairy products, fruits, and vegetables. Imports include inedible crude materials, petroleum and petroleum products, electrical machinery, transport equipment, chemicals, textiles, iron, and steel. The gross national product was \$13.01 billion in 1962. The total value of foreign trade in 1963 was \$10.9 billion, composed of \$4.9 billion in exports and \$6 billion in imports.

The number of merchant ships decreased from 535 in 1955 to 527 in 1963, but in the same period the gross tonnage of the fleet increased from 3.4 to 4.6 million. All of it is privately owned. Ships delivered for registry under the Netherlands flag in 1963 were built principally in the Netherlands.

The port of Rotterdam is considered second in world importance only to New York. Europoort, west of Rotterdam, is scheduled to open in 1965 and will be able to handle ships of 100,000 tons and have the world's largest drydocks.

Netherlands-flag ships carry about 16 percent of the cargo tonnage in the country's foreign trade.

GOVERNMENT AIDS

Depreciation

All industries are treated alike. For shipping purposes, owners can depreciate a passenger vessel in 20 to 25 years, a freighter in 20 to 26 years, a tanker in 18 to 20 years, and warbuilt ships and ships of less quality in 16 to 18 years. An advanced depreciation of 8½ percent per year up to a maximum of one-third of the cost is allowed.

An investment allowance of 5 percent per year for 2 years, calculated on the purchase price is allowed. The reduction from taxable income will be added to the taxable income if the ship is sold within 10 years of its acquisition. This allows an aggregate depreciation of 110 percent of the purchase price.

It must be kept in mind that advanced depreciation and investment allowance measures may be suspended by ministerial ordinance. This has happened on several occasions in the past years. In conformity with the anti-inflation measures taken in the Netherlands, the advanced depreciation was terminated on February 2, 1964 (ordinance of January 31, 1964, Minister of Finance).

Loans and interest on loans

The law for the compensation of war losses authorizes the Minister of Finance to allow indemnification for the reconstruction of equipment (including ships) lost as a result of World War II. This can take the form of a grant of money and a Government-guaranteed loan.

Pursuant to this law, the Government indemnified the Holland-America Line for the loss of the *Statendam*, which was applied to the building of the SS *Rotterdam* and further guaranteed a part of the loan for financing her construction.

Other

Government ownership.—The Government holds nonpreferential shares in two private shipping companies:

1. N. V. Scheepvaartmaatschappij "Trans-Ocean" is operating the emigrant vessels *Waterman* and *Groote Beer* which were formerly operated by the Government itself. This company, however, is in the process of liquidation.

2. N. V. Stoomvaart Maatschappij Zeeland is operating a ferry service between Hook of Holland and Harwich.

Both of these companies operate on a purely commercial basis without Government interference.

NORWAY

ECONOMIC BACKGROUND

Norway has an area of 124,500 square miles and a population of 3.6 million. It is essentially a maritime nation, having only about 4,300 square miles of its land under cultivation. Forestry, fishing, and mining are other important industries. Norway exports aluminum, nickel, pulp and paper, fish, iron ore, fertilizers, and raw furs. Imports include fruit, coffee and tea, oilseeds, tobacco, coal, grain, machinery, and transportation equipment. In 1963 the total value

of the foreign trade amounted to \$2.9 billion, of which \$1.1 billion was exports and \$1.8 billion imports. The gross national product was \$5.9 billion in 1962.

Perhaps in no other nation does shipping play so important a role in the national economy. The net foreign exchange earnings of shipping customarily pay for at least a third of Norway's imports.

Nearly 90 percent of the merchant fleet is engaged in trade between foreign countries and thus can meet Norwegian shipping requirements many times over. On December 31, 1955, the Norwegian fleet consisted of 1,102 ships totaling 7.1 million gross tons. By December 31, 1963, this had increased to 1,401 ships of 13.4 million gross tons. According to the Office of Statistics, Maritime Administration, more tonnage was on order or under construction in December 1963 for Norwegian registry than for any other country; 7 million deadweight tons out of a world total of 30 million tons. Most of the ships delivered in 1963 were built in Norway and Sweden. The fleet is privately owned.

Norwegian ships carry about 43 percent of the cargo tonnage moving in the foreign trade of the country.

GOVERNMENT AIDS

Operating subsidy

There is no operating subsidy in the foreign trade.

