293

DISCRIMINATORY OCEAN FREIGHT RATES AND THE BALANCE OF PAYMENTS

HEARINGS

BEFORE THE

SUBCOMMITTEE ON FEDERAL PROCUREMENT AND REGULATION

OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

EIGHTY-NINTH CONGRESS

FIRST SESSION

PART 1

APRIL 7 AND 8, 1965

Printed for the use of the Joint Economic Committee

U.S. GOVERNMENT PRINTING OFFICE

48-063 O WASHINGTON : 1965

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C., 20402 - Price $1.00

JOINT ECONOMIC COMMITTEE

(Created pursuant to sec. 5(a) of Public Law 304, 79th Cong.)

WRIGHT PATMAN, Texas, *Chairman*
PAUL H. DOUGLAS, Illinois, *Vice Chairman*

HOUSE OF REPRESENTATIVES	SENATE
RICHARD BOLLING, Missouri	JOHN SPARKMAN, Alabama
HALE BOGGS, Louisiana	J. W. FULBRIGHT, Arkansas
HENRY S. REUSS, Wisconsin	WILLIAM PROXMIRE, Wisconsin
MARTHA W. GRIFFITHS, Michigan	HERMAN E. TALMADGE, Georgia
THOMAS B. CURTIS, Missouri	JACOB K. JAVITS, New York
WILLIAM B. WIDNALL, New Jersey	JACK MILLER, Iowa
ROBERT F. ELLSWORTH, Kansas	LEN B. JORDAN, Idaho

JAMES W. KNOWLES, *Executive Director*
JOHN R. STARK, *Deputy Director*
MARIAN T. TRACY, *Financial Clerk*
HAMILTON D. GEWEHR, *Administrative Clerk*

ECONOMISTS

WILLIAM H. MOORE
GERALD A. POLLACK
THOMAS H. BOGGS, Jr.
DONALD A. WEBSTER (Minority)

SUBCOMMITTEE ON FEDERAL PROCUREMENT AND REGULATION

PAUL H. DOUGLAS, Illinois, *Chairman*

JOHN SPARKMAN, Alabama
WILLIAM PROXMIRE, Wisconsin
LEN B. JORDAN, Idaho
WRIGHT PATMAN, Texas
MARTHA W. GRIFFITHS, Michigan
THOMAS B. CURTIS, Missouri
WILLIAM B. WIDNALL, New Jersey

THOMAS H. BOGGS, Jr., *Consultant*

CONTENTS

CHRONOLOGICAL LIST OF WITNESSES

Page

Hon. Paul H. Douglas, opening statement ... 1
Charles S. Murphy, Under Secretary of Agriculture ... 7
Vice Admiral Glynn R. Donaho, USN, Commander, Military Sea Transportation Service; accompanied by Wilbur L. Morse, Counsel, MSTS; and Lane C. Kendall, Commercial Shipping Adviser, MSTS ... 19
William S. Gaud, Deputy Administrator, Agency for International Development; accompanied by Leslie A. Grant, Deputy General Counsel ... 70
Statement of David E. Bell, Administrator, Agency for International Development, before the Senate Banking and Currency Committee, Mar. 9, 1965 ... 74
Nicholas Johnson, Maritime Administrator, Maritime Administration, Department of Commerce ... 93
Marshall P. Safir, on behalf of Sapphire Steamship Lines, Inc.; accompanied by Gerald M. Robison, president, Sapphire Steamship Lines, Inc., and Stanley L. Temko, counsel ... 106
W. Lyle Bull, special representative of American Export-Isbrandtsen Lines, appearing in behalf of the American Steamship Traffic Executive Committee and the Atlantic & Gulf American Flag Berth Operators; accompanied by Alec Cocke, president, Lykes Bros. Steamship Co; Edwin A. Wester, vice president of Pacific Far East Line; and Elmer Maddy, counsel ... 118
John C. Gorman, vice president, Farrell Lines, Inc., appearing on behalf of the American Steamship Traffic Executive Committee ... 144
Richard W. Kurrus, general counsel, American Tramp Shipowners Association, Inc ... 159
Reginald A. Bourdon, assistant legislative director of the American Maritime Association ... 173

APPENDIX

Letter from Hoyt S. Haddock, executive secretary, AFL-CIO Maritime Committee, accompanying statement ... 183
Statement from AFL-CIO Maritime Committee ... 186
Statement from the Seafarers International Union of North America, AFL-CIO ... 196
Telegram: AGAFBO to Federal Maritime Commission ... 200
Federal Maritime Commission docket No. 1105 (Sub. 1) covering Report on Agreement No. 8900 ... 201
Letter from Ray R. Murdock, legislative director, American Maritime Association, to Chairman Douglas, Joint Economic Committee ... 210
List of AGAFBO members and WCAFBO members ... 216
Letter from John C. Gorman, ASTEC, to Chairman Douglas ... 217
Letter from Chairman Douglas to W. J. deWinter, Flour Millers' Export Association ... 219
Letter from W. J. deWinter to Chairman Douglas ... 219
Letter from Jakob Isbrandtsen, American Export-Isbrandtsen Lines, to Chairman Douglas ... 221
Proposal for establishing an American-flag bulk carrier fleet, submitted by American Export-Isbrandtsen Lines ... 223

DISCRIMINATORY OCEAN FREIGHT RATES AND THE BALANCE OF PAYMENTS

WEDNESDAY, APRIL 7, 1965

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON FEDERAL PROCUREMENT AND
REGULATION OF THE JOINT ECONOMIC COMMITTEE.
Washington, D.C.

The subcommittee met at 10 a.m., pursuant to call, in room AE-1, the Capitol, Senator Paul H. Douglas (chairman of the subcommittee) presiding.

Present: Senator Douglas; Representative Griffiths.

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

Senator DOUGLAS. The subcommittee will come to order.

During the 88th Congress, the Joint Economic Committee held extensive hearings on the subject of discriminatory ocean freight rates and the balance of payments. The committee reported to the Congress in December 1964[1] that ocean freight rates discriminate against American exports, resulting in unfair advantages to our foreign competitors and adverse effects on the balance of payments.

Specifically, the committee stated that:

> The international ocean freight rate structure is weighted against U.S. exports. Our exports bear most of the cost of vessel operation, even in trades where imports approximate exports in value and quantity. Government studies reveal that on trade between the U.S. Pacific coast and the Far East, freight rates on American exports exceeded rates on coresponding imports on 80 percent of the sampled items. The same discrimination prevails on 70 percent of the products shipped by American exporters from the U.S. Atlantic and gulf ports to the Far East, and on 60 percent of the commodities shipped from the Atlantic coast to Western Europe.

The committee also reported that it costs more to ship U.S. exports to the growing markets of South America, Africa, and India than it costs to ship comparable products to ports of these countries from our leading competitors in Europe and Japan, even though distances may be greater from those foreign ports.

Although the United States has a trade surplus, it is my belief, and the belief of the Joint Economic Committee, that this surplus could be greatly expanded if American exports were assessed fair freight rates. Members of the Joint Economic Committee are still concerned about these discriminatory rates and have instructed the Subcommittee on Federal Procurement and Regulation, of which I am chairman, to continue the investigation begun by the full committee last Congress.

In early May we hope to hear from Admiral Harllee and from officials of the Department of Commerce concerning what the admin-

---

[1] S. Rept. 1, 89th Cong., 1st sess.

istration and the Federal Maritime Commission have done to eliminate rate discrimination against American exports.

I want to take this occasion to praise Admiral Harllee for the courage with which he is pursuing this task. He is surrounded by opponents, both from within the Commission and from outside, in the form of American shippers and in the form of foreign shippers and foreign governments. He is moving manfully, like the brave sailor that he is, to deal with these problems.

We often have criticisms of public officials, and I know that frequently the pressures against affirmative action are great and that the natural tendency is to relax. The public is frequently nonappreciative, but I want to take this occasion today, and I will take it again tomorrow, to praise Admiral Harllee and to try to hold up his hand.

In my opinion, if our regulatory Commission is not successful in the near future in eliminating rate discrimination, it will be necessary for the Congress to make some basic changes in our shipping laws. During the course of the committee's investigation, evidence was introduced which indicated that rates on Government-impelled cargoes are higher than rates on comparable commercial cargoes, and that revenues generated from Government cargoes account for most of the gross revenues earned by U.S.-flag steamship companies.

The Deputy Under Secretary for Transportation stated to the Congress last year that AID and Department of Defense cargoes were in part responsible for the high rates on American exports. He indicated that since American carriers do not have to compete for this cargo, it was in their interest to maintain high rates on it, and that these high rates themselves influence the entire outbound freight tariff of the United States.

I would like to inject a personal statement, if I may, on this point.

The London Economist, one of the finest journals of the world, has been devoting a tremendous amount of attention to these hearings and to the issues which have arisen, notably the requests for publication of the proceedings of the inbound shipping conferences.

They published an editorial entitled "Has Senator Douglas Struck His Flag?" implying that we had quit in this investigation and that the shipping conferences have nothing to fear.

I do not wish to take this occasion to unduly inject myself into the situation, but for the information of the London Economist, and for such other few persons as may be interested, may I say that we have not struck our flag and we intend to pursue this matter and seek pitiless publicity on the proceedings of these conferences, and the votes and decisions by which discriminatory rates are imposed upon American shipping.

So these hearings on governmental shipping are not intended to divert attention from the subject of discriminatory shipping rates but are merely one phase.

Members of the subcommittee are now seeking to ascertain whether the U.S. Government pays fair and reasonable rates for ocean shipping, the effects of Government shipping rates on the commercial rate structure, and the effects of Government cargoes on the availability of space on U.S.-flag vessels for the commercial commerce of the United States.

I want to emphasize that the purpose of these hearings is not to change or to criticize cargo preference laws. We are not here to question whether or not cargo generated by the U.S. Government should or should not be reserved for U.S.-flag ships.

The Congress has decided that at least 50 percent of this cargo should move in U.S. bottoms, so long as the rates charged by these carriers are fair and reasonable. It is our purpose to closely examine and evaluate the administration of these laws by the predominant shippers of Government exports.

A preliminary statement was prepared which I approved, but the detailed work of investigation was conducted by Mr. Thomas Boggs, who has given invaluable service to us on this whole question. I thought rather than pose before the public as the author of the factual statements which follow, I would ask Mr. Boggs to read them, but I want to say that I have read them and have studied them and I endorse them.

I apologize to Mr. Murphy and to Vice Admiral Donaho and Mr. Gaud for somewhat delaying their appearance while Mr. Boggs presents his statement on behalf of the chairman.

Mr. Boggs. Thank you, Mr. Chairman. I will try to summarize as much of it as I can.

As a result of cargo preference laws, at least 50 percent of all Government-sponsored shipments to foreign countries must be transported on U.S.-flag merchant vessels so long as these vessels are available at fair and reasonable rates. These laws are more important to the American merchant marine than the Merchant Marine Act itself, which provides almost $380 million a year of direct subsidies to steamship lines and shipyards.

Virtually the entire revenue of the American tramp fleet is derived from the carriage of Government-sponsored cargo. More than 70 percent of the revenues of U.S.-flag tankers and U.S.-flag nonsubsidized liners are generated by these cargoes, and more than 60 percent of the revenues of our U.S.-subsidized liner fleet are derived from Government cargoes and subsidy. The U.S. Government spends approximately $1 billion a year for the procurement of ocean transportation on U.S.-flag ships and for subsidies to sustain our merchant marine and shipyards.

Cargo preferences naturally tend to increase freight rates because the eligible supply of ship space is reduced to a dimension far below the size of the world fleet. It is reduced to the size of the American fleet. The combination of heavy shipments restricted to a small body of the highest cost tonnage in the world is almost irresistibly inflationary.

To hold prices within reason, strict surveillance and knowledgeable bargaining must be undertaken by Government agencies with willingness to waive preference requirements if rates charged by U.S.-flag ships are not fair and reasonable.

Moreover, if the commercial cargo of the United States is abandoned by U.S.-flag ships in favor of higher priced Government cargoes, the objectives of the Merchant Marine Act of 1936 will have been completely frustrated and our exporters and importers will be forced to rely upon foreign-owned steamship lines to carry their cargoes.

The Department of Defense, specifically the Military Sea Transportation Service (MSTS) the Agency for International Development (AID) and the Department of Agriculture are the predominant shippers of Government cargoes. In 1963, these agencies spent more than $500 million for ocean transportation. The Department of Defense is required by statute to ship all cargoes on U.S.-flag ships provided such ships are available. The statute specifically forbids the Department of Defense from paying freight rates on its cargoes which are higher than comparable commercial rates.

On the other hand, AID and the Department of Agriculture are required to ship 50 percent of Government cargoes generated under their respective programs on American-flag ships so long as these ships are available at fair and reasonable rates.

During its recent investigation, the Joint Economic Committee heard testimony indicating that rates paid by the Government for shipments are in fact higher than prevailing commercial rates. The Joint Economic Committee learned that some American-flag ships operate profitably without direct subsidy by carrying only Government cargoes outbound returning in ballast.

In short, the freight rates on Government commodities are so high that steamship operators can recover the entire cost of a round-trip voyage and make a profit without carrying 1 ton of inbound cargo.

Second, we discovered that although Government cargoes generated more than 70 percent of the revenues of U.S.-flag ships, these cargoes occupied less than 55 percent of the ship space.

Third, the committee learned from foreign steamship operators—and this may not be reliable—that during the last 4 years American subsidized lines have earned approximately $300,000 per liner vessel per year after subsidies, while similar foreign lines have earned but $150,000 a year per vessel.

Assuming that the U.S. liner vessels obtain cost parity with foreign vessels through operating differential subsidies, their higher operating revenues can only result from their carrying more cargo, or higher paying cargo, than the foreign lines. A study made by the foreign lines of cubic capacities of U.S. liner vessels compared with certain foreign liner vessels showed that on the average these liners had almost the same capacity as the American ships. This leads to the conclusion that the explanation of the better operating results of the U.S.-flag ships is the higher paying Government cargo reserved for these ships.

Fourth, the American subsidized steamship lines themselves brought out before the Joint Economic Committee that they received, on the average, $45 per weight ton of cargo carried on their vessels; whereas, foreign liners received approximately $30 per ton. In other words, the revenue from a ton of cargo on a U.S.-flag ship is 50 percent greater than the revenue from a ton carried by a foreign-flag ship.

When I interrogated the steamship industry witness about this matter, he replied:

> The difference is simply a product of the commodity mix. It means that we are getting more of the better paying freight revenues; that we have directed ourselves to this and are successful.

Once the committee learned that rates paid on Government-sponsored cargoes are higher in many instances than rates paid on com-

merial cargoes, and after we learned that these cargoes are not significantly different from regular commercial cargoes, we sought to ascertain how AID and the Department of Agriculture determined whether or not the rates charged on their shipments are fair and reasonable and how MSTS keeps its rates below comparable commercial rates.

AGENCY FOR INTERNATIONAL DEVELOPMENT

Much to our surprise, we discovered that AID maintains virtually no surveillance over ocean freight rates. Last year Mr. William S. Gaud, the Deputy Administrator, responded to a letter of the Joint Economic Committee that:

> * * * most AID shipments arise out of transactions made by the exporters selling to importers abroad following normal commercial channels of trade procedures. Accordingly, there is nothing special about a freight rate applied to a liner shipment because it is AID-financed. All of the rates except a few pertaining to certain bulk shipments must be filed with the Federal Maritime Commission.

In effect, AID's policy is to regard its shipments as ordinary commercial shipments and as such it maintains no surveillance over freight rates. Although AID's policy ignores one of the most important provisions of our cargo preference laws; namely, the determination of fair and reasonable rates, it does not treat AID shipments as ordinary commercial cargo.

On the contrary, it requires all AID shippers to—

> certify that such cargo has been offered to U.S.-flag carriers serving the ports of loading and discharge on a direct basis * * *.

AID makes sure that the 50-percent requirement of the cargo preference laws is satisfied—in fact, more than 70 percent of AID cargoes go on U.S.-flag ships—but AID apparently does not abide by the other mandate of our cargo preference laws—the determination of fair and reasonable rates.

DEPARTMENT OF AGRICULTURE

The Department of Agriculture, which spends more than $200 million a year on ocean transportation, does determine whether or not rates are fair and reasonable on most of its shipments. The Department bases its determination on rate guidelines provided by the Maritime Administration in 1957—the year of the Suez crisis when freight rates were at an unusually high level.

The Maritime Administration supplied what it considered fair and reasonable rates for shipments of agricultural commodities to various parts of the world. The Martime Administration used Liberty-type ships built during World War II as the basis of its determination of fair and reasonable rates. Today, although some of the ships carrying agricultural commodities within these guidelines are Liberty-type ships limited to 10,000 tons of capacity, others are modern ships—larger and more efficient—one as big as 100,000 tons. Today these 1957 guidelines are still used to determine whether or not rates charged by ships with much lower unit costs are fair and reasonable.

The Department of Agriculture pays the difference to the American carrier between its rates and the prevailing foreign-flag rates for the

same shipment. The American-flag tramp rate, for example, may be $35 per ton to ship grain from New Orleans to India; whereas, the prevailing foreign-flag tramp rate is $20. The Agriculture Department requires its importers in India to use American-flag ships for 50 percent of their imports, but it pays the $15 differential rate between the foreign-flag rate and the American-flag rate.

There is a rate differential because unsubsidized American ships have much higher wage costs than their foreign competitors. However, the committee was amazed to learn that many of our subsidized ships are also receiving this differential payment even though at the same time they are receiving direct subsidy from the Government to put them on a cost parity with foreign-flag ships.

THE DEPARTMENT OF DEFENSE

The Department of Defense is required by law to ship all of its cargo on American-flag vessels. However, the Department of Defense is forbidden by statute to pay higher rates than those paid for comparable commercial shipments. Moreover, because of the large and continuing volume of cargo shipped by the Department of Defense, its shipping agent—MSTS—claims to command rates lower than those available to the general public under commercial tariffs. By comparing the rates that would be applicable to its cargo under the commercial tariffs, MSTS considers that it demonstrates a substantial discount.

Members of the Joint Economic Committee recently said in their report on Discriminatory Ocean Freight Rates, "We are not fully persuaded that the saving is real."

First, we have found convincing evidence that for some of its cargo, MSTS compares its rates with a commercial paper rate; that is, one which is in the tariff but under which no commercial cargo moves.

Second, MSTS adjusts its rates to compare them with commercial rates by adding in its estimate of loading and unloading charges. Usually a carrier charges a rate which includes the cost of loading, unloading, wharfage, agency fees, brokerage commissions, and other miscellaneous port charges. A recent study by the Department of Commerce reveals that these charges exceed 60 percent of the total cost of shipping a commodity. Since most MSTS cargo is loaded at Government installations by Government employees, its rates are based solely on the cost of carriage and do not include port and loading charges.

The estimates used for these charges by MSTS appear to be unrealistic. For example, MSTS maintains that it pays the equivalent of $33.42 per measurement ton to ship general cargoes from the U.S. North Atlantic to continental Europe; whereas, the commercial shipper spends $33.52—10 cents more than MSTS.[1]

MSTS has added $8.99 to its actual freight rate of $24.43, the amount it estimates as the cost of loading and discharging its cargo. MSTS

---

[1] "Discriminatory Ocean Freight Rates and the Balance of Payments," part 5— appendix, p. 1237; hearings, Joint Economic Committee, 1965.

uses the figure of $8.99 to calculate its discount on all general cargoes shipped from the North Atlantic to Europe. As the recent study of the Department of Commerce indicates, it would be far more accurate to use the figure of $20 per measurement ton for these charges rather than $8.99. The lines also believe this figure should be $20 per measurement ton. When some of them recently applied for a pooling agreement on the North Atlantic trade route, they listed $20 per payable ton as the average cost of loading and discharging cargo. If this more realistic figure is used to adjust MSTS rates so that the rates can be compared with commercial rates, it appears that MSTS is paying $44.43 per measurement ton; whereas, the commercial exporter is paying $10 less.

In conclusion, I would like to reemphasize the chairman's statement that the purpose of these hearings is not to change or criticize cargo preference laws. We are not here to question whether or not cargo generated by the U.S. Government should or should not be reserved for U.S.-flag ships. The Congress has decided that at least 50 percent of this cargo should move in U.S. bottoms so long as the rates charged by these carriers are fair and reasonable. It is our purpose to closely examine and evaluate the administration of these laws by the predominant shippers of Government cargoes.

It is my hope that these hearings will help coordinate the various Government policies and procedures in the administration of these programs so that these laws will be efficiently implemented and adhered to in the years ahead.

Senator DOUGLAS. Thank you, Mr. Boggs. That leads us to what we regard as a factual basis for our discussion this morning. Now we welcome our distinguished first witness, the Honorable Charles S. Murphy, Under Secretary of Agriculture.

STATEMENT OF CHARLES S. MURPHY, UNDER SECRETARY OF AGRICULTURE

Mr. MURPHY. Thank you, Mr. Chairman.

I am glad to be here in response to the committee's request for a statement from the Department of Agriculture. I think my statement might have been somewhat more responsive if we had had the benefit of the statements from you and Mr. Boggs in advance. I think there may be some comments that he made where it might be useful for us to submit later on some clarification which I think will throw additional light on the problem.

I do think the statement I have prepared will contain or does contain some information that will be of use to the committee. I will be glad to present it at this time, if I may.

The Department of Agriculture has an interest in these matters because of (1) its responsibility for encouraging commercial exports of agricultural products; and (2) its responsibility in administering the food-for-peace program under Public Law 480.

The larger part of U.S. agricultural exports are commercial exports for dollars. These commercial exports have grown from $2.6 billion in 1958 to $4.6 billion in 1964.

Senator DOUGLAS. Does that include food for peace?

Mr. MURPHY. That does not include food for peace. This is the cash or dollar business. Over this same period, and this is the food-for-peace component, Public Law 480 exports have been relatively constant, amounting to $1.3 billion in 1958 and $1.7 billion in 1964.

With one exception, to which I shall return later, there is no requirement that these cash exports move in U.S. ships. As a result, the exporters are free to choose the lowest cost available transportation, whether it be in U.S. ships or foreign. In some cases, shipping is available on U.S. liners at the same rates as on foreign vessels. In such cases, U.S. liners share in this business—moving a substantial quantity of our commercial agricultural exports.

The greater part of the tonnage of our cash exports of agricultural products moves in bulk carriers, and here the United States has no subsidized vessels—except to the extent to which cargo preference is a subsidy, and that is not applicable here. The rates charged by the U.S. bulk carriers are substantially above those charged by foreign vessels for the same service—the additional cost usually ranging from 50 to 100 percent of the foreign-flag rate. The result is that very little of this cash export business moves by U.S. ships.

Generally speaking, shipping in bulk carriers, mostly foreign, has been available for this cash export business at rates comparable to the rates available for agricultural exports from other exporting countries; and, in the main, ocean freight discrimination in this kind of trade does not appear to have been a serious impediment to the development of our commercial exports.

I understand there are some cases where conference rates appear to discriminate against U.S. exports. Frankly, I have not had an opportunity to study this question enough to have any worthwhile views on it.

There is one case where a requirement for the use of U.S. shipping appears to be preventing a substantial amount of agricultural exports. This is in connection with grain exports to Soviet bloc countries. At the present time, a license is required for such exports, and one of the requirements as a condition for issuance of the license for most of these sales is that at least 50 percent of the grain must be moved in U.S. ships. No similar requirement exists in the case of other commercial sales.

This requirement was first established when the sale of wheat to Russia was under consideration in 1963. At that time it appeared that this requirement would not interfere with such sales. However, it has not worked out that way. In fact, the evidence is rather clear that except for this requirement, the sales to Russia in 1963–64 would have been approximately twice as large as they were.

This year, Russia again is importing rather substantial quantities of wheat from Canada and Australia, but not from the United States. It is plain that the reason we are not being considered for these pur-

chases is because the U.S. shipping requirement adds substantially to the cost which the purchaser would incur.

It is important to draw a sharp distinction between the requirement for use of U.S. shipping in this case of commercial sales, on the one hand, and the requirement, on the other hand, for use of U.S. shipping in the case of Government-aided sales where the additional shipping costs are paid by the Government.

In the former case, the commercial sales, the requirement for use of U.S. shipping is not a statutory one; in the latter case, it is. Also, in the latter case, the Government-aided sales, the requirement for using U.S. shipping does not prevent the export business from occurring because the Government pays the additional costs. In the former case, the commercial sales, the shipping requirement prevents the export business from occurring at all because the importing country turns to alternative sources of supply.

There are some cases where grain from the United States has moved to Soviet bloc countries in limited quantities where U.S. liner service is available but there is little doubt that the larger part of the export potential for grain there is being lost.

Now, Mr. Chairman, before turning to cargo preference, as it is required by statute on Government-aided cargoes, I would like to say something about my general attitude toward the U.S. merchant marine. I favor and support a strong merchant marine to help achieve the following objectives; to strengthen the national security; to provide employment for U.S. merchant seamen and the maritime industry; to help our balance of payments; and to improve the competitive position of the United States in international trade.

I believe these objectives are of sufficient national importance to justify the expenditure of substantial sums by the Government. I also believe that these sums should be spent in such a manner as to achieve the maximum progress toward these objectives. I am confident that we can find some better way of doing this than the present system of cargo preference.

The USDA participation in cargo preference is in connection with Public Law 480 exports of agricultural products. The law requires that at least 50 percent of these shipments move in U.S. ships if they are available at fair and reasonable rates. I wish to present the following information as to the costs of this requirement.

There follow some tables, Mr. Chairman, and I do not propose to read these number in detail.

Senator DOUGLAS. Will you have them inserted into the record?

Mr. MURPHY. I would like to have them inserted into the record and make a few general comments about the tables.

(The tables referred to follow:)

COSTS OF CARGO PREFERENCE

Cargo preference results in very substantial Government costs that would not otherwise be incurred. Following is a tabulation in summary form showing the expense to Community Credit Corporation of financing ocean trans-

portation costs under Public Law 480 programs, from the inception of the program through fiscal year 1965:

Fiscal year	Title I		
	Total financed	Dollar recoveries [1]	Net cost to CCC
1955	$9,577,890		$9,577,890
1956	20,258,983	$343,206	19,915,777
1957	50,580,978	2,807,438	47,773,540
1958	53,769,766	3,114,713	50,655,053
1959	73,822,288	4,307,506	69,514,782
1960	79,578,575	3,326,284	76,252,291
1961	107,682,420	4,722,596	102,959,824
1962	98,415,632	6,907,002	91,508,630
1963	147,052,640	14,884,680	132,167,960
1964	141,716,644	[2] 14,835,354	126,881,290
1965 [2]	145,773,000	14,344,700	131,428,300
Total	928,228,816	69,593,479	858,635,337

Fiscal year	Title II	Title III
1955		
1956		
1957	$4,058,932	$29,921,965
1958	7,424,372	20,473,658
1959	9,035,142	27,689,244
1960	3,863,962	21,164,567
1961	17,813,437	26,247,791
1962	26,166,431	43,508,319
1963	23,912,729	38,023,251
1964	26,446,443	51,695,004
1965 [2]	25,575,000	44,100,000
Total	144,296,448	302,823,799

Fiscal year	Title IV		
	Total financed	Dollar recoveries [3]	Net cost to CCC
1962	$1,201,199	$605,216	$595,983
1963	3,778,242	2,361,008	1,417,234
1964	4,499,095	2,737,625	1,761,470
1965 [4]	20,300,000	13,001,000	6,699,000
Total	29,778,536	18,704,849	10,473,687

[1] Pro rata allocation of proceeds from sale of local currencies to other U.S. agencies. Includes applicable repayments to ocean transportation, for 1964 and 1965, from dollar loan repayments and, for 1963, from $93,000,000 loan repayment from Italy.
[2] Estimated.
[3] To be recovered in installment payments over periods up to 20 years.
[4] Estimated.

Total net CCC cost

Fiscal year:	*Total net CCC cost*
1955	$9,577,890
1956	19,915,777
1957	81,754,437
1958	78,553,083
1959	106,239,168
1960	101,280,820
1961	147,021,052
1962	161,779,363
1963	195,521,174
1964	206,784,207
1965 [1]	207,802,300
Grand total	1,316,229,271

[1] Estimated.

Commodity Credit Corporation costs for cargo preference will be reduced by the new provision of law enacted last year which will limit Commodity Credit Corporation financing of ocean freight on title I cargoes to the differential by which the ocean freight on U.S.-flag vessels exceeds the rate on foreign-flag vessels. Expenditures by Commodity Credit Corporation for ocean freight under Public Law 480 are now estimated at $235.7 million for fiscal 1965 and $185.8 million for fiscal 1966.

Mr. MURPHY. First, cargo preference results in very substantial Government costs that would not be otherwise incurred. Following is a tabulation in summary form showing the expense to Commodity Credit Corporation of financing ocean transportation costs under Public Law 480 programs from the inception of the program through fiscal year 1965.

I think I should point out that these expenditures include something in addition to the differential between the foreign-flag rate and the U.S.-flag rate. We have been paying up to the first of this year on the portion of the cargoes shipped in U.S. vessels the entire cost of the ocean transportation, so these figures include that entire cost.

It is almost certain that this system never would have been inaugurated; that is, that the United States would not have paid this part of the ocean transportation cost, except for the cargo preference requirement. But be that as it may, these figures do include the total cost and not just the differential.

In the first part of the table we have set out the figures for title I of Public Law 480, which is the largest part of the business, and we have also undertaken to indicate the dollar recoveries that are obtained from the foreign currencies that are paid to the Commodity Credit Corporation to reimburse it for the part of the shipping rate that represents the foreign-flag rate.

We have been paying the entire cost on U.S. ships. We have been reimbursed in the foreign currencies for a part of it. We do realize some dollars eventually from those foreign currencies.

Senator DOUGLAS. What are the totals, Mr. Murphy?

Mr. MURPHY. The totals that have been financed from 1955 through 1965 under title I—we paid out $928 million, the dollar recoveries are $69 million, leaving a net cost to the Commodity Credit Corporation of $858 million.

Senator DOUGLAS. Is that a net cost above what the cost of transportation would be on foreign ships?

Mr. MURPHY. No, sir; it is not. This is the net costs that have been incurred in total in paying for the transportation on U.S. ships. If transportation had taken place on foreign-flag ships, someone would have had to pay the cost of transportation at foreign-flag rates. It very well might not have been the United States.

Senator DOUGLAS. Then you have figures on costs under title II.

Mr. MURPHY. Under titles II and III, where we get no reimbursement in foreign currencies, and under title IV, where eventually we are reimbursed for the foreign-flag rate portion of the cost in dollars. Then we have a final table that undertakes to summarize the total net cost to Commodity Credit Corportation which, as you will see, has reached a level of something over $200 million by 1964.

Senator DOUGLAS. That is a year?

Mr. MURPHY. Yes; $200 million a year.

Senator DOUGLAS. The accumulated costs under title IV were $10 million; under title III, $300 million; and under title II, $144 million, making a grand total from 1955 to 1965, inclusive, estimated, of $1.316 billion with title I?

Mr. MURPHY. That is correct. Commodity Credit Corporation costs for cargo preference will be reduced by the new provision of law enacted last year which will limit Commodity Credit Corporation financing of ocean freight on title I cargoes to the differential by which the ocean freight on U.S.-flag vessels exceeds the rate on foreign-flag vessels.

Expenditures by Commodity Credit Corporation for ocean freight under Public Law 480 are now estimated at $235.7 million for fiscal 1965, and $185.8 million for fiscal 1966. For fiscal 1967, I would estimate they might go down to around $150 million.

I believe that last year's change in the law will also result in a shift in the effect of the Public Law 480 cargo preference requirements on the U.S. balance of payments from an adverse one to a favorable one. Heretofore, the cargo preference requirement has had an adverse effect on the U.S. balance of payments because (1) a substantial portion of the costs of American ships in foreign ports are paid in dollars, which constitutes a drain on the U.S. balance of payments to the extent of such dollar payments; and (2) the United States loses the dollar earnings which would otherwise be paid by foreign-flag vessels to meet port costs in the United States. Under the new system, the U.S. ships will actually earn dollars from the foreign countries at the level of the foreign-flag freight rates.

In addition to Public Law 480 shipments financed by Agriculture, the Government-aided cargo that moved on U.S. commercial vessels under cargo preference in 1963 amounted to 4.3 million long tons. Preference cargo accounted for 61 percent of the total tonnage carried by the U.S. Merchant Marine in 1963. In the case of bulk carriers, the percentage is much larger—87 percent. Seventy-two percent of the total export cargo carried by U.S. tramps and tankers in 1963 was preference cargo moving under Public Law 480.

The principal statutory cargo preference requirement was established by Public Law 664 in 1954. It was hoped that the legislation would provide the incentive for the maintenance of a modern, efficient merchant marine. Unfortunately, it does not appear to have accomplished that objective. As to this point I would like to quote some excerpts from a talk of February 9, 1965, by Maritime Administrator Nicholas Johnson: [1]

> If we look at the dry bulk segment of our fleet, the situation is even more serious. We now carry about 5 percent of our total dry bulk trade: wheat, coal, iron ore, et cetera. In the next 20 years the amount of dry bulk cargo in the international trade of the United States will leap from 140 to 380 million tons. Meanwhile, our capacity to carry that trade will decline from today's small 7.8 million tons to a puny 3.9 million tons—about 1 percent of the total.
>
> The tramp fleet is composed of about 130 vessels. Only seven of these ships were built since World War II. They are inadequately maintained. An American in India recently wrote to me that some were in such dreadful condition he was ashamed to see them flying the American flag. Last month off the coast of Florida one simply sank. Over the next 5 or 10 years the rest of this fleet will

[1] Speech delivered in New Orleans, Feb. 9, 1965, reprinted in Congressional Record, Feb. 10, 1965; pp. 2523–2526.

be unable to meet class requirements—or will just break down forever in some foreign port.