Tramp shipping and cargo liner shipping on the coast are given no financial aid. However, certain combination passenger/cargo liner services receive such aid. The purpose is to provide outlying districts with adequate transport services which could not be provided otherwise. While most of the companies receiving subsidies are privately owned, a few are owned by groups of municipalities in the districts served. These subsidies amount to \$6.2 million (budget for 1964).

Tax benefits

In effect, all industries are taxed equally. Some of the provisions of the tax laws are as follows:

Income tax

1. Earnings: All industries with an annual income over \$2,794 may deposit 20 percent thereof in a tax-deferred fund. The fund must be used for new investments within 4 years, with the amount released written off by 85 percent and the remaining 15 percent becomes tax free. The taxpayer may withdraw the fund at any time; if so, this amount will be added to the taxable income in the year when earned and is subject to taxation.

2. All industries may carry forward losses for up to 10 years, but not carried back to offset prior losses.

Depreciation

Depreciation may not exceed 100 percent of the purchase price. In addition to the ordinary depreciation for (1) passenger, cargo, tankers, fruiters, ore carriers, and other ships built for special trades, of 6 to 8 percent per year; and (2) dry-cargo ships in ordinary trades, of 5 to 7 percent per year, calculated on the cost of the ships and com-

mencing from acquisition or delivery, owners have the option of also taking one of the two following forms of depreciation:

1. Initial allowance: A maximum initial allowance of 25 percent of the cost of the ship during the first 5 years. The initial allowance may, however, only be used up to 50 percent of "otherwise taxable income."

2. Additional allowance: A maximum of 2 percent per annum for each of the first 5 years.

The option of using either of the two above methods correspondingly shortens the period of ordinary depreciation.

Capital gains may be put in a special fund. If used within 8 years (for ships and aircraft) or 4 years otherwise, as part finance for a new investment, the taxes deposited or guaranteed thereon will be released when the gain has been applied to reduce the depreciation on the new ship. The gain may also be used to reduce the depreciation on existing ships.

Loans and interest on loans

A mortgage institute, formed by private share capital, gives loans to shipyards to facilitate their ability to grant their customers (irrespective of flag) second-priority mortgages within 80 percent of the value of the newbuildings. The Government guarantees the bonds issued by this institute and has granted the institute a loan of \$1.4 million with an interest rate of 5 percent per annum with repayment by 1970. The loans are granted on commercial terms (interest rate of from 6 to 6.75 percent per annum) repayable in a maximum of 10 years.

Other

The Norwegian customs system provides for a refund of customs duties paid on imported commodities which are reexported or, to a certain extent, which are embodied in goods later exported. A similar system was earlier applied also to shipyards, treating new buildings and repairs on a par with exports. A generation ago, this system was changed to allow the customs authorities to refund 6 percent of the selling price of the newbuilding and 4 percent of the price of repairs. This refund is available for newbuildings for foreign registry as well as Norwegian registry.

SWEDEN

ECONOMIC BACKGROUND

Sweden has an area of 173,423 square miles and a population of 7.5 million. The country's main natural resources are forests, iron ore, and waterpower. It is one of the world's leading exporters of iron ore and rivals Canada in the export of woodpulp. Other exports are steel, lumber, paper, machinery, and automobiles. Coal and oil have to be imported, as well as food, industrial raw materials, beverages, tobacco, machinery and transportation equipment. Foreign trade in 1963 was valued at \$6.6 billion, exports comprising \$3.2 billion and imports \$3.4 billion. The gross national product was \$17 billion in 1963.

Net shipping receipts are a significant source of foreign exchange earnings and about one-fifth of the gross national product is based on foreign trade.

The Swedish merchant fleet decreased in vessels from 571 in 1955 to 507 in 1963. Gross tonnage, however, increased from 2.6 million to 4 million in the same period. The Government has no financial interest in the fleet. Ships delivered recently have been constructed principally in Sweden.

About 33 percent of the cargo tonnage moving in Swedish foreign trade is carried in national-flag ships.

GOVERNMENT AIDS

Operating subsidy

There is no operating subsidy in the foreign trade.

In the domestic trade, aid is granted to one company serving the archipelago of Stockholm.

Construction subsidy

There is no construction subsidy for vessels operating in the foreign trade.

Aid is granted to one minor company for the construction of vessels serving the archipelago of Stockholm.