* * * As a subsidy, direct or indirect, cargo preference has been a miserable failure: not a single new tramp ship has been built since 1956, and the cost of keeping the old ones in existence climbs higher and higher. A converted 10,000 deadweight ton Liberty employed in the grain trade costs the taxpayers about $700,000 in freight-rate differential payments annually. By contrast, our most modern liner ships, with 40 percent more carrying capacity and twice the speed, require an average of only $500,000 per year; this means an equivalent shipping capability at 25 percent of the subsidy cost.

Mr. Chairman, this leads me to comment, in the light of the above background, on three specific questions raised in your invitation to testify here.

First: Payment of exorbitantly high freight charges by the U.S. Government. It is obviously true that the Government is paying more than other shippers for movement of bulk commodities. However, this question cannot properly be considered as separate and apart from the national interest in a strong merchant marine.

If the Government were getting sufficient benefits in that regard, in addition to the transportation of the particular cargoes involved, the expenditure might well be justified. However, the evidence seems clear that the present cargo preference system is not the best way to foster and strengthen our merchant marine.

I would not recommend terminating the present cargo preference system abruptly with nothing to replace it, but I do think we should search diligently for a better system that would be more effective in strengthening the merchant marine.

Second. Rates on Government cargoes tending to exert inflationary pressures on the commercial rate structure. I do not believe this to be the case, at least in the Public Law 480 business for which we are responsible. On the contrary, if preference cargo had to move at commercial or foreign-flag rates, and depend altogether on space available at such rates, the increased demand for such shipping would tend to push commercial and foreign-flag rates up. Therefore, it seems to me, at least in the short run, that rates on Government cargo have a deflationary effect on commercial rates.

Senator DOUGLAS. You are speaking of agricultural shipments?

Mr. MURPHY. That is true, and these are the shipments with which we are familiar, and speaking particularly of the dry bulk cargo shipments. These bulk carriers are chartered or employed on a competitive-bid basis and, of course, as to the preference cargo, the U.S. ships compete among themselves, and the foreign-flag ships compete among themselves for the part that moves by foreign-flag vessels.

To the extent that you shift this business from one of those two groups to the other, it increases the pressure for higher bids in the group to which you shift that part of the business.

As to the third question: whether Government cargoes by occupying most of the U.S.-flag ship space, leaves our commercial commerce in the hands of foreign-flag steamship lines, I would make these comments:

Presumably commercial commerce will seek the best rates. When foreign-flag rates are lower, it would not move by U.S. vessels even though their space were not occupied by Government cargo. In fact, in the absence of the Government cargo, the most likely result for most

of our unsubsidized carriers is that they would not operate at all. In that case, of course, they would not make space available for commercial cargoes.

Mr. Chairman, that is all I have to say except to say that we will be glad to provide the committee any information or assistance we can in the study of this problem.

Senator DOUGLAS. I want to thank you for your testimony, which I think is very illuminating. You point out that the Commodity Credit Corporation shipments in the last 10 years have had a net cost to the Government of $1.316 billion, and you state that it is obviously true that the Government is paying more than other shippers for the movement of these bulk commodities, so you have openend up a most interesting line of inquiry and your testimony has been very frank, very balanced.

I would like to ask you this question, which undoubtedly emerged from Mr. Boggs' reading of our statement: Why does the Department of Agriculture use the 1957 rate guidelines as its basis for determining whether or not the rates charged by American-flag vessels are fair and reasonable when the more recently built ships have greater tonnage capacity and are twice as fast as the old Liberty ships and, therefore, where costs are less? Why should you use the old guideline which applied to Liberty ships of World War II vintage when these are more and more passing out of the maritime industry?

Mr. MURPHY. It is my understanding, Mr. Chairman, that we accept the advice and recommendations of the Maritime Administrator as to what constitutes fair and reasonable rates.

Senator DOUGLAS. In other words, you accept their advice?

Mr. MURPHY. Yes, sir.

Senator DOUGLAS. Would you be in favor of transferring the shipping function of the Department of Agriculture to the Maritime Administration so that that agency, which presumably is better equipped than you to determine whether or not rates are fair and reasonable, and which is better equipped to determine whether or not a line is receiving a double subsidy, would be directly responsible for agricultural shipments? If you take their rates, why not let them decide on the shipper?

Mr. MURPHY. My personal view, Mr. Chairman, is that that would be a desirable change.

Senator DOUGLAS. This is the first time I ever heard a Government employee advocate giving up a function or power. I congratulate you, Mr. Murphy. This is a new day.

Mr. MURPHY. Mr. Chairman, this is not a totally new question so far as I am concerned. I have thought about it quite a lot and talked about it some. It is just simply true that this is not a field in which the Department of Agriculture is technically particularly expert.

We do have some people who work on this problem, particularly the Ocean Transportation Branch in the Foreign Agricultural Service of the Department. I think they are very competent and I have the greatest admiration and respect for them, but at the same time, with all of the other duties and jobs that the Department of Agriculture has, it is not in a position to give as much time and attention to this kind of question as the Department of Commerce and the Maritime Administration would be.

I think there is a great deal to be said for the thought that this function might very well be transferred. I have said, and since this question has been opened up I should say this also, that I think when the function is transferred, the appropriations for making the payments should also be transferred. I think the agency that comes up to justify the appropriation should also have the responsibility for determining how they will be spent. This is a rock on which we have floundered from time to time.

Senator DOUGLAS. Would this require new legislation by the Congress or could it be done by Executive order?

Mr. MURPHY. It is my impression that it would not require new legislation.

Representative GRIFFITHS. Mr. Chairman——

Senator DOUGLAS. Mrs. Griffiths?

Representative GRIFFITHS. Just before we transfer this agency, may I ask—if the Maritime Commission has selected the period in which the rates were highest—could any agency do a poorer job?

Mr. MURPHY. If I may answer that question literally, my answer would be yes, some other agency might do a poorer job, and I think they very well might. This is not an easy question from the standpoint of the Maritime Administrator, and I don't wish to imply any criticism.

There was, about 2 years ago, as I remember it, rather lengthy consideration of whether just in dollars-and-cents terms these rates were too high. This became acute, as I remember it, at the time we were talking about selling wheat to the Russians, and there was also some talk about establishing different maximum, fair, and reasonable rates for different types of sizes or vessels. I am sorry that my recollection is not altogether clear about this.

The one thing that I do remember from this is that it is a terribly difficult problem and I have a great deal of sympathy for anyone who has to deal with it.

Representative GRIFFITHS. Thank you.

Senator DOUGLAS. Mr. Boggs, in his statement, brought out the fact that the Department is paying a freight differential to American-flag subsidized vessels as well as American-flag nonsubsidized vessels. Is this not a double subsidy, one in cash payments and one in a freight differential?

Mr. MURPHY. I think you again have to break this down between different types of cargo. There is a substantial part of our agricultural exports, including the food-for-peace exports, that move on these subsidized lines at published tariff rates and there is no differential paid above commercial rates and, as I understand it, there is no differential paid above foreign-flag rates on this type of cargo.

I understand the liners also carry, sometimes, parcels of bulk cargoes that are not subject to published tariff rates. Here they do get into the competitive bidding system. They charge rates that I believe are generally somewhat below the rates that would be paid to U.S.-flag bulk carriers, above the rates that would be paid to foreign-flag bulk carriers.

In those circumstances, and to that extent, I think it is true that a differential above the foreign-flag rates is being paid to these subsidized lines.

Senator DOUGLAS. Therefore, a double subsidy is being received?

Mr. MURPHY. I think you might characterize it that way; yes, sir.

Senator DOUGLAS. One final question—well, would you furnish additional information on that for the record, Mr. Murphy?

Mr. MURPHY. We will be glad to. Incidentally, I do not think it is a large part of this business we are talking about. I think it is relatively small.

(The information subsequently furnished follows:)

Only liner vessels of the U.S. merchant fleet receive an operating differential. These ships carry relatively little cargo in our programs which involves a differential payment. In the liner movement from the U.S. Pacific coast to Korea and Taiwan, the U.S.-flag vessels' portion involves differentials ranging from $5 to $8 per ton. Parcels of bulk wheat and vegetable oil to countries in the Persian Gulf-Indian Ocean, South American and Mediterranean areas occasionally include a differential; and in a few instances differentials have been approved for shipments of bagged or drummed commodities.

The Department of Agriculture has no statistics showing a comparison of the volume and costs of carryings involving differentials on subsidized verus nonsubsidized liners. The Maritime Administration is currently engaged in a study which is expected to disclose the facts concerning differential payments to liners in our programs.

Senator DOUGLAS. One final question which has some bearing upon the testimony of the other witnesses this morning: How does the Department of Agriculture interpret the 50-percent requirement of the cargo preference law? Do you regard it as a maximum or minimum requirement?

Mr. MURPHY. We regard it as a minimum.

Senator DOUGLAS. As a minimum?

Mr. MURPHY. And also pretty much as a maximum. We have a number of laws, Senator, that we undertake to administer where the Congress has sort of hemmed us in from the top and from the bottom. Among other things, this eases our problem sometimes because since we don't have much discretion, we don't have to worry so much about how to exercise it.

But the law, itself, I think—the cargo preference law—pretty clearly states this as a minimum.

Senator DOUGLAS. Then you do interpret it that way. But do you ever go above the 50 percent?

Mr. MURPHY. Not very much.

Senator DOUGLAS. Then I would say you interpret it as a maximum.

Mr. MURPHY. We interpret something else as a maximum. We have general statutory obligations, which most people, I think, don't recognize and don't believe we know about either, to operate the business of the Commodity Credit Corporation as effectively and as economically as we can. We do try to do that.

We consider that this statutory provision requires us to stay pretty close to this 50 percent. We can't go above it. We think that we are not operating the business effectively or economically if we go much above it. This is a disputed point. It has been disputed for a good many years and is still under dispute.

Senator DOUGLAS. Mr. Boggs informs me that the percentage of your shipments on American-flag vessels is 50.2.

Mr. MURPHY. It was my recollection that it was almost 51 but I won't quibble about it.

Senator DOUGLAS. I would say that the difference between the maximum and the minimum was, to use the favorite language of Washington bureaucrats, miniscule.

Mr. MURPHY. That is right.

Senator DOUGLAS. So, in practice, what you do is to treat is as a maximum.

Mr. MURPHY. Well, as a maximum and a minimum, I think.

Senator DOUGLAS. You have not been a good lawyer for nothing, Mr. Murphy.

Representative GRIFFITHS. Did you say how much it costs to ship the other 49-some percent that is not shipped in American flag as compared to that which is shipped in American-flag vessels?

Mr. MURPHY. The total cost to the Department is nothing, because we do not pay for it.

Representative GRIFFITHS. Even on Public Law 480 you don't?

Mr. MURPHY. Even under Public Law 480. The recipient countries pay the freight on these shipments, except in the title II and title III programs. These are donations, and for such shipments we pay all transportation costs.

Representative GRIFFITHS. What do they pay for it?

Mr. MURPHY. In the title I and title IV programs they pay the foreign-flag rate. We do not have precise information as to how much they have actually paid. At least I am quite certain we don't. We just know in general that the foreign-flag rate is much lower than the American-flag rate.

The American-flag rate typically is from 50 to 100 percent higher. If you go back the other way, you reduce by one-third or one-half.

Representative GRIFFITHS. Could you get those figures on the difference?

Mr. MURPHY. I am not sure that we could. These shipments take place in vessels that are chartered vessel by vessel, trip by trip, and am not sure that anyone is in a position to collect these figures. I will be glad to try.

(The following table was later supplied:)

TITLE I. PUBLIC LAW 480

The following table shows the weighted average United States- and foreign-flag freight rates (per long ton) and the differential for full-cargo lots of bulk grain moving from U.S. gulf coast to destination ports of major participating countries:

Country	U.S.-flag rate	Foreign-flag rate	Differential
West Pakistan	$24.22	$9.50	$14.72
East Pakistan	27.90	19.17	8.73
Brazil	18.61	9.31	9.30
Egypt	16.33	8.09	8.24
East coast India	28.27	10.78	17.49
West coast India	20.69	9.07	11.62

NOTE.—Rates for calendar year 1963.

Mr. MURPHY. It is my understanding that the recipient countries under titles I and IV, Public Law 480, pay entirely for the cost of shipping on the part that does not go on a U.S.-flag vessel, and that we do not finance it and require no reporting about it, so far as I know.

In some cases they have their own national merchant marine and are able to transport the cargo themselves.

I think perhaps in more cases they have to employ ships flying other flags. It is my understanding that in those cases they have always paid for this service in hard currency. In the case of the half that was moving on the U.S. ships they have reimbursed the United States to the extent of the foreign-flag rate, but this reimbursement has not been in hard currency, but in the currency of the recipient country.

This is a thing that is going to be changed under the law that Congress passed last year. For shipments under agreements that are made after the first of January of this year, the recipient country will have to pay the U.S. shipping companies in dollars the foreign-flag rate equivalent for the part of the commerce moved on U.S. ships. This does not apply to shipments made this year under agreements that were made earlier, so it will be a phasing-out operation and will take take effect completely about the end of this calendar year.

Representative GRIFFITHS. Then you will have the figures available as to the comparison of prices.

Mr. MURPHY. We will have the figures available as to the payments to the U.S. ships; that is true. The thing that we do not have——

Representative GRIFFITHS. If they are going to pay them what they would have paid the foreign vessels, then you are going to know what they paid the foreign vessels, aren't you?

Mr. MURPHY. That is right. We do not know now what the foreign-flag rate has been in a general way. I don't think we have actual payments on each shipment on foreign-flag vessels. But we have had, up until now, the recipient countries reimbursing us in their currency for their part of the transportation cost on U.S. vessels that is equal to the foreign-flag rate. That we do have. This we can provide.

We have in the table the recoveries from those funds that we have been able to use to replace dollars. I am sure we also have information as to the total amount of currencies that we have received. That would represent the foreign-flag rate or the equivalent of the foreign-flag rate on these movements on U.S. ships. We will be glad to provide that.

Representative GRIFFITHS. Thank you.

(Table referred to follows:)

Dollar equivalent of local currency recoveries, title I, Public Law 480, ocean transportation

Calendar year:	Amount	Calendar year:	Amount
1955	$15,066,459	1961	$49,027,750
1956	22,241,769	1962	51,080,621
1957	47,365,693	1963	68,792,256
1958	36,303,367	1964	76,770,246
1959	33,285,519		
1960	46,154,035	Total	446,087,670

Senator DOUGLAS. Mrs. Griffiths has put her finger on a very essential point. In the testimony you gave, you indicated that the American rates on these commodities are about 50 percent higher, in general? That is very significant.

Mr. MURPHY. This, again, relates particularly to the dry bulk cargo movement.

Senator DOUGLAS. That is right.

Representative GRIFFITHS. May I ask one other question? If the American subsidy is so much better than the foreign rate, and yet the American fleet deteriorates, is this because foreign-flag ships have a better tax rate than ours do?

Mr. MURPHY. It is my understanding that it is due more to a number of lower operating costs and lower investments, for one thing. They get ships built in foreign shipyards at a lower cost so they have a lower capital investment. They pay their merchant seaman much lower wages than we pay our merchant seamen, so I think it is mainly a difference in operating costs.

Representative GRIFFITHS. Thank you.

Senator DOUGLAS. Thank you very much, Mr. Murphy. We appreciate your coming and the frankness of your testimony.

Mr. MURPHY. Thank you, sir.

Senator DOUGLAS. Our second witness is Vice Adm. Glynn R. Donaho, U.S. Navy, commander of the Military Sea Transportation Service, otherwise known as MSTS, of the Department of the Navy.

STATEMENT OF VICE ADM. GLYNN R. DONAHO, U.S. NAVY, COMMANDER, MILITARY SEA TRANSPORTATION SERVICE; ACCOMPANIED BY WILBUR L. MORSE, COUNSEL, MSTS; AND LANE C. KENDALL, COMMERCIAL SHIPPING ADVISER, MSTS

Admiral DONAHO. I would like to introduce Mr. Wilbur L. Morse, the counsel of MSTS, and also Mr. Kendall, our commercial shipping adviser.

I have a prepared statement, but, as Secretary Murphy indicated, it is not entirely parallel to your opening statement. If I may, I would like to have the privilege of submitting a substitute statement for the record to be more responsive to your statement.

Senator DOUGLAS. You certainly may.