Tax benefits

The only advantage shipping has over other industries is the permission to transfer taxable earnings from the sale of vessels to a special fund, which, if used to acquire new vessels, is not taxable. All industries, including shipping, are entitled to transfer profits to a tax-free fund for the equalization of market fluctuations.

Depreciation

All industries permitted to depreciate at 30 percent of book value per year or to a complete writeoff in 5 years. Depreciation may not exceed the purchase price of the vessel.

On a vessel to be delivered at a subsequent date, a certain percentage (15 percent in 1963) may be taken before the year of delivery.

Loans and interest on loans

Credits for the construction of small- and middle-sized vessels are granted by the fund for the granting of loans on small ships, the Swedish Ships' Mortgage Bank, and the Government fund for the granting of shipping loans secured by second mortgages.

The fund for the granting of loans on small ships grants loans for the construction of vessels below 500 gross register tons up to an amount of 80 percent of the vessel's value; i.e., both primary and secondary loans, payable within a period not exceeding 15 years. The interest rate in 1963 was 5 percent. These credits are mainly reserved for minor shipowners who are not able to solve their financial problems by other means. The fund normally grants credits to an amount of \$1.4 million annually. The Swedish Ships' Mortgage Bank grants credits for the construction of Swedish vessels below 7,000 gross register tons through primary loans only. The Government has contributed the capital stock of \$2.9 million with the loan funds raised by issuing bonds in the open market. The total of the bank's bonds may not exceed \$29 million. A premium of three-fourths

of 1 percent is added to cover the expenses of the bank. A Swedish vessel is defined in paragraph 1 of the Swedish sea law as:

A vessel is to be considered as Swedish when it is owned either at least two-thirds by Swedish citizens or by a joint stock company, the board of which resides in Sweden and which consists of shareholders who are all Swedish citizens.

A supplement to the above bank is the Government fund for the granting of shipping loans secured by second mortgages. The goal of this fund is to grant loans against mortgages up to 70 percent of the vessel's value. Capital stock of this fund amounts to \$484,750 and is of little importance.

Other

Government ownership.—There are two national enterprises in the shipping trades: the Swedish State Railways which operates, through a subsidiary company, passenger boats (apart from ferries) across the Oresund Strait, and the National Forest Industries, Ltd., which has four small vessels, each assigned principally to the company's own transports. These two enterprises operate on a purely commercial basis.

UNITED KINGDOM

ECONOMIC BACKGROUND

The United Kingdom (England, Wales, Scotland, and Northern Ireland) has an area of 94,205 square miles and a population of 53.3 million. The country's major occupations are manufacturing and trade. Tourism ranks high in earnings. The country stands out as a symbol of the traditional maritime nation, with a long history of sea power. Exports consist principally of metals, textiles, machinery, vehicles, aircraft, iron, and steel. The country imports petroleum products, cotton, rubber, ores and metal scrap, pulp and paper, chemicals, food, beverages, and tobacco. The total value of the trade in 1963 was \$25.3 billion, comprised of \$11.8 billion in exports and \$13.5 in imports. The gross national product was \$69.5 billion in 1962.

The British merchant fleet is one of the most important elements in the country's economy, and shipping provides one of the largest net contributions to its balance of international payments.

The merchant fleet has decreased in number from 2,526 in 1955 to 2,206 in 1963, but in the same period the gross tonnage increased from 17.6 to 20.1 million, due principally to the acquisition of large-size tankers from new construction. The Government has a small financial interest in the fleet. The majority of the ships delivered in 1963 were constructed in United Kingdom shipyards which have a long history of efficient workmanship and high quality.

Cargo tonnage carried by British ships is not available, but about 52 percent of the net tonnage of ships, with cargo, in the country's foreign trade are of United Kingdom registry.

GOVERNMENT AIDS

Operating subsidy

There is no operating subsidy in the foreign trade.

In the domestic trade grants are given to provide transportation (1) in the western highlands and islands of Scotland, (2) for service between the Orkney mainland and the north and south isles of Orkney,

and (3) for service between the Shetland mainland and the north isles of Shetland. The purpose is to provide essential transport service to the above remote and sparsely populated areas. The authority for this subsidy is the Highlands and Islands Shipping Services Act, 1960. The cost of this aid is about \$644,000 a year.

Tax benefits

All industries are treated equally. All are subject to profits tax of 15 percent and income tax of 38¼ percent. Losses and unused capital losses may be carried forward.