Admiral DONAHO. I am Glynn R. Donaho, vice admiral, U.S. Navy, currently commander of the Military Sea Transportation Service, MSTS. I am here in response to Chairman Douglas' request to the Secretary of the Navy that I appear before you. As the Executive Director for Ocean Transportation for the Department of Defense, I thank you for the opportunity to explain MSTS ocean transportation policies, shipping contract rates, and costs.

The mission of the Military Sea Transportation Service is:

To provide immediate sealift capability in an emergency.

To plan for and be capable of expansion in time of war.

To provide sea transportation for personnel and cargoes of the Department of Defense; and

To provide support ships for scientific projects.

In providing ocean movement of Department of Defense cargoes, dry or petroleum, MSTS utilizes various modes of ocean transportation, separated into two general categories: Government-owned or Government-controlled shipping capability and common carrier commercial shipping capability.

Government-owned or Government-controlled shipping consists of the following: nucleus fleet ships, general agency ships, time-chartered ships, and voyage-chartered ships. I shall define each as follows:

Nucleus fleet ships are public vessels owned by the U.S. Navy and operated by MSTS.

General agency ships are public vessels owned by the U.S. Department of Commerce and operated under general agency agreement between the Maritime Administration and a commercial carrier selected by the Maritime Administration. Such vessels may be allocated to MSTS. There are two such ships in service for MSTS at this time.

Time-chartered ships are vessels obtained from private companies for specific periods, at competitively negotiated per diem rates.

Voyage chartered ships are vessels obtained at competitively negotiated rates for a specific voyage between two points, usually for a specific cargo.

It is understood that the committee's principal interest at this time is in our use of common carrier or berth liner commercial shipping capability for movement of military cargoes. Berth transportation is normally used for movement of less than shipload lots of military-sponsored cargo under the following arrangements: shipping contracts, Government bills of lading (GBL's) and through Government bills of lading (TGBL's).

The principal method employed for the movement of dry cargo is in berth line carriers under an MSTS standard form of shipping contract. This is an open end contract entered into with commercial ocean carriers maintaining regularly scheduled, common carrier, berth service over designated trade routes where military cargo moves in large volume, at frequent intervals.

We ship by Government bills of lading for less than shipload lots of cargo; in trades when the ocean carrier involved is not a party to a shipping contract; and where shipping contracts have not been established or do not apply.

A shipping contract would not apply when a specific commodity offered for shipment is not covered by a rate. If the commercial tariff rate is more advantageous to the Government than that quoted in the shipping contract, the contract does not have to apply. Shipments under GBL's may be made at rates, terms, and conditions specified in the carrier's commercial freight tariff, or on the basis of special rates, terms, and conditions negotiated between MSTS and the ocean carrier involved. In some trades we negotiate special berth-term rate arrangements that apply on a continuing basis.

The Department of Defense utilizes through Government bills of lading for transportation of a large portion of military-sponsored household goods. Tenders for through-bill service are received from inland van lines by the Military Traffic Management and Terminal Service, Department of the Army.

MSTS, in most cases, negotiates rates for the ocean portion of the through movement, and makes these rates available to the van carriers in constructing their through-rate tenders.

On February 27, 1964, a letter [1] was submitted to the Joint Economic Committee by my predecessor, Vice Adm. Roy A. Gano, then Commander of the Military Sea Transportation Service. That letter set forth, in considerable detail procedures followed in negotiating rates, administering shipping contracts, and arranging ocean transportation for cargo moving under GBL's.

[1] "Discriminatory Ocean Freight Rates and the Balance of Payments," pt. 5—Appendix, pp. 1229–1240; hearings, Joint Economic Committee, 1965.

That statement is already a part of the records of this committee. Accordingly, I shall not repeat any of its substance. Instead, I shall discuss, if I may, those points listed in your recent letter, Mr. Chairman, to the Secretary of the Navy, asking that Commander, Military Sea Transportation Service, be a witness before your committee today.

One of the points set forth in your letter is that:

> * * * the U.S. Government is paying exorbitantly high freight rates * * *

A factor possibly contributing to this idea is the legislation governing selection and utilization of commercial ocean carriers for transportation of Department of Defense cargoes. The transportation policy of the command is in accord with the Cargo Preference Act of 1904 (10 U.S.C.A. 2631), which requires that 100 percent of military cargo be moved exclusively in vessels of the United States or belonging to the United States, and in accord with the Fifty-Fifty Cargo Preference Act (Public Law 664, 83d Cong.), which requires that at least half of cargoes sponsored by the Department of Defense move in privately owned American-flag commercial ships.

There is also a widely recognized and important agreement between the Department of Defense and the Department of Commerce of 1954, referred to by ocean transportation groups as the Wilson-Weeks Agreement. It provides that:

> All merchant shipping capability required by the Department of Defense, in addition to that provided by the MSTS nucleus fleet, will be obtained, consistent with military requirements and prudent management * * *

in the following order of priority:

(1) U.S.-flag, common carrier, berth ships.
(2) Time- and voyage-chartered U.S. ships.
(3) General agency ships.
(4) Foreign-flag ships to the extent U.S.-flag ships are not available.

In fiscal year 1964, approximately 81 percent of all military dry cargo shipments transported aboard berth liners moved under shipping contracts. An understanding of the procedures followed in negotiating shipping contract rates is essential to further discussion.

The objectives in negotiating these contract rates are:

First, to produce shipping contract rates which reflect the characteristics of military cargo; that is, reduced costs to the contractor in rendering the service, such as large-volume movements, no credit risks, no cost of solicitation, and frequency of cargo offerings; and

Second, to develop simplified rates for categories of military cargo to facilitate booking, documentation, and payment procedures.

The rate structures provided in MSTS shipping contracts are quite different from those applicable to commercial ocean freight tariffs. Commercial tariffs provide rates for classes of commodities of related characteristics, as well as separate rates for individual commodities.

Some steamship tariffs may provide specific rates for 2,000 or more items; in some instances, rates for the same commodity vary, depending on cargo density.

On the other hand, rates may apply only between specified major ports with surcharges applicable to cargo handled at outports in the same geographical area.

Often commercial tariffs apply either inbound or outbound, but not in both directions. In addition, commercial tariff or "berth term" rates include the carrier's costs of loading and discharging the cargo.

The standard MSTS shipping contract gives rates for broad categories of cargo, rather than for individual commodities. A typical contract will provide these categories: general cargo, household goods and personal effects, unboxed vehicles, unusual-sized cargo, refrigerated cargo, and unboxed guns.

The number of categories of cargo set forth in shipping contracts varies with the trade and circumstances involved; no contract contains more than 20 rate categories.

With a few exceptions, MSTS shipping contract rates are charged on a measurement ton basis, and are identical for both inbound and outbound movements.

Senator DOUGLAS. I would like to underscore that statement. Do you have such a thing as a discount?

Admiral DONAHO. Our negotiated rates are the preference rate as far as the contract rates are concerned. We have a discount, but it is only as a result of negotiations with the various operating lines.

Senator DOUGLAS. What is the type of these discounts?

Admiral DONAHO. They vary, depending upon the type of cargo, the length of the voyage, whether there is a corollary tariff rate for a similar commodity, or whether it is a special lift, like lifting heavy amphibious craft, for instance.

We try to equate our shipping contracts with what we know about the reliability of the tariff rate of the same commodity.

Senator DOUGLAS. That is, if you think a tariff rate is excessively high, you ask for a discount?

Admiral DONAHO. We ask for a change in the rate.

Senator DOUGLAS. Well, I called it a discount.

Admiral DONAHO. We call this a lower rate. We don't call it a discount. We expect preferential rates. I think it is a matter of semantics, sir. I have never referred to it as a discount, but only a lower rate—no higher rate than is charged the public.

Senator DOUGLAS. Do you find that the lower rates which you are able to obtain, are greater for outbound traffic than for inbound traffic?

Admiral DONAHO. Do you want to answer that, Mr. Kendall?

Mr. KENDALL. No, Mr. Chairman. We have our rates applying at the same level, regardless of direction. So if we pay x dollars for the outbound movement of the same commodity, we pay x dollars for the same commodity to move inbound.

Our rate structure is based on the assumption that the commodity has the same value and the same characteristics in both directions. We pay the same amount of money in both directions.

Senator DOUGLAS. Do you find, then, that your inbound rates are lower than your outbound rates on identical commodities?

Mr. KENDALL. No, sir. We pay the same rate in both directions for the same commodity.

Senator DOUGLAS. Do the outbound rates which you actually pay represent greater reductions below the published rates than is the case for the inbound rates?

Mr. KENDALL. We have not studied it in that respect, sir. We have compared our rates usually on the outbound conference—well, the applicable conference rate.

Senator DOUGLAS. What have you found about those rates? Do you believe them to be rather excessively high?

Mr. KENDALL. For the commodities which we are shipping, no, sir.

Senator DOUGLAS. Then why have you been able to get lower rates?

Mr. KENDALL. Because we ship in very large volume, because we offer frequency of cargo lift, because we do not represent any expense to the carrier in solicitation, and the cargo is, in itself, desirable cargo. With the discount it still is acceptable to the carrier.

Senator DOUGLAS. I am glad you used the same term I did, "discount."

Mr. KENDALL. Reduced rate, sir. The reason I corrected it, sir, is that we do have a separate rate structure which provides for a discount when the volume of business exceeds a certain specified tonnage on a particular ship.

Senator DOUGLAS. Is this available for commercial shippers or is this peculiar to you?

Mr. KENDALL. So far as I know, sir, it is practically exclusive with us.

Senator DOUGLAS. And a private, commercial shipper would not be able to obtain these discounts, or lower rates?

Mr. KENDALL. Not on the same basis, sir, that is correct.

Senator DOUGLAS. Then you are able to obtain favors which private shippers are not able to obtain, is that right?

Admiral DONAHO. Mr. Chairman, any volume shipper is in a position to negotiate for a better rate. It is my understanding that there are commercial shippers who can get a contract rate lower than a conference rate if he makes an agreement to ship, for instance, all of his cargo, inbound and outbound, with a particular conference.

Senator DOUGLAS. My question addressed to your colleague was whether you were able to obtain lower rates than comparable shippers were able to obtain. I understood the answer to be that you were able to obtain lower rates than comparable private shippers.

Mr. KENDALL. Mr. Chairman, may I amplify my previous remarks just a little bit?

In commercial practice there is what is known as the project rate. This is a rate which is applied at the request of a very large shipper, for example, an oil company which is building a new oilfield. This oil company will apply to the conference for an across-the-board rate for anything it is moving down in connection with the oilfield construction. This rate is granted at a figure which is mutually acceptable. It applies without restriction to the cargo which is being carried. But the important point is that there is no priority in the movement of that project cargo, and it, therefore, moves pretty much at the convenience of the carrier.

It represents good "filler cargo," if you will permit the term. For this reason, the carrier gives a substantial reduction in his normal rate. We do not try to get the same concept of a project rate, because we have a priority of delivery, and we do not permit the carrier to use our cargo as a filler proposition. We, therefore, have to pay for the higher class of service which we get.

Senator DOUGLAS. You speak about these privately negotiated contracts as across-the-board reductions. Do they apply to all shippers in the same condition, or simply to the individual shipper in question?

Mr. KENDALL. Only to the specific shipper in question. If it is X oil company, the rate applies to whatever X oil company is shipping to its particular oilfield, provided the cargo is applicable to the oilfield construction.

Senator DOUGLAS. This may explain why we have a limited number of objections to the higher rates charged on outbound shipments to American companies, because they may be able to make these surreptitious agreements, letting them out from the higher rates which otherwise would be charged, hence mitigating the severity of the rate differential against them.

Mr. KENDALL. Mr. Chairman, the rates are not surreptitious. They are negotiated between the carrier and the conference. They are duly filed with the Maritime Commission. They are published to anyone who wishes to obtain the information.

Senator DOUGLAS. There is a great deal of material over there, and it is not always easy to find out what is happening.

Representative GRIFFITHS. Did you or did you not start to answer the Senator that you are comparing the rates both ways with the outbound rate?

Mr. KENDALL. I had to back up on that, ma'am, because my recollection is that we determine on the basis of the outbound cargo rate. The volume of our business is so tremendously lopsided in favor of outbound that the homebound movement is rather unimportant.

Representative GRIFFITHS. Are the outbound commercial rates the highest rates?

Mr. KENDALL. Yes, ma'am.

Representative GRIFFITHS. So if you are comparing all of these to the outbound rate, there is not any need to talk about the discount. You are paying the highest rate.

They are glad not to charge you anything less coming this way? Isn't that right?

Mr. KENDALL. Part of our concept is that we negotiate a two-way rate. We do not establish a rate which is predominantly outbound so that we get a low rate inbound. The concept is of a two-way traffic.

Representative GRIFFITHS. But that traffic coming this way is so low that you hardly need to consider it, so if you have a two-way street, a two-way rate, you have it all going one way?

Mr. KENDALL. Yes, ma'am.

Representative GRIFFITHS. And that is the high-priced way?

Mr. KENDALL. The only answer I can give you is if you are trying to move cargo outbound and the outbound rate is at a certain level, I don't know how you are going to convince a man to accept your business at a very much lower rate if such a lower rate does exist in the opposite direction. I think the difference—well it gets to be very complicated.

You have thousands of pages of testimony on this already as to the problem of trying to evaluate the inbound and the outbound.

Representative GRIFFITHS. Is the military the largest American shipper?

Mr. KENDALL. I would not say we are the largest because I don't happen to know offhand, but I think we are.

Representative GRIFFITHS. Do you happen to know offhand who the second largest shipper is?

Mr. KENDALL. Again——

Admiral DONAHO. We can supply that for the record.

Mr. KENDALL. I don't know. I can find out.

(The following information was subsequently supplied:)

In terms of long tons of 2,240 pounds each, shipments of dry cargo for the Department of Agriculture, Agency for International Development, Bureau of Public Roads, and the General Services Administration (collectively classified as AID shipments) are the largest under the American flag. The Department of Defense is second.

In calendar year 1963, the statistics compiled by the Maritime Administration showed these details:

	Long tons
AID, total imports and exports	12,191,000
Department of Defense, full shipload lots	1,251,000
Department of Defense, total imports and exports, less shipload lots	2,155,000

NOTE.—The above figures for Department of Defense exclude movements by MSTS nucleus ships or ships owned by Maritime Administration and operated under general agency agreements for MSTS.

Representative GRIFFITHS. If the second largest shipper is commercial, are you comparing your rates with his?

Mr. KENDALL. We compare with the established commercial tariff, and we are compelled by law to pay no more than the commercial tariff in either direction. The 1904 law applies in both directions, so far as we are concerned.

Representative GRIFFITHS. If you are comparing it with somebody who ships 2 or 3 tons in place of the second largest shipper, I would think you might be getting a rough deal.

Mr. BOGGS. Let me clarify this by an example. Let's say that the outbound rate on automobiles is $40 a ton in the commercial tariff. The inbound rate on automobiles is $20 a ton in commercial tariff. The MSTS rate is, say $30 a ton, both directions.

So in one direction you are getting a discount of $10, and in the other direction you are paying more than the ordinary commercial shipper. Is that the practice?

Mr. KENDALL. No, sir. Thank you very much for clarifying it. I am sorry I was so dense. Where we know that there is a lower rate, as you have cited——

Senator DOUGLAS. On inbound traffic.

Mr. KENDALL. Yes, sir. We bring pressure to bear to bring the rate down——

Senator DOUGLAS. Which rate?

Mr. KENDALL. On the inbound movement—to no greater than the commercial rate, and we try to get a reduction below that rate. Specifically, in the inbound movement of automobiles at the present time we are not shipping automobiles at a rate higher than the commercial rate for the inbound movement.

Mr. BOGGS. What you are using, though, is the inbound commercial rate and not the MSTS negotiated rate; is that right?

Mr. KENDALL. That is right. We find that is a cheaper rate to the Government.

Mr. BOGGS. Yet outbound the rate is higher commercially so you use the MSTS negotiated rate outbound, is that correct?

Mr. KENDALL. Yes, sir.

Senator DOUGLAS. So you are paying $30 per automobile, let us say, for outbound, and $20 inbound?

Mr. KENDALL. Yes, sir.

Senator DOUGLAS. So you are paying more for outbound than inbound?

Mr. KENDALL. Yes, sir.

Senator DOUGLAS. That is what we were trying to establish.

Mr. BOGGS. How many cases like automobiles are there in your rates?

Admiral DONAHO. There are four major categories which we now consider in the same category as "privately owned vehicles" (POV's). These are household goods, POV's, vehicle tires and tubes, paper products, and cereals, all of them bulky vis-a-vis actual weight. Those are the four issues which we are contesting with those carriers who hold shipping contracts between the U.S. east coast and the Bordeaux-Hamburg range.

Senator DOUGLAS. How about household goods?

Admiral DONAHO. I beg your pardon?

Senator DOUGLAS. What about household goods, furniture and so forth?

Admiral DONAHO. Do you want to cover precisely the difference in the rates there, Mr. Kendall?