Depreciation

A total of 140 percent depreciation is granted on the cost of a new ship. This is made up of an investment allowance of 40 percent on the cost of a new ship in addition to the normal annual depreciation. New plants and machinery in other industries are allowed 30 percent and industrial buildings, 15 percent. Secondhand ships and plants and machinery in other industries receive an initial allowance of 30 percent in addition to the first annual allowance.

Annual depreciation allowances are allowed on the same basis as other industries. The present rates are 15 percent (reducing balance method) or 6¼ percent (straight-line method) subject to the maximum of the original cost of the capital asset.

The owner cannot select different rates of depreciation during different periods of the ship's depreciable life. He can, however, change from the reducing balance method to the straight-line method.

Loans and interest on loans

The Government, under the terms of the Shipbuilding Credit Act, is making \$200 million available to United Kingdom shipowners at Government lending rates (rates have varied during the operation of the scheme between 4½ and 5 percent) for the financing of new orders for ships (excluding fishing vessels) of 100 gross tons and over to be built in United Kingdom shipyards. Loans are made after taking into account the recommendations of an advisory committee and are for up to 80 percent of the cost of a ship and for periods up to a maximum of 10 years. The scheme was closed to further applications on October 28, 1963.

The North Atlantic Shipping Act 1961 authorized the Government to advance \$50.4 million to Cunard White Star for the construction of a large vessel for the North Atlantic trade at 4½ percent interest. Cunard abandoned this project but the act is still on the statute books.

Other

Government ownership.—The Government has the following shipping interests:

1. A 51-percent interest in British Petroleum, the parent company of B. P. Tankers.
2. An interest, similar to that in other nationalized bodies, in the Railways Board and the Transport Holding Co., which both own ships, directly and indirectly.

UNITED STATES

ECONOMIC BACKGROUND

The total area of the United States is 3,615,211 square miles and, the population in 1964 is estimated at over 190 million. The United States had a total labor force in 1963 of 75,712,000 including the Armed Forces, of which the civilian labor force numbered 72,975,000. The total employed were 68,809,000, of which 4,946,000 were employed in agricultural activities and 63,863,000 in nonagricultural activities. The gross national product was \$556.2 billion in 1962 and \$583.9 billion in 1963.

The following are the ratios of the industrial origins of its gross domestic product: manufacturing, 29 percent; trade, 17 percent; transportation and communications, 6 percent; construction, 5 percent; agriculture, forestry and fishing, 4 percent; all other, 39 percent.

The principal exports are machinery, chemicals and related products, automobiles, grain and other agricultural products, iron and steel products, textiles and manufactures, petroleum and products, and coal and related products. Major imports are petroleum and petroleum products, coffee, sugar, other agricultural products, iron and steel products, newsprint, paper base stocks, copper, semimanufactured aluminum, and bauxite. The total value of foreign trade in 1963 was \$41.8 billion, exports amounting to \$23.2 billion and imports to \$18.6 billion.

The U.S. merchant fleet, including ships in the Government's reserve fleet, is the largest in the world, although it is the only country included in this study which has shown a decrease in both number and tonnage of ships. In 1955 there were 3,304 Government and privately owned ships in the fleet, totaling 25.3 million gross tons, of which 1,075 ships of 9.2 million tons were privately owned. In 1963 Government and privately owned ships totaled 2,656 of 22.5 million tons, of which 974 ships of 10.1 million tons were privately owned. All of the ships delivered for U.S. registry in 1963 were built in U.S. shipyards. Ships built in foreign yards for registry in the United States are not eligible for construction or operating differential subsidy. In the entire U.S. merchant marine there are only 6 ships built in foreign yards, 4 of which are in the Government-owned fleet and 2 of which are privately owned and in active service.

U.S.-flag ships carry about 9 percent of the country's oceanborne foreign trade, a smaller percentage of the cargo tonnage than is carried by national ships in the foreign trade of any of the other countries under review.

GOVERNMENT AIDS

Operating subsidy

Operating differential subsidy is given operators to place American vessels on a parity with those of foreign competitors. This is based on the difference between the fair and reasonable cost of insurance, maintenance, repairs, and wage and subsistence of officers and crew, and the estimated cost of the same items if the vessels were operated under foreign registry. Authority for this aid is the Merchant Marine Act, 1936, as amended. The amount of this aid paid in fiscal year 1963 was \$220,677,000. Any profits made in excess of 10 per-

cent of the capital necessarily employed are recaptured to the extent of 50 percent; i.e., both the Government and the operator share in this excess profit. However, the amount which the Government recaptures can never exceed the amount of the operating differential subsidy paid.