Mr. KENDALL. There are two kinds of rates, Senator. One is the rate on what is called military household goods which we book through military terminals and to ships with which we have shipping contracts. We have a rate on these household goods.

Senator DOUGLAS. Outbound and inbound?

Mr. KENDALL. Yes, sir.

Senator DOUGLAS. Is your outbound rate which you pay higher than the inbound rate which you pay?

Mr. KENDALL. Sir, our billing tariff is a rather thick one. I would like to consult that and I will provide the information in a few minutes.

Senator DOUGLAS. Is it roughly the same situation as on automobiles? You were able to answer on automobiles.

Mr. KENDALL. We watch it very carefully, Senator. In the case of household goods, which are not moving commercially in any very large quantity, I don't believe that there is a commercial rate which is as far disparate as in the case of automobiles.

Senator DOUGLAS. Well, you transport furniture to stations abroad and back from stations abroad to the United States. This is an important issue.

Representative GRIFFITHS. I do hope, Senator, that they are not bringing back Volkswagens, and Ferraris, at a cheaper rate than we are sending our Chryslers, Fords, and Chevrolets.

Senator DOUGLAS. Mrs. Griffiths raised a very interesting question. What about the importation of foreign cars? Are those being brought back at lower rates than the rates charged on U.S. automobiles of military personnel going overseas.

Mr. KENDALL. We have an eastbound tariff from the United States to the Bordeaux-Hamburg range of $26.60 in our negotiated agreement with the carriers, and westbound we have a rate for privately owned, used passenger vehicles of foreign manufacture of $14.

Senator DOUGLAS. A $12 differential.

Representative GRIFFITHS. Well, that has to be stopped.

Senator DOUGLAS. Of course. As you know it has been common practice of personnel coming from abroad to buy their cars abroad and use them for a day, ship them to the United States free of tariff, and I believe, at lower shipping rates; then sell them in the United States in competition with American automobiles, thus hurting the American market and hurting the balance of payments. These practices provide an inducement to purchase cars abroad. This is a matter of grave moment.

I am very glad, Mrs. Griffiths and Mr. Boggs, that you have thrown the spotlight on this.

Proceed, Admiral.

Admiral DONAHO. I was indicating that MSTS shipping contracts are charged on a measurement ton basis and are identical for both inbound and outbound movements.

A measurement ton is a shipping term applied to a unit of 40 cubic feet of space. Historically, the term derives from the medeival English wine container known as a tunne which weighed about 2,240 pounds.

The number of these containers stowed in a ship became the measure of a ship's tonnage. The spelling has been changed to the modern ton.

Cargo that is bulky require more than 40 cubic feet to accommodate 2,240 pounds of the item. Such commodities as automobilies, tanks, furniture, paper products, and dry breakfast cereals are bulky, and are considered as measurement cargo—i.e., the freight rate is charged for each 40 cubic feet of cargo, regardless of whether the weight stowed in that space is 2,240 pounds or less.

Senator DOUGLAS. I hope you will forgive me but frequently one gets thoughts after there has been a dialog.

It just occurred to me to ask whether the inbound rate of $14 on automobiles includes loading charges.

Mr. KENDALL. All our rates are made, as Admiral Donaho will describe in a few minutes, on what is known as a free in and out basis. They do not include stevedoring.

Senator DOUGLAS. Let me be specific, getting away from the technical terms. Do you pay any added amount for automobiles or other commodities for loading, or is this included in the freight rate on inbound articles?

Admiral DONAHO. This is included in the appropriated funds which the shipper services have to support the terminal operations. In other words, the charges for stevedoring and handling the cargo or commodities on the dock is at the shipper expense if it is at a military terminal.

Senator DOUGLAS. Let's put it this way: On the automobiles coming in, do you pay an added loading or unloading charge, or is this included in the $14 sum?

Admiral DONAHO. If they are shipped on berth terms, Government bill of lading, not under shipping contract, and shipped at commercial terminals, then we pay the rate that is offered to the public, or less, if we can negotiate a lesser rate.

Senator DOUGLAS. Do you pay the loading rate in addition?

Admiral DONAHO. We do if it is loaded inbound or outbound at a commercial pier, unless there is an agreement with a stevedoring company to handle our own military cargo at a commercial pier rather than having the ship operator handle it with his gang.

Some we do and some we don't, Mr. Chairman. It depends on the circumstances in the area and the type of cargo.

Senator DOUGLAS. What about the difference between $26 and $14?

Mr. KENDALL. The rates are all exclusive of loading and discharging costs, sir, that we have in our tariff. If we ship under the shipping contract, this is a rate which is for ocean transportation only. It does not include terminal costs either at port of loading or port of discharge.

If we ship on berth term, then the rate we pay the carrier includes loading and discharging. The $14 rate which I quoted is a so-called free in and out rate, exclusive of loading and discharging expenses. The same would be true for the $26 rate. It is an FIO rate. The stevedoring charges are to be added.

Senator DOUGLAS. Thank you.

Representative GRIFFITHS. Is the $26 on a car per car or so many hundred pounds of car?

Mr. KENDALL. It is for 40 cubic feet of measurement of the automobile. An American automobile will run between 13 and 15 measurement tons.

Senator DOUGLAS. So that the difference is not between $26 and $14, but, let us say—how much?

Mr. KENDALL. Thirteen to fifteen tons for an American car and around between 8 and 11 for a foreign-size automobile.

Senator DOUGLAS. Then on the foreign bound shipping, if my arithmetic is correct, it would be $338 approximately, and on the inbound shipping it would be $154 or a freight differential per car of $184 against the American car.

Mr. KENDALL. Mr. Chairman, I think it is only fair to comment that all freight rates are made on the basis of either the weight of 2,240 pounds or 40 cubic feet, whether it is a foreign-made automobile or an American-made automobile or anything else.

Senator DOUGLAS. We are trying to get at the magnitude of the difference. The difference is not between $14 and $26, but the difference is between $154 and $338. While the proportions may be the same, the absolute difference is much more. I thought those rates were very low for an automobile. When you have military, foreign service, and other personnel buying these cars abroad, using them for a day or so, or a short period of time so that they can come in as used cars, thus evading a tariff, and getting a very low freight rate, this is a tremendous stimulus to imports, contributes to the unfavorable balance of payments, and injures American manufacturing and American labor.

Representative GRIFFITHS. May I ask, does the individual who brings the car pay this? You are paying it both ways, are you not?

Admiral DONAHO. It is paid on a movement by the Government.

Senator DOUGLAS. But the number of American cars sold in Europe, particularly after having been used, would be less than the number of cars purchased and brought back to the United States.

I think this is a development that should be corrected. I agree with Mrs. Griffiths.

Representative GRIFFITHS. I think it should be corrected, too.

Senator DOUGLAS. Why do you suppose the American carriers charge a different rate, a higher rate, outbound than they do inbound on military cars? You have to use American lines for 100 percent of your shipping, I believe. Here you have the American carriers, charging more outbound than they do inbound, the American carriers, under a negotiated rate. Why do you suppose they do that?

Mr. MORSE. Mr. Chairman, under the 1904 act, the carriers cannot charge us more than they charge the general public, nor do we have the authority to pay them more than they charge the general public. Consequently, when we find the general public being charged on a differential east and west, we necessarily must negotiate a rate which comes under that.

Senator DOUGLAS. Why can't you get a $14 outbound rate?

Mr. MORSE. We would like to.

Senator DOUGLAS. Why not?

Mr. BOGGS. May I ask how many times you have found this differential to exist?

Mr. KENDALL. We are studying our tariff all the time, Mr. Chairman, and we have a small staff which is checking the commercial tariff rates every day to try to pick out any of these disparities which may exist.

When we find them, we then determine whether the net cost to the Government as compared with our shipping contract, plus the terminal expenses, is greater than the commercial rate, which is, of course, all inclusive. We then take steps, if it is feasible to pull those identified commodities out of the shipping contract movement and to ship on berth term. The figure varies.

We have approximately 10 that we watch all the time. We try to find others.

Senator DOUGLAS. What are those 10?

Mr. KENDALL. The admiral has identified four of them, sir. I will provide for you exactly what they are, sir. I was unable to find my note this morning before we left. We left rather hurriedly and I did not find it. I will get it for you.

(The following information was later supplied:)

The commodities which have been selected for shipment under GBL at berth terms are:

(1) Beverages, nonalcoholic, canned or bottled, in cartons.
(2) Candy and confectionery.
(3) Detergents, synthetic.
(4) Crackers, biscuits, and hardtack.
(5) Paint and paint reducers.
(6) Canned goods (only canned fruits, soups, and vegetables.)
(7) Cereals, ready to eat.
(8) Paper towels and toweling.
(9) Toilet paper.
(10) Tires and tubes.

With the exception of the detergents, the commercial tariff rate on all the 10 commodities listed above is based on the long ton. The MSTS tariff is based on measurement tons of 40 cubic feet. When the stowage factors of these commodities freighted by weight in the commercial tariff are reduced to measurement tons, a disparity is found to exist so that the rate favorable method of shipment would be by commercial tariff under Government bill of lading.

Admiral DONAHO. I gave the four major categories, Mr. Chairman. The others are of a lesser order of magnitude.

Senator DOUGLAS. Do you have any figures on the number of automobiles of foreign make which have been brought in by American military personnel during the last year?

Admiral DONAHO. No, sir. We would have to go to the various services and see if their manifests would show it. We would not be able to make that determination.

Senator DOUGLAS. Who is eligible to bring in a foreign-made automobile without paying tariff?

Admiral DONAHO. I don't know those rules, Mr. Chairman. I will have to furnish that for the record, too. I don't know how long personnel have to be abroad.

Senator DOUGLAS. Does this apply to all military personnel or is it restricted to officers and noncommissioned officers?

Admiral DONAHO. It applies to all military personnel.

Senator DOUGLAS. It applies to all military personnel.

Admiral DONAHO. Yes, sir. There are certain criteria which govern whether or not you can buy a car, depending upon how long you have been there, what your rank might be, what your financial background is. There are several things.

Senator DOUGLAS. But once a member of the Armed Forces buys a car, he can have it shipped in at Government expense, is that right?

Admiral DONAHO. One car; yes, a personally used car. Yes, sir.

Representative GRIFFITHS. One car how often?

Admiral DONAHO. With a permanent change of station. He cannot come back on vacation and bring back one and then go back and return with another one later.

(The rules referred to follow:)

PART D: TRANSPORTATION OF PRIVATELY OWNED MOTOR VEHICLES

58300 AUTHORITY

1. FOR MILITARY PERSONNEL AND COAST GUARD WHEN TRANSFERRED TO, FROM, OR BETWEEN OVERSEAS AREAS. Transportation of one privately owned motor vehicle of military personnel of the Navy, Marine Corps, Army, Air Force, and Coast Guard uniformed personnel specified in par. 58308-2 ordered to make a permanent change of station to, from, or between overseas areas or to a nonrotated vessel or unit which is based overseas may be authorized to the new station on government owned vessels or on privately owned United States flag commercial vessels, free of ocean transportation, loading, discharging, and related accessorial charges under the provision of this paragraph. Uniformed personnel of services or agencies outside the Department of Defense who are traveling under orders of a service within the Department of Defense or the United States Coast Guard to which they are detailed, assigned, or attached may have their privately owned motor vehicles transported on government owned vessels or on privately owned United States flag commercial vessels in the manner and under the conditions prescribed for members of the services under whose orders they are traveling.

2. UPON ENTRY INTO THE SERVICE. When the home of record or the place from which ordered to active duty is outside continental United States, shipment of a privately owned vehicle is authorized as provided in subpar. 1.

3. UPON RELEASE FROM ACTIVE DUTY. When the home of record, the place from which ordered to active duty, or when the selected home upon retirement is outside continental United States, shipment of a privately owned vehicle is authorized as provided in subpar. 1.

4. FOR NAVY OR MARINE CORPS PERSONNEL UPON CHANGE OF HOME YARD OR HOME PORT. Transportation of a privately owned vehicle for a member of the Navy or Marine Corps upon receipt of an official notification of a change of home yard or home port, may be authorized to the new home yard or home port. This provision also applies upon commissioning of vessels and assignment of home yards and home ports for personnel ordered to duty in connection with the building, fitting out, conversion, and activation of vessels.

5. FOR MILITARY OR CIVILIAN PERSONNEL COMING UNDER THE PROVISIONS OF THE MISSING PERSONS ACT. Transportation of privately owned motor vehicles located outside the United States or in Alaska for personnel coming under the provisions of sec. 12 of the Missing Persons Act of March 7, 1942 (56 Stat. 146), as amended (50 U. S. Code App. 1012), may be authorized to the same point to which household goods may be authorized to be shipped in accordance with Joint Travel Regulations, par. 8350, and without regard to restrictions imposed by par. 58302-2. Commercial means of transportation from point of origin to port of embarkation and from port of debarkation to final destination may be utilized if necessary.

58301 DEFINITIONS

1. GOVERNMENT OWNED VESSELS. For the purposes of these instructions, government owned vessels are Navy fleet vessels and those controlled by the Military Sea Transportation Service (see par. 56003-2).

2. MOTOR VEHICLES. Motor vehicles are those used for passenger carrying purposes and include passenger carrying jeeps, station wagons, automobiles, auto busses not exceeding nine passenger capacity, motorcycles (with or without side cars), motor scooters, and motor bikes. The term does not include trailers, commercial type trucks, busses of more than nine passenger capacity, airplanes, or boats. However, the term does include multipurpose vehicles such as pickup and panel trucks not to exceed 3/4 ton capacity when the applicant certifies that the vehicle is to be used exclusively for passenger carrying purposes.

58302 ALLOWANCES AND RESTRICTIONS

1. ALLOWANCES. Shipments will be limited to one motor vehicle for each person authorized transportation of privately owned motor vehicles by par. 58300. However, not more than one motor vehicle may be transported overseas from the United States in connection with consecutive tours of overseas duty even though the member receives permanent change of station orders between overseas points. Except when certified as necessary in the performance of official duties, the shipment of a privately owned motor vehicle is not authorized unless the member has a minimum of 12 months remaining to be served at the current overseas duty station at the time the vehicle is delivered to the loading port. Return transportation of privately owned motor vehicles upon change of station orders may be made by government owned vessels or on privately owned United States flag commercial vessels from either the same overseas area to which it originally was shipped or from a different overseas area. Under the provisions of sec. 12 of the Missing Persons Act of March 7, 1942 (56 Stat. 146), as amended (50 U.S. Code App. 1012), shipment may be made by commercial means, if necessary, to the final destination to which household goods shipments are authorized, provided that the vehicle is located outside the United States or in Alaska.

2. RESTRICTIONS ON FOREIGN MADE VEHICLES

a. General. Except as provided in par. 58300-5 and in subpar. b, the shipment at government expense or on government vessels at individual's expense of any foreign made motor vehicle purchased by Department of Defense personnel or their dependents overseas or for delivery overseas is prohibited. Restrictions imposed by this paragraph also apply to motor vehicles assembled in a foreign country of parts manufactured in the United States, sold by local dealers in the foreign country.

b. Exceptions. The restrictions in subpar. a do not apply under the following conditions:

1. motor vehicles owned by personnel or on order prior to 6 March 1961;

2. motor vehicles purchased in Alaska, Hawaii, Puerto Rico, Virgin Islands, Guam, Midway, Wake Island, American Samoa, or the Canal Zone by personnel regularly stationed there;

3. motor vehicles owned by personnel who are ordered to or from areas in which the Department of Defense has determined that adequate facilities do not exist for the maintenance and repair of motor vehicles produced and assembled in the United States, i.e., Afghanistan; Bermuda; Bulgaria; Ceylon; Cyprus; Czechoslovakia; Eritrea; Ethiopia; Gibraltar; Hungary; Indonesia; Ireland (includes Northern Ireland); Malagasy Republic; Malta; Poland; Republic of the Congo; Scotland, only Edzell and the area in proximity of Holy Loch (Argyll County and Gourock Greenock Township); Senegal; Spain, only Cartagena and El Ferrol; and Yugoslavia.

4. foreign made vehicles originally purchased in or for delivery to the United States;

5. used vehicles purchased by Department of Defense personnel from other personnel of the Department after 6 March 1961 when all of the following conditions are established by documentary evidence, such as bills of sale, titles, and registration certificates:

ownership on 6 March 1961 by personnel eligible for shipment of the vehicle at government expense;

unbroken chain of ownership since 6 March 1961 by Department of Defense personnel otherwise eligible for shipment of the vehicle at government expense.

6. new American manufactured automobiles that are completely assembled in the United States but purchased overseas through a foreign national franchised dealer.

In all cases, the burden of proof is on the applicant to provide the documentation required to support the request for shipment of the motor vehicle. These exceptions do not permit shipment of foreign made vehicles which have been owned at any time since 6 March 1961 by United States personnel ineligible to transport them at government expense, or by dealers or by foreign nationals.

3. Shipments to Bermuda. Vehicles destined to Bermuda must not exceed 90 brake horsepower, 166 inches overall length, and 64 inches overall width. Vehicles within these limitations may be shipped provided they have been purchased as new vehicles by the present owner within six months from the date of entry of such vehicles into Bermuda. Entry of standard American cars is not permitted.

4. Shipments to Korea. Advance authority to ship a privately owned vehicle to Korea must be obtained by the member from the Commander, United States Forces, Korea, prior to shipment unless shipment is specifically authorized in the member's orders.

5. Shipments to Morocco. Vehicles more than six years old (age computed from 31 December of the model year) will not be shipped to Morocco unless the application for shipment is supported by the written approval of the Commander, U. S. Naval Activities, Port Lyautey.

58303 APPLICATION FOR SHIPMENT OF PRIVATELY OWNED AUTOMOBILES

1. SUBMISSION OF APPLICATION

a. General. Requests for the shipment of privately owned motor vehicles will be made by the owner on a Motor Vehicle Shipment Application (DD Form 828) to the appropriate naval activity as designated in subpar. b. Application will be supported by one certified copy of the change of station orders. On shipment to overseas areas, the owner should specify on the application the preferred arrival date in the overseas area and the United States port that will best serve his needs. If possible, application will be made by mail 15 days in advance of the date the owner desires to turn the vehicle in for shipment. Application may be made in person, if more convenient for the owner. Under no circumstances will owners submit applications direct to steamship companies.

b. Authorized Shipping Activities. The application for shipment to any overseas destination will be submitted by the owner to the household goods transportation officer at the naval activity, indicated in the following chart, controlling port through which shipment is desired. The port will be named in the appropriate block of the DD Form 828. For example, if the owner desires to have his vehicle shipped through the port of Charleston, he should so indicate on the DD Form 828 submitted to the Naval Supply Center, Norfolk:

Loading Ports	Cognizant Naval Activity
East coast ports north of Va.	Naval Supply Center, Bayonne
East coast ports, Va. and South	Naval Supply Center, Norfolk
Gulf coast ports	Headquarters Support Activity, New Orleans
San Diego harbor area	Naval Supply Center, San Diego
Long Beach, Los Angeles and Port Hueneme harbor areas	Long Beach Naval Shipyard
San Francisco Bay area	Naval Supply Center, Oakland
West coast ports, Oregon and north	Naval Supply Depot, Seattle

c. Shipments to Sixth Fleet Units. For shipping instructions for vehicles consigned to personnel attached to units of the Sixth Fleet, see par. 58051–3h.

d. Booking Instructions for Shipments from Overseas Ports. Requests for the shipment of motor vehicles of personnel attached to Navy activities and vessels located in overseas areas will be submitted to appropriate sources in accordance with par. 52100–2c.

2. PROCESSING OF APPLICATION. Upon receipt of the DD Form 828, the household goods transportation officer will take the following action:

1. acknowledge receipt of the application and furnish the owner specific instructions for preparing the vehicle for shipment (see par. 58309);
2. readdress applications received for shipment via a port that is not under his cognizance to the appropriate household goods transportation officer at the activity responsible for the port named by the owner and advise the owner of the disposition of the DD Form 828;
3. if it is determined that the preferred arrival date at destination cannot be met from the loading port requested, advise the owner of the estimated arrival date at destination and offer suggestions as to alternative loading ports that may provide the required service;
4. initiate booking procedures when the port through which the vehicle will move has been determined, either as originally specified or as subsequently revised by the owner;
5. furnish instructions to the owner as to when and where the vehicle is to be delivered;
6. if delivery is to be made direct to a commercial pier where a household goods transportation officer is not available, advise the owner of the action necessary, if any, to prepare the vehicle for shipment and to whom he must report to obtain delivery information of his vehicle at destination.

When shortage of space exists on a given trade route, bookings with the Military Sea Transportation Service will be arranged by the Navy sea cargo coordinator in the sequence in which applications for shipment are received.

58304 RECEIPT OF VEHICLES

1. AT NAVY SHIPPING ACTIVITY. When the vehicle is turned in to a Navy port activity for shipment, the household goods transportation officer will prepare a Private Vehicle Shipping Document (DD Form 788) in an original and five copies. The DD Form 788 will be distributed as follows:

1. one copy will be retained by the activity accepting the car from the owner;
2. one copy will be presented to the owner at the time the vehicle is accepted for shipment;
3. the original and three copies will be transferred to the component preparing the cargo documents when the vehicle is prepared for loading for further distribution as shown in items 4, 5, and 6;
4. one copy will be attached to the set of cargo documents that are placed on board the vessel for retention by the commanding officer or the master of the ship;
5. the original and one copy will be attached to the set of cargo documents that are mailed to the off-loading activity to arrive in advance of the vessel;
6. the remaining copy will be attached to the cargo documents retained on file by the loading activity.

2. AT DESTINATION ACTIVITY. The household goods transportation officer at the destination will take the following action:
1. inspect the car,
2. release a copy of the DD Form 788 to the owner.

Any exceptions in addition to those shown on the DD Form 788 which is prepared by the shipping activity and those shown on the Navy Cargo Document (S. and A. Form 1121) will be certified by the unloading officer on the original DD Form 788. The certified original DD Form 788 will be attached to the original Cargo Outturn Report (DD Form 470) prior to distribution thereof to support the notations thereon. The original DD Form 788 will be retained by the unloading activity when no exceptions are noted on the DD Form 470.

3. SHIPMENTS ORIGINATING AT OVERSEAS AREA PORTS. For shipments which originate in an overseas area port, acceptance and functions within the overseas command will be as directed by the overseas commander within the basic legal and policy restrictions contained in these regulations. Upon receipt of a motor vehicle from overseas, the vehicle will be processed and prepared for delivery to the owner or his agent by the household goods transportation officer at the port of discharge.

58305 CHARGES INCIDENT TO DELIVERY AND SHIPMENT

The expense involved in delivering a motor vehicle to and removing it from a port will be paid by the owner except that naval activities may issue a sufficient quantity of gasoline without charge to permit removal of the automobile to the nearest service station (see par. 25321). Charges on shipments made in accordance with existing agreements between the Department of the Army or the Navy and other agencies of the Government will be in accordance with those agreements.

58306 SHIPMENT THROUGH ARMY PORTS

When privately owned motor vehicles are to be loaded at any Army port of embarkation, the Navy household goods transportation officer of the port, upon receipt of the Motor Vehicle Shipment Application (DD Form 828), will make all of the necessary arrangements with the Army port authorities and will advise the individual concerned relative to direct delivery of the vehicle to the Army port and furnish other pertinent data.

58307 STORAGE OF VEHICLE

1. AT SHIPPING ACTIVITY. If a vehicle is delivered prior to authorization from the household goods transportation officer at port of embarkation, the owner or his agent may be requested to arrange for storage or other disposition until it can be accepted.

2. AT DESTINATION. If delivery of the vehicle is not accepted by the owner or his agent within a reasonable period of time, normally not to exceed a period of 45 days, the vehicle may be placed in commercial storage at the owner's expense; and the owner will be notified of the action taken. If the vehicle is on hand at an activity where commercial storage is not available and no disposition is

arranged by the owner, the vehicle may be disposed of in the manner prescribed for any other unclaimed or abandoned personal property, as provided for in Title 10, U.S. Code, Section 2575.

58308 SUPERVISION OF SHIPMENT

1. SUSPENSION OF SHIPMENTS. Each overseas commander may suspend shipments at his discretion by notification to the department acting as executive agent. The department designated as executive agent, in turn, will notify the other appropriate departments.

2. AUTHORIZED PERSONNEL. Shipment of one privately owned vehicle may be made for officers, warrant officers, and enlisted personnel of the grades E–9, E–8, E–7, E–6, E–5, and E–4 with more than four years service in the Navy, Marine Corps, Army, Air Force, and Coast Guard. Shipment of privately owned vehicles for enlisted personnel of grades E–4 with four years or less service, E–3, E–2, and E–1 is not authorized. However, return shipment of a privately owned vehicle to continental United States for a member who was authorized shipment to an overseas duty station prior to 1 February 1960, may be made at government expense upon subsequent permanent change of station.

58309 PREPARATION OF MOTOR VEHICLES FOR SHIPMENT

1. RESPONSIBILITY OF MEMBER

a. Condition of Vehicle. The member will be advised by the shipping officer at the time acknowledgement of receipt of application is made that it is the member's responsibility to insure that:

1. motor is in good operating condition;
2. windshield wipers are operating;
3. brakes (floor and hand) are adequate and in good operating condition;
4. all lights are operative and properly adjusted;
5. horn is operative;
6. exhaust system is in sound condition;
7. all glass (head lamps, rear lamps, windshield, and windows) is unbroken and free from cracks;
8. body and fenders are free from breaks and tears;
9. battery is fully charged;
10. cooling system contains sufficient anti-freeze to prevent freezing in transit;
11. vehicle is thoroughly cleaned and the surface or undercarriage does not contain any foreign matter which might harbor insect pests.

b. Safeguarding of Small Items. Prior to delivery of the vehicle to the port, the member, at his discretion, may remove items easily stolen or damaged, such as hub caps, tools, or similar items, and pack them in a substantial fiber, woodcleated, or solid wooden box. Boxes should be metal strapped by the shipping officer and should weigh not over 100 pounds gross. When the type of vehicle permits, the box will be secured in the trunk of the vehicle and the trunk locked. When the box cannot be locked in the trunk of the vehicle, it will be secured inside the vehicle. The box will be marked to show the owner's name, grade/rate or rank, file or service number, and destination.

c. Vehicles to be Left Unlocked. The vehicle and glove compartment will be left unlocked. Keys to the car will be left with the vehicle, preferably placed in a bag or heavy envelope marked "Keys" and attached to the steering wheel.

2. RESPONSIBILITY OF SHIPPING OFFICER. Privately owned vehicles which are turned in at Navy tidewater terminals will be prepared for shipment as follows:

1. The battery will be disconnected and remain secured in the vehicle. The battery cable will be secured to avoid contact with the battery.
2. The gasoline tanks will be emptied (see par. 23204–2).
3. Safeguarding of small items, see subpar. 1b.

If, in the opinion of the transportation officer, the condition of the vehicle does not meet the standards outlined in subpar. 1, the vehicle will not be shipped until corrective action has been taken by the member.

58310 SHIPMENTS TO STATIONS NOT GARRISONED BY UNITED STATES TROOPS

To avoid long delays in receipt of vehicles at stations not garrisoned by United States troops, and possible customs charges by the country to which they are shipped, all services concerned, if possible, will ship motor vehicles to those stations on the same vessel on which the owner is traveling.

58311 VEHICULAR LICENSE TAGS

Personnel returning to continental United States from overseas will take prompt action to secure required license tags for privately owned motor vehicles. Use in continental United States of vehicular license tags issued by overseas occupational authorities for use in their respective overseas areas may result in an arrest by civil authorities and the imposition of fines or imprisonment or both. The time limit for securing license tags in each case is governed by the laws and ordinances of the respective states, the political subdivisions thereof, and the District of Columbia.

58312 AUTHORIZATION FOR SALE OVERSEAS OF PRIVATELY OWNED MOTOR VEHICLES

1. LICENSE TO EXPORT MOTOR VEHICLES. A general license has been issued by the Department of Commerce authorizing members and civilian employees of the armed forces to export motor vehicles from the United States to an overseas destination only when such vehicles are for the exclusive use of the individual or his immediate family leaving continental United States. Vehicles

intended for use by other persons or for resale may not be exported under this general license.

2. DISPOSAL OF PRIVATELY OWNED MOTOR VEHICLES. Privately owned motor vehicles of military and civilian personnel of the Navy, Marine Corps, Army, and Air Force and of Coast Guard uniformed personnel exported from the United States may be disposed of in an overseas area at any time, as follows (see subpar. 3):

1. without restriction, if disposed of as scrap;
2. to a member of the armed forces of the United States;
3. to a United States citizen who is an employee of the United States Government.

3. LIMITATION ON DISPOSAL OF PRIVATELY OWNED MOTOR VEHICLES. Privately owned motor vehicles of military and civilian personnel of the Navy, Marine Corps, Army, and Air Force and of Coast Guard uniformed personnel exported from the United States under authority of the general license referred to in subpar. 1, may be sold or disposed of other than as provided in subpar. 2 only after the vehicle has been in the overseas area for a period of six months or more.

4. REGULATIONS COVERING SALES. All sales will be made in accordance with regulations promulgated by the overseas commander concerned and, except in occupied countries, the laws of the country concerned.

June 19, 1961
NUMBER 1418. 3

ASD(M)

Department of Defense Directive

SUBJECT Shipment of Privately Owned Motor Vehicles of DoD Civilian Employees Stationed Outside the Contiguous 48 States, Alaska and the District of Columbia

Ref. (a) Executive Order 9805, as amended by Bureau of the Budget Circular No. A-4, Transmittal Memo No. 2 of April 3, 1961, "Regulations Governing Payment of Travel and Transportation Expenses of Civilian Officers and Employees of the United States When Transferred from one Official Station to Another for Permanent Duty."

I. PURPOSE

This Directive prescribes regulations governing the administration of those sections of reference (a) relating to the shipment of privately owned motor vehicles of civilian employees of the Department of Defense to and from points outside of the contiguous 48 States, Alaska, and the District of Columbia.

II. POLICY

The privately owned motor vehicles of United States citizen civilian employees or non-United States citizen employees whose permanent duty stations are located outside the contiguous 48 States, Alaska, and the District of Columbia will be shipped at Government expense in accordance with the regulations contained in reference (a) as supplemented herein.

III. DELEGATIONS OF AUTHORITY

A. Authority to determine the eligibility of individual civilian officers and employees to transport or store their privately owned motor vehicles at Government expense is hereby delegated as follows:

1. To the Secretary of each military department for such personnel of his department;

2. To the Director of the National Security Agency for such personnel of that agency; and

3. To the Administrative Assistant to the Secretary of Defense for such personnel in other components of the Department of Defense.

B. The authority above delegated may be redelegated to appropriate officials in the field, and shall be exercised in such manner as to insure compliance with the criteria for eligibility established in reference (a) and this Directive, and to insure consistent treatment of all Department of Defense civilian personnel in an area or theater, as appropriate.

IV. STANDARDS

A. Transportation of a privately owned motor vehicle at Government expense will be limited to overwater movement from an appropriate port in the 48 contiguous States, Alaska, or the District of Columbia, to an appropriate port serving the overseas post of duty and return, or between appropriate ports serving overseas posts of duty.

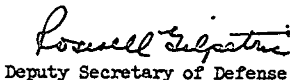
B. Privately owned vehicles will not be shipped at Government expense to any overseas post where the local government prohibits the importation of such a vehicle, applies particularly difficult restrictions on such importation, or the pertinent regulations of the military departments prohibit or advise against the shipment of such vehicles for military personnel.

C. Return shipment of privately owned vehicles of foreign manufacture purchased after 6 March 1961 shall conform to policies established or which may be established concerning reduction of expenditures abroad.

D. Employees who have been continuously employed overseas by the Department of Defense since 1 September 1952 and who, in connection with such employment, shipped a privately owned motor vehicle via Government facilities from the contiguous 48 States or the District of Columbia to an oversea area prior to that date will, subject to paragraph IV. C., be allowed shipment of a privately owned vehicle at Government expense upon return for separation or permanent change of station to the contiguous 48 states or the District of Columbia from any oversea area except Canada, (exclusive of Newfoundland) Alaska and Mexico.

V. IMPLEMENTATION

Each military department and the Director of the National Security Agency and the Administrative Assistant to the Secretary of Defense shall issue regulations implementing this Directive incorporating the specific criteria established in reference (a), and furnish copies to the Assistant Secretary of Defense (Manpower) within sixty (60) days of the date hereof.



Deputy Secretary of Defense

15 May 1964

6-8. TRANSPORTATION OF PRIVATELY-OWNED MOTOR VEHICLES.

a. Authority.

Public Law 86-707 (NCPI 4650–Encl. 3, par. 3-1), Executive Order 9805 as amended by Bureau of the Budget Circular Number A-4 of 3 April 1961, and Department of Defense Directive 1418.3 of 19 June 1951 provide authority for the shipment at Government expense of the privately-owned motor vehicle of a United States citizen employee or a non-United States citizen employee to and from the employee's permanent post of duty located outside the continental United States. ** The above authorities also provide for emergency storage of the privately-owned motor vehicle of the civilian employee upon emergency evacuation.

b. Policy.