There is no operating subsidy in the domestic trade.

Construction subsidy

Under the provisions of title V of the Merchant Marine Act, 1936, as amended, provision is made for a construction differential subsidy for vessels to be used in foreign commerce of the United States, of not exceeding 55 percent of the construction or reconstruction cost, except that, in the case of the reconstruction of a passenger vessel the amount paid may not exceed 60 percent of such cost. The purpose of the subsidy is to enable American shipowners to construct vessels in the United States on a parity with their foreign competitors. The amount of this aid paid in fiscal year 1963 was \$91,996,000.

There is no construction subsidy for vessels used in the domestic trade.

Tax benefits

In general, shipping is treated similarly to other industries except that American shipowners may obtain certain tax benefits through the maintenance of certain statutory reserve funds.

Section 511 of the act, which is generally applicable to nonsubsidized operators, provides for the establishment of construction reserve funds into which there may be deposited proceeds from the sales or indemnities for losses of vessels. Although any gain on such a transaction is not recognized for Federal income tax purposes, if the deposits are used within a specified time for the construction, reconstruction, or acquisition of vessels, the basis for determining depreciation of such a vessel is reduced by the amount of any such gain. Balances in these funds at the close (June 30) of fiscal years 1962 and 1963 totaled \$12,115,000 and \$12,607,000, respectively.

Operators receiving operating-differential subsidy obtain certain tax concessions in connection with the deposits of earnings (including capital gains) made into their capital reserve and special reserve funds. Tax closing agreements entered into with the U.S. Treasury Department by all subsidized operators provide that, in connection with section 607 (h) of the act, all such deposits of earnings (including capital gains) are tax deferred. For this purpose "tax deferred" is defined to mean that while such deposits are not recognized as taxable income, the basis for determining depreciation on a vessel built with such deposits is reduced by the amount of the deposits used for this purpose. Since, however, section 607 (b) of the act requires the subsidized operators to deposit into the capital reserve fund amounts representing depreciation on the full cost of the vessel to the operator, the tax closing agreements further provide that deposits representing depreciation on the tax-deferred portion of the cost of the vessel shall be considered earnings which shall also be tax deferred.

Thus, so long as an operating-differential subsidy agreement remains in effect, and no earnings are withdrawn for purposes other than the purchase, construction, or reconstruction of vessels, "tax deferred" earnings are, in effect, tax exempt. However, any earnings with-

drawn for purposes other than those noted above are taxable as if earned in the year of withdrawal.

Depreciation

The law regarding depreciation is different for subsidized and nonsubsidized companies and each category is described separately.

NONSUBSIDIZED VESSELS

The law prescribes no specific method of computing depreciation and permits use of any reasonable method consistently applied, whereby the owner may recover the cost or other basis of depreciable property, less salvage value, during its estimated useful life. The methods generally used are: straight-line, declining balance, and sum of the years-digits method. The method of computing depreciation can only be changed with the approval of the Internal Revenue Service.

An investment credit of 7 percent of the total new investment is allowed against the income tax he would otherwise have to pay. The owner may not take, in the current year, a credit in excess of his tax liability, computed without application of the credit, or \$25,000, whichever is the lesser. There is also provision for the unused portion to be carried back, but not before January 1, 1962, to the taxes paid for the preceding 3 years, or forward for the next 6 succeeding tax years.

SUBSIDIZED VESSELS

For income tax purposes, the three methods mentioned for non-subsidized operators are acceptable. However, for subsidy accounting purposes, subsidized operators are required by the act and regulations issued thereunder, to depreciate vessels on a straight line basis.

Where a subsidized operator follows for tax purposes a schedule of depreciation different from that required for subsidy accounting purposes, the depreciation funded for subsidy accounting purposes and depreciation claimed for tax purposes is recognized by the Internal Revenue Service as a deposit of tax-deferred earnings.

Subsidized operators are required to depreciate vessels on a straight line basis at annual rates of 5 percent or 4 percent, as the case may be, depending on the construction date, as provided under the act.