It is the policy of the Department of the Navy to provide transportation and emergency storage at Government expense of the privately-owned vehicle of a civilian employee under the authorities in a, above, in accordance with instructions in this paragraph. In accordance with the authorities in a, above, the instructions in this paragraph shall be administered on an austere basis in a manner to insure consistent treatment of all Department of Defense civilian employees in an overseas area or theater. A blanket determination that all employees above a certain grade level or rating are eligible for transportation is not, in itself, sufficient. In overseas areas where there are a number of commands and where other Department of Defense activities are represented, in order to insure consistent treatment of all Department of Defense civilian employees in the transportation of motor vehicles, it is necessary that there be established, a uniform policy for the area on the application of the eligibility criteria set forth herein. Such policy statement need not be submitted to the Office of Industrial Relations for approval.

c. Eligibility criteria governing the authorization of transportation of a privately-owned motor vehicle.

(1) The transportation must be to or from a post of duty located outside the continental United States. **

(2) It must be determined in advance of authorization of the transportation that it is "in the interest of the Government" for the employee to have the use of the motor vehicle at his permanent post of duty. The term "in the interest of the Government" means that the use of the motor vehicle by the employee at his post of duty would:

(a) Contribute to effectiveness in the performance of his official duties where Government vehicles assigned to the activity or to other activities at the post of duty are not available. This will apply in individual cases where the necessity for the use of an automobile is job-related in fact and the automobile is actually required to permit the employee to perform the functions of his position.

(b) Be desirable and suitable under local conditions at the post of duty, from the viewpoint of the Government.

(c) Not cause an excessive expenditure of funds by the Government, considering the cost of transportation of the motor vehicle in relation to the length of time the employee would be expected to serve at the post of duty or similar posts of duty.

(d) Not be solely for the benefit of the employee and his immediate family. This criterion will be interpreted as applying in those cases where community facilities in the general area in which the employee lives are non-existent or completely inadequate, and it is considered essential for the employee to have a privately-owned vehicle at his disposal for the purpose of getting to and from work, in addition to such essential family use as for shopping and obtaining medical care. Under this interpretation it is conceivable that there may be locations where all employees will be authorized to transport automobiles. In most cases, however, application of this interpretation would be such as to permit the shipment of automobiles for only those employees who, because of lack of housing in the general vicinity of their place of employment, are forced to live some distance away and public transportation is not available or appropriate for use to the place of work, to adequate shopping facilities, or to the usual medical facilities. The above interpretation should not be applied in those cases where appropriate living quarters are available near the place of employment, and near shopping and medical facilities, and the employee has chosen to live some distance away.

(3) A redetermination of "interest of the Government" shall be made at any time circumstances change and where the employee is to serve a succeeding tour at the same or other permanent post of duty.

d. Transportation of privately-owned motor vehicles without regard to weight allowance.

Transportation of a motor vehicle when authorized under instructions in this paragraph is without regard to the weight allowance for the transportation of household goods and personal effects of the employee.

e. Authority to determine eligibility and to authorize shipment and emergency storage.

Commanding officers of activities located outside the continental United States ** are authorized to determine the eligibility of employees for the transportation of a privately-owned motor vehicle to and from the activity and the emergency storage of a

motor vehicle in accordance with instructions in this paragraph.

f. Authorization in travel orders.
The authorization for the transportation of a privately-owned motor vehicle of a civilian employee shall be shown in the employee's travel order or other appropriate document. The document will also indicate the appropriation chargeable for the transportation. Where the recruitment of the employee is performed by a Navy Overseas Employment Office and the employee requests transportation of a privately-owned motor vehicle, the overseas command will determine the eligibility of the employee for such transportation and communicate the authorization to the Manager of the Navy Overseas Employment Office concerned in order that the authorization may be placed in the travel order. The authorization must be in advance of shipment and a written record of such authorization will be placed in the employee's personnel folder. See p., below, in regard to amending the Employee's Certification on the Travel Authorization and Employment Agreement.

g. Port to port shipments.

(1) The transportation of a privately-owned motor vehicle at Government expense under these instructions is limited to over-water movements from an appropriate port in the continental United States ** to an appropriate port serving the overseas post of duty and return; or appropriate ports serving overseas posts of duty upon transfer or reassignments from one permanent post of duty overseas to another. It is the responsibility of the employee to deliver his privately-owned motor vehicle to the appropriate port for over-water shipment and to receive the vehicle at the port of unloading.

(2) The transportation of a privately-owned motor vehicle of an eligible employee may be authorized by commercial or Government shipping facilities. If by commercial means, it shall be at reasonable rates and under reasonable conditions; if by the Military Sea Transportation Service, the shipment will be upon a "space requirement" basis.

h. Prohibited transportation of privately-owned motor vehicles.

(1) Transportation at Government expense will not be authorized:

(a) Where the appointment or transfer of the employee was made primarily for the convenience or benefit of the employee or at his request. In this connection the term "at his request" will have the meaning attached to transfers in NCPI 4650.5-7b.

(b) Where the local government prohibits the importation of such vehicle or applies particularly difficult restrictions on such importation, or the pertinent regulations of the military departments prohibit or advise against the shipment of such vehicles for military personnel.

(c) Where the motor vehicle may be driven over hard-surfaced, all-weather highways, including ferries, between points of origin and destination, and it is determined that the employee, or a member of his immediate family, should reasonably be expected to drive the vehicle.

***

i. Transportation of a privately-owned motor vehicle, area basis.
Under instructions in this paragraph a privately-owned motor vehicle of a civilian employee may be transported at Government expense as indicated below:

(1) From the United States and the District of Columbia, a territory or possession of the United States, or a foreign country, in which the employee's place of actual residence is located, to an overseas post of duty located outside the continental United States. **

(2) From one post of duty located outside the continental United States ** to another upon transfer or reassignment of the employee provided he has completed a tour of duty at an overseas post of duty at which it was determined to be in the interest of the Government for him to have a motor vehicle.

(3) From a post of duty located outside the continental United States ** to the United States and the District of Columbia, a territory or a possession of the United States, or a foreign country upon transfer, reassignment, or separation after completion of the tour of duty to such area, provided the employee's place of actual residence at the time of initial appointment, transfer or reassignment to the duty post outside the continental United States ** was in the area to which he is returning, and provided further that it was determined in the interest of the Government for him to have a privately-owned motor vehicle at the overseas post of duty.

(4) From a post of duty, located outside the continental United States ** to the United States and the District of Columbia, a territory or possession of the United States, or a foreign country in which the employee's place of actual residence at the time of assignment to overseas duty is located when the employee is to serve an additional tour of duty at the same or another overseas post at which it is determined that the use of a privately-owned motor vehicle is not in the interest of the Government.

(5) From a post of duty located outside the continental United States ** to the continental United States by those employees who have been continuously employed overseas by the Department of Defense since 1 September 1952 and who, in connection with such employment shipped a privately-owned motor vehicle via Government facilities from the continental United States to the overseas post of duty prior to that date. Persons eligible for the

return shipment of a privately-owned motor vehicle will, subject to the instructions in (6) below, be allowed the shipment of a privately-owned motor vehicle at Government expense upon return for separation or a permanent change of station to the continental United States from an overseas area except Canada (exclusive of Newfoundland), ** or Mexico.

(6) Exception to the instructions in (1) through (5), above.
Return shipment of a privately-owned motor vehicle of foreign manufacture purchased after 6 March 1961 shall conform to policies established or which may be established concerning reduction of expenditures abroad. In the case of civilan personnel, these policies are as follows: The motor vehicle must have been owned or on order by personnel (military or civilian) of the Department of Defense on 6 March 1961; there must be an unbroken chain of ownership by Department of Defense personnel since 6 March 1961; and, it must be determined in the interest of the Government for the person who requests return shipment to have the use of a privately-owned motor vehicle. The following areas are exempt from the above restrictions on the shipment of a motor vehicle of foreign manufacture if adequate maintenance facilities for American-manufactured motor vehicles do not exist in such areas: Bermuda (within the limitation of Bermuda law); Indonesia; Hungary; Cyprus; Republic of the Congo; Eritrea; Bulgaria; Yugoslavia; Afghanistan; Malta; Poland; Ireland; Area in proximity to Holy Loch, Scotland (Argyll County and Gourock Greenock Township). The prohibition against the shipment of a privately-owned motor vehicle of foreign manufacture does not apply to vehicles purchased in Alaska; Hawaii; Guam; Midway; Wake Island; American Samoa; Puerto Rico; Virgin Islands, and the Canal Zone.

k. Shipment of an emergency replacement of a privately-owned motor vehicle.

(1) One privately-owned motor vehicle may be transported to the employee's overseas duty post as an emergency replacement of the first motor vehicle within a period of four years from the date the first motor vehicle was transported overseas. The transportation of an emergency replacement may be authorized upon a showing that it is necessary for reasons beyond the control of the employee, such as loss or destruction of the first vehicle through fire, theft, accident, rapid deterioration due to severe climatic conditions at the post or similar causes, and in addition a determination that the replacement vehicle is "in the interest of the Government" as explained in c, above.

(2) During each succeeding four-year period of continuous permanent duty assignments at a post of duty outside the continental United States ** one emergency replacement vehicle may be transported under the conditions stated in this subparagraph k.

l. Transportation of a privately-owned motor vehicle as a periodic replacement.
After the expiration of a four-year period from the date of the transportation of the first motor vehicle then being used by the employee, the transportation of a second vehicle may be authorized by the commanding officer of the activity if the following conditions are met:

(1) It must be determined that the use of a replacement vehicle is "in the interest of the Government". See subparagraph c, above; and

(2) The employee must have been stationed continuously during the four-year period at a permanent post of duty located outside the continental United States. **

m. Allowable expenses in connection with the transportation of a privately-owned motor vehicle.
The following transportation expenses are allowable:

(1) Shipping charges for port to port transportation. See g, above.

(2) Necessary and customary charges in connection with readying the vehicle for shipment, including packing and crating expenses, and port charges at the port of embarkation and for readying the vehicle for delivery to the employee at the port of debarkation.

(3) Where an employee purchases a new motor vehicle from a manufacturer or a manufacturer's agent and the vehicle is consigned to the employee, a member of his immediate family, or his agent, the charges in (2), above, for readying the vehicle for overseas shipment at the f.o.b. point may be allowed provided the ownership of the vehicle is not vested in the manufacturer or manufacturer's agent during the shipment. Freight charges for transportation to the port of embarkation are not allowable.

(4) Where the employee drives his motor vehicle to the port of exit or from the port of entry while he is enroute to the overseas post of duty, mileage and per diem are allowed in accordance with appropriate mileage and per diem instructions in sections 3 and 7 of this Instruction. In case the employee makes a separate trip to the port of exit or entry, or both, in connection with the transportation of the motor vehicle neither mileage nor per diem is allowable.

n. Emergency storage of a privately-owned motor vehicle of an employee.

(1) Conditions of eligibility.
If for reasons stated in NCPI 4650-Encl. 5 it becomes necessary to evacuate the employee or his immediate family from a permanent post of duty located outside the continental United States **

expenses of emergency storage of the employee's motor vehicle may be authorized under the following conditions:

(a) The vehicle must have been transported or authorized to be transported at Government expense to the permanent duty post under instructions in this paragraph; or

(b) The vehicle must have been driven by the employee or a member of his immediate family to a permanent post of duty at which the use of the vehicle was determined to be "in the interest of the Government."

(2) Places of storage.
The vehicle may be stored at the place to which the employee's immediate family and household goods and personal effects are evacuated or at another suitable place not more distant from the evacuation area. In case the vehicle is in transit to the employee's permanent post of duty at the time evacuation is ordered, the vehicle may be diverted to storage at a suitable place enroute.

(3) Allowable expenses.
Allowable expenses for the emergency storage of the employee's motor vehicle include necessary expenses for actual storage, readying the vehicle for storage and for return to the employee after the emergency has ended, local transportation expenses to and from storage, and other necessary expenses relating to storage and to transportation. Insurance carried on the vehicle while in storage is an expense of the employee.

o. Advance of funds.
An advance of funds in connection with the transportation and emergency storage of a privately-owned motor vehicle may be authorized. See NCPI 4650.2-4.

p. Amendment of Employee's Certification on employment agreements.
The Employee's Certification in the Travel Authorization and Employment Agreements will be amended as shown in (1), (2), (3) and (4), below, in all cases where the employment is in an area to which a privately-owned motor vehicle may be shipped at Government expense under these instructions. The Employee's Certification should be amended before the Travel Authorization and Employment Agreement is presented to the employee for signature. In the case of persons presently serving overseas who are authorized the transportation of a privately-owned motor vehicle to or between overseas duty posts, the amendment appropriate to their agreements should be inserted in the Employee's Certification on the agreements and initialed by the employees prior to authorization of transportation.

(1) NAVEXOS 4650/1
In line 15, place an asterisk after the word "effects." After the sentence, "Further, I understand and agree. . . . ." insert an asterisk and the following: "including privately-owned motor vehicle."

(2) NAVEXOS 4650/4
In line 14, place an asterisk after the word "effects." After the sentence "Further, I understand and agree. . . . ." insert an asterisk and the following: "including privately-owned motor vehicle."

(3) NAVEXOS 4650/5
In line 12, place an asterisk after the word "effects." After the sentence, "Further, I understand and agree. . . . ." insert an asterisk and the following: "including privately-owned motor vehicle."

(4) NAVEXOS 4650/6
In line 13, place an asterisk after the word "thereto." After the sentence, "Further, I understand and agree. . . . ." place an asterisk and the following: "and the cost of shipment of a privately-owned motor vehicle, if involved." ★

DEPARTMENT OF THE NAVY
MILITARY SEA TRANSPORTATION SERVICE
WASHINGTON 25, D. C.

COMSTS 4610.3B
M-321
8 October 1956

COMSTS INSTRUCTION 4610.3B

From: Commander Military Sea Transportation Service
To: Distribution List

Subj: Transportation of privately-owned vehicles by MSTS; policy concerning

1. Purpose. This Instruction sets forth the policy of Commander Military Sea Transportation Service relative to the allocation of privately-owned vehicles to the categories of shipping used by MSTS.

*2. Cancellation. COMSTS INSTRUCTION 4610.3A is cancelled and superseded.

3. Scope. The provisions of this Instruction apply to the transportation of all duly sponsored privately-owned motor vehicles of military personnel of the Department of Defense offered to MSTS for shipment.

*4. Background. Public Law 538, 84th Congress, 2d Session, authorizes the carriage of privately-owned vehicles by privately-owned American-flag ships. When authorized by a sponsoring shipper service, privately-owned vehicles of military personnel may be transported at Government expense by either privately-owned American-flag or Government shipping services.

5. Policy. It is the policy of COMSTS that:

a. In CONUS, American-flag berth space shall be offered to the shipper services for carriage of POV in the same manner as other routine cargo, having due regard for maximum over-all utilization of controlled ships.

b. Overseas area and subarea commanders may book POV to American-flag berth ships to the extent that use of berth is necessary to supplement controlled capability to lift over-all retrograde requirements, and when use of specific berth ships is necessary to meet required delivery dates.

* c. Foreign-flag ships are authorized for the carriage of privately-owned vehicles at Government expense only under the following specific conditions:

(1) Through service cannot be provided solely on American-flag ships.

(2) Through shipment can be made by a combination of American-flag and foreign-flag vessels.

(3) The foreign-flag leg of the voyage is only incidental to the over-all voyage, i.e.; constitutes a minor portion of the voyage. Examples of such voyages are shipment from New York, N. Y., to Malta via American-flag ship, with transshipment to a foreign-flag carrier at Naples, Italy; from New Orleans, La. to Antigua via American-flag ship, with transshipment to a foreign-flag carrier at San Juan, P. R.

(4) The shipment is made on a through basis.

(5) The shipping document is issued to an American-flag line.

(6) The American-flag line assumes the responsibility for and arranges the transshipment to or from the foreign-flag vessel.

* d. Requests for shipment of POV which would require use of foreign-flag ships not meeting the conditions specified in subparagraph c. above will be referred to COMSTS

J. M. WILL

DISTRIBUTION:

SNDL 41B..........	30	(MSTS area commands)
41C..........	5	(MSTS subarea commands)
41C1..........	5	(MSTS subarea commands/NCSO)
41D..........	2	(MSTS offices)
41D1..........	2	(MSTS offices/NCSO)
41F..........	2	(MILDEPTS, MSTS civil-service-manned ships (USNS))
29K1, 32Q......	2	(MSTS commissioned ships (USS))
T-100..........	2	(MSTS civil-service-manned ships (USNS))

INFORMATION COPIES:

CNO..............	2
C/S Army (G-4).....	2#
C/S Air Force......	2#
BUSANDA..........	2
CCOFT..........	2#
AFSTP..........	2#
CMC..........	2
MARAD (NSA)........	2#

Distribution by COMSTS

Authenticated:

H. V. [illegible]
Staff Secretary

Senator DOUGLAS. Proceed.

Admiral DONAHO. Military usage is to consider a ton as weighing 2,000 pounds. International shipping uses a long ton of 2,240 pounds. Some European countries use the metric ton which weighs 2,204 pounds.