Loans and interest on loans

Pursuant to title XI of the act, the Maritime Administration is authorized to insure commercial loans and mortgages for the construction or reconstruction of vessels designed principally for commercial use in the domestic or foreign trade of the United States. The lender or mortgagee as well as the shipowner, managing agent, and bareboat charterer, are required to be U.S. citizens.

During the period of construction or reconstruction, the title XI insurance is limited to 75 percent of the cost of such work. Mortgage insurance is authorized in an amount up to 87½ percent of the cost of construction or reconstruction provided the vessels are of not less than 3,500 gross tons and 14 knots speed. On vessels not meeting these specifications or vessels built with the aid of construction-differential subsidy, the maximum mortgage insurance may not exceed 75 percent of the owner's cost of the vessel's construction or reconstruction.

The purpose of title XI is to foster private rather than Government financing of vessel construction and reconstruction.

Section 502(c) of the act provides for direct loans for subsidized construction of vessels in foreign trade, with a downpayment of 25 percent of the price of the vessel with interest at 3½ percent and amortization not to exceed 25 equal annual installments.

Section 509 of the act provides for direct loans for new vessels constructed without subsidy, to be operated in foreign or domestic trade. The applicant is required to make a down payment of not less than 12½ percent of the cost of the vessel if such vessel is not less than 3,500 gross tons and a speed of not less than 14 knots, and in the case of any other vessel the down payment is required to be not less than 25 percent of such cost. Interest is at 3½ percent, with amortization not to exceed 25 equal annual installments.

These two provisions have not been used by the Government in the past several years because of the Government's policy that it will not lend money in competition with private lenders.

Other

Section 510 of the act authorizes the Maritime Administration to acquire privately owned obsolete vessels in exchange for an allowance of credit payable to the shipowner or shipbuilder on new vessels and also, until 1965, to acquire privately owned war-built vessels (except tankers) in exchange for more modern and efficient war-built vessels owned by the United States.

Some of the national defense features paid for by the Government in vessels under construction are:

1. Increased shaft horsepower, using naval design criteria.
2. Atomic, biological, and chemical washdown facilities.
3. Increased turbogenerator capacity.
4. Heavy lift boom structure suitable for future installation of 60-ton boom.
5. Increased boom lift capacity, from 5 to 10 tons at certain hatches.
6. Limited fueling-at-sea installations.

Certain types of Government-owned or financed cargoes are preferentially routed via U.S.-flag commercial vessels. In some of the Government-aid programs the sponsoring agency assumes the additional cost of U.S.-flag freight over those for foreign flags. For example, under title I of Public Law 480, the largest of these programs, the Department of Agriculture finances with dollars the total U.S. freight costs, but the recipient nation repays through deposits in foreign currency accounts an amount equal to current foreign-flag rate costs.

Although section 714 of the act provides that if the Secretary of Commerce shall find that any essential trade route cannot be otherwise successfully developed and maintained, he may have ships built to be chartered to American-flag operators at 7½ percent per annum of the estimated foreign cost of such ships, and such charters may contain an option to purchase such ships at the estimated depreciated foreign cost. There are no moneys appropriated to build ships for this purpose.

Further chartering authority is found in section 510(d) of the act which permits the owner of an obsolete vessel which has been traded in on new construction to use the obsolete vessel during the construction

period at a rate to be fixed by the Maritime Administrator. At the present time the annual use rate is fixed at 9 percent of the trade-in allowance granted on the obsolete vessel. While Public Law 591, 81st Congress (64 Stat. 308) authorizes the charter of Government-owned warbuilt vessels for use in a service which, in the opinion of the Secretary of Commerce is required in the public interest and is not adequately served, and for which privately owned American-flag vessels are not available for charter by private operators on reasonable conditions and at reasonable rates, there are only three ships now being chartered under this law.

Since section 405(a) of the act states that all mails of the United States carried in foreign commerce shall, insofar as practicable, be carried on vessels of U.S. registry, a preference of 2 days is given to U.S.-flag vessels for "preferential" mail (first-class mail plus other time value items such as daily newspapers, weekly magazines). Non-preferential mail which comprises the bulk of shipments is given an advantage of 7 days to U.S.-flag vessels. To the Scandinavian area the 7 days are reduced to 5 days.

Generally, domestic shipping is reserved to U.S.-flag vessels.

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