The trade area covered by shipping contracts is broad in geographical scope. For example, the trade between U.S. Atlantic and gulf ports and the west coast of continental Europe is covered by one shipping contract and one set of rates.

Commercial shipping, on the other hand, divides this geographical area into four separate ranges for purposes of freight tariffs, both outbound and inbound.

Another contrast between our shipping contract rates and commercial tariff rates is that most Department of Defense cargo is loaded and discharged at Army and Navy piers and terminals with the loading and discharging being performed at Government expense.

Senator DOUGLAS. That is true of outbound shipments?

Admiral DONAHO. And inbound if we have a terminal overseas.

Senator DOUGLAS. How many terminals have you overseas?

Admiral DONAHO. At our main outloading ports, which are Bremerhaven, Naples, Southampton——

Mr. KENDALL. The military either operates the terminal with its own personnel or it has the terminal under lease and contracts for the stevedoring services at the military terminal.

Bremerhaven, for example, is where the military leases a pier and obtains stevedoring services from a local contractor.

Senator DOUGLAS. Does it pay for that service?

Mr. KENDALL. Yes, sir. It is a commercial service which is negotiated on the local labor market. It pays just as any other shipping operator would pay.

Senator DOUGLAS. Is this included in the shipping rate?

Admiral DONAHO. This is excluded. This does not enter into the negotiations as far as shipping contracts because this is a procurement function within the armed services, for instance the Army or the Navy, and this would be comparable to doing it with civil service personnel in case we did not have the capability of contracting for commercial stevedores. This is a charge that the Navy picks up or the Department of Defense under appropriated funds for a contract of this nature.

This is not a contract with a ship operator. This is a contract with a labor force to help operate the terminal in the place of bluejackets or in the place of privates or soldiers. There is a lot of construction battalion personnel who handle cargo and the Army has uniformed personnel who handle cargo in some terminals. But in other areas the personnel who handle the commodities on the pier are longshoremen under contract to a military command.

Senator DOUGLAS. What you are saying in effect is that the shipping rates are comparable, with no inclusion of stevedoring charges either inbound or outbound?

Admiral DONAHO. The cost of stevedoring, therefore, is not included in the shipping contract rates. This results in what is called by the transportation community as free in and out (FIO) rates.

MSTS shipping contract rate structures have little basis for direct relationship to, or comparison with, commercial tariff rate structure, or ratemaking practices.

The procedures we use in negotiating broad categories of rates, as contrasted with the commercial practice of seeking specific commodity rates, arise from the fact that the Department of Defense ships a great variety of goods worldwide on many trade routes.

No commercial shipper has a problem of similar magnitude.

It would be administratively difficult, if not almost impossible to monitor the countless rates which would result if MSTS utilized a commodity tariff in the same way that steamship operators do in a single trade route.

There are some disadvantages in using consolidated or category rates. Some of the commodities included in a specific category in a shipping contract may have been assigned individual berth term rates in the commercial tariff which are lower than the category rate adjusted upward to include stevedoring charges. Under the MSTS shipping contract, however, we have the option of withdrawing such higher-rated commodities and shipping them at the prevailing commercial rate on a GBL.

This is done whenever practicable, considering the administrative costs to the Government.

Promulgation by the Secretary of Defense of the military standard transportation and movement procedures (milstamp) in October 1963, together with the present wide spread military use of electronic data processing in connection with the shipment of military cargoes, have made possible commodity information in depth not previously readily available to my command or the military shipper services. With this new information it is now possible to focus on many areas which heretofore were not susceptible of detailed analyses and to identify irregularities, previously only suspected.

We make comparative rate analyses by studying military shipments at both the commercial rate and the shipping contract rate, adjusted downward to show estimated savings accruing to the carriers by not having to perform stevedoring and related terminal services.

Our cargo manifests, or computerized data relating to cargo previously shipped, are costed out, item by item, at the ocean carrier's commercial rates to compare MSTS shipping contract costs with the cost of movement at commercial rates, terms, and conditions.

In trade routes, where dual contract and noncontract rates are established, MSTS used the lower contract rates.

A certain portion of the cargo now invariably consists of commodities peculiar to the military, and for which no commercial rates are provided. There is a certain amount of cargo which cannot be costed at specified commodity rates because of lack of appropriate identification.

In commercial practice, these items would be priced as general cargo, not otherwise specified (NOS).

In computing the theoretical commercial tariff costs, we have disregarded NOS items, and considered only completely identified cargo which could be charged a specific commodity rate. It has been found from experience that including NOS rates in any comparison inflates unrealistically the commercial cost and reflects exaggerated discounts for the shipping contract.

Prior to computing the charges for moving the identical commodities by volume or weight, as appropriate, under a shipping contract,

the FIO rates are adjusted to a berth term basis by including estimated costs of terminal services.

Terminal services includes all expenses incident to cargo handling and documentation that normally would be experienced at commercial facilities.

Our data on terminal services costs have been obtained from the Bureau of Supplies and Accounts, Navy Department, for cargo moving over Navy terminals, and from the Deputy Chief of Staff (Logistics) Directorate of Transportation, Department of the Army, for cargo handled over Army terminals. Military source terminal data are necessary because of the wide variations and uneven detail in the stevedoring costs supplied us by the commercial carriers.

The analysis of MSTS shipping contract rates as contrasted with commercial tariff rates, is a continuing process. We analyze individual commodity rate changes published by all berth line operators in the commercial tariffs applicable to shipping contract trade routes.

If a change involves a decrease in the commercial rates which places the shipping contract cost above the commercial cost, the ocean carriers involved are requested to make an appropriate reduction in military rates. If they refuse, we have the alternative of shipping such cargo on a Government bill of lading at the lower commercial berth term commodity rate.

In the COMSTS letter of February 27, 1964, already mentioned,[1] the attempt was made to demonstrate that shipping contract costs were below the commercial tariff cost prevailing at that time for major cargo categories in selected routes covered by shipping contracts.

Since that letter was written, commercial freight rates on those routes have been raised.

Shipping contract rates, except for the Mediterranean route, have not been increased. Our rates now are more favorable than a year ago on some routes.

Recent MSTS cost studies have given us cogent reasons to believe that there are areas in the commercial tariffs which are open to the suspicion that the Government is being overcharged.

One example is the commercial rate on new vehicles moving in the U.S. North Atlantic to Bordeaux-Hamburg trade route; it is substantially less than the shipping contract rate on this route.

By agreement with the carriers, new vehicles shipped on this trade route are at present being carried on GBL's at the commercial tariff rate.

We analyze critically all FIO rates proposed by berth operators. We do not accept increased overhead costs accruing from higher terminal expenses due to recent pay increases granted to longshoremen—as an example—as a basis for higher FIO rates.

Rate disparities in recent months, on the U.S. Atlantic and Gulf coasts/United Kingdom and Continental Europe, trades have made commercial rates more favorable than shipping contract rates. We have accordingly taken the following steps to protect the Government's interest:

[1] Footnote, p. 20.

(1) Consolidation has always been standard practice in the command. Yet we are devoting increased attention to consolidation, thus taking advantage of discounts allowed for increased tonnage loaded aboard a single hull.

Modified logistic procedures on the part of the military services with less emphasis on frequent, small-lot deliveries to keep the "supply pipeline" filled, have facilitated concentration of tonnage. Worldwide savings in fiscal year 1964 equated to about $3,400,000 by taking advantage of favorable rates from single ship tonnage concentrations.

(2) Specific commodities are identified through electronic data processing and the milstamp code. This identification discloses that there are some commercial tariff rates lower than shipping contract rates. When identified, commodities are withdrawn, as practicable, and booked under GBL's at commercial rates. The increased cost to the Government in processing shipments in this manner may make widespread use of this technique only marginally productive. We can identify some savings on a few trade routes.

At this time, Mr. Chairman, I submit for the record a copy of my letter of March 30, 1965 (p. 48), to the Chairman of the Renegotiation Board, which sets forth in detail why the commander, MSTS, cannot now certify that berth operators who have shipping contracts with MSTS should be granted exemption from renegotiation procedures for calendar year 1964.

Another field in which your committee, Mr. Chairman, has evidenced interest is the statement in your letter of March 19 that "* * * the rates on Government cargoes tend to exert inflationary pressures on the commercial rate structure * * *."

It is assumed that this statement arises from the belief that commercial tariff rates have been increased in order to raise the rates charged for carrying military cargo.

Records available to me disclose that increases in commercial freight rates have little effect upon shipping contract rates.

Contract rates are increased only when acceptable proof is presented by carriers of higher costs for performing services required under our contracts.

Should there be a decrease in commercial ocean freight rates, the command exerts active pressure to reduce shipping contract rates.

A review of the Continental North Atlantic Freight Conference tariff covering the trade route between the U.S. east coast to northern Europe will show that commercial rates have increased approximately 120 percent since the shipping contracts were established in July 1950.

Ocean carriers holding shipping contracts with us have demonstrated that operating costs on this route have increased approximately 77 percent during this interim period. Freight rates paid by MSTS under shipping contracts have been raised only 25 to 48 percent, depending upon individual categories studied.

It has been our objective that percentage increases reflect additional ship operating costs only, not increased overall costs accruing to the company for countless reasons.

I submit that rates on other routes would show approximately the same changes, both as to commercial rate increase and MSTS rate increases. It is my opinion, based upon staff study and analysis, that rate increases to MSTS result from higher commercial rate levels

rather than that MSTS rates have encouraged carriers to raise commercial tariffs.

It is also stated in your letter, Mr. Chairman:

* * * that Government cargoes occupy most U.S. flagship space, leaving our commercial commerce in the hands of foreign-flag steamship lines * * *.

I will respond for bookings of military cargo.

Data obtained from the Maritime Administration's files disclose that military cargo comprised approximately 11 percent of all liftings worldwide by subsidized carriers during calendar year 1963. This is the latest year for which figures are available.

Some routes have heavier military cargo movements than others. On these routes the space required for military cargoes exceeds this average.

It is the firm and widely publicized policy of the command to offer military cargo to all qualified U.S.-flag ocean carriers serving a particular trade route, provided rates and services are comparable. Cargo moving under shipping contracts is distributed equitably among carriers participating on a particular route in accordance with an established allocation procedure.

The pro rata allocation of cargo tonnage is based on the number of berth sailings made by each qualified carrier on which space is offered to MSTS. No distinction is made between subsidized and nonsubsidized carriers.

Our shipping contracts are optional agreements; a carrier is not obligated to offer space on any vessel. Similarly, the command is not obligated by virtue of these optional agreements to utilize any of the space offered. Moreover, the record will show that the ocean shipping policies of the Department of Defense do not imply that military cargo enjoys a priority over commercial cargo.

Mr. Chairman, that completes my prepared statement. I am now ready to try to answer any questions the committee may ask.

With respect to military personnel shipping a car, they can ship a car purchased in the United States—can you read that, Mr. Morse?

Mr. MORSE. Mr. Chairman, because of the order of your minutes here, we thought perhaps it might be wise to say something further on the subject of shipping foreign-purchased automobiles. I am advised that the military person can ship a car purchased in the United States free to oversea bases when he changes his location.

Only, that same car can be returned free. If a foreign car is purchased overseas, the military man must pay the freight for the car, plus the U.S. import duty.

Senator DOUGLAS. Import charges?

Mr. MORSE. Import duty; yes, sir.

Senator DOUGLAS. If it is used?

Mr. MORSE. I will put it this way: Under our regulations, if there is an import duty, he must pay it.

Senator DOUGLAS. But if it is used, would there be an import duty?

Mr. MORSE. This I cannot answer.

Senator DOUGLAS. You must know that.

Mr. MORSE. I have no reason to know it, sir.

Admiral DONAHO. We merely book what is turned over to us by the shipper, sir. We don't collect the fees.

Senator DOUGLAS. Let me ask you this question: If a man purchases a new car overseas and without using it he brings it back, would he pay for the cost of the transportation?

Admiral DONAHO. The individual would, sir.

Senator DOUGLAS. Suppose he buys a car overseas, a Volkswagen, for example, uses it and then brings it back; who pays it?

Admiral DONAHO. I am advised that he pays the freight back and the import duty.

Senator DOUGLAS. If it is used?

Admiral DONAHO. Yes, sir.

Senator DOUGLAS. Which rate does he pay? The regular rate or the MSTS rate?

Admiral DONAHO. Whatever rate he can negotiate, sir. It is his responsibility to get the vehicle back.

It would not be an MSTS rate. He would have to book it commercially.

Senator DOUGLAS. All right, Admiral.

Admiral DONAHO. If I may say again, Mr. Chairman, I would like to submit for the record a recent letter to the Chairman of the Renegotiation Board which sets forth pretty conclusively, I feel, why we are working to be sure that our rates are below or not greater than those rates offered to the general public insofar as our shipping contracts are concerned.

I think it is self-evident. This is a matter of which we are very cognizant. We are working closely with the conferences on the east coast, the gulf, and the west coast, to overhaul our shipping contract rates, and to sit down and work out policies which make them more meaningful insofar as guidance for an understanding on the part of the shippers, on the part of MSTS command, and on the part of those operators who support us so loyally.

Senator DOUGLAS. This letter is March 30 and this hearing is being held on the 7th of April. I take it you have recently become aware of the fact that, in your judgment, you are paying more than you should. Is that correct?

Admiral DONAHO. And annually we respond to a request of this nature. This is in response to a letter from the Chairman of the Renegotiation Board of the 18th of February.

Senator DOUGLAS. Have you submitted these statements in the last few years?

Admiral DONAHO. Yes, sir.

Senator DOUGLAS. Will you submit those for the record?

Admiral DONAHO. Yes, sir.

(The documents referred to follow:)

DEPARTMENT OF THE NAVY,
MILITARY SEA TRANSPORTATION SERVICE,
Washington, D.C., March 30, 1965.

Hon. LAWRENCE E. HARTWIG,
Chairman, the Renegotiation Board,
Washington, D.C.

MY DEAR MR. HARTWIG: In compliance with your request of February 18, 1965, there is enclosed herewith a list of those Military Sea Transportation Service (MSTS) shipping contracts with respect to which rate increases were negotiated during calendar year 1964.

You state in your letter that this information is requested in connection with consideration by the Renegotiation Board of whether the permissive exemption of berth line operators under section 106(a)(4) of the Renegotiation Act of 1951,

as amended, should be extended to calendar year 1964. The following comments are also furnished to assist you in this decision:

(*a*) For a number of years, MSTS has negotiated special class rates for the ocean carriage of military cargo under shipping contracts. In those negotiations the carriers have acted jointly as members of one or more associations. These associations are organized under the authority of section 15 of the Shipping Act of 1916, by which means the members are exempt from antitrust laws. Thus, in such negotiations MSTS has been wholly without the benefit of any competition among the carriers.

(*b*) MSTS is required by statute, 10 U.S.C.A. 2631, to contract exclusively with the carriers as operators of American-flag ships, when such ships are available. In exchange for that preference, an individual carrier may not charge MSTS more than it charges the public for the carriage of like goods.

(*c*) All rates, including class rates, negotiated with the carrier associations in the context mentioned above have been uniform on each route, notwithstanding the tariffs charged the public by the individual carriers have varied. Thus, a comparison of the profit level enjoyed by an individual carrier under the shipping contract with the profit enjoyed by it from the carriage of commercial cargo will vary operator by operator.

(*d*) The regular berth service furnished to the public is not the same service a sthat provided under the MSTS shipping contract. In regular berth service the carrier provides all cargo handling through its terminals and over its piers at tariff rates. Under the MSTS shipping contract, the rate covers only the transportation element of that service. The Government normally loads and discharges military cargo through its terminals and over its piers at its own expense, i.e., the carriers provide the service on a "free-in free-out" (FIO) basis. The costs spared the carriers by their not performing the cargo handling vary operator by operator. This is another factor causing variation in the levels of profit that the individual carriers enjoy under the uniform FIO rates of the MSTS shipping contract.

(*e*) Over the years, there have been many adjustments of the MSTS shipping contract rates to reflect increases in ship operating costs to the carriers. These adjustments have been negotiated by first establishing the average increase, ship type by type, as reported by each carrier, and then striking the average of all ship types for all carriers. The resulting adjustments have been uniform for all ships and all carriers on the particular route. Here, again, the uniformly adjusted rates include another factor that causes a variation in the levels of profit enjoyed by the individual carriers. This variation will reflect the types of ships utilized by each, as well as the efficiency with which they are operated.

(*f*) Some of the carriers receive operating subsidy payments from the Government. These payments are not reduced by reason of the carriage of military cargo. In allocating cargo among the carriers serving a particular route, MSTS makes no distinction between subsidized and unsubsidized carriers. Under the uniform rates paid by MSTS, the levels of profit from the carriage of military cargo will vary, operator by operator, to reflect differences in subsidy payments.

(*g*) Some of the carriers operate new ships; others operate old ships. Military cargo represents a high percentage of the cargo carried by some carriers; for others it represents a relatively small percentage. While some carriers own their terminals, others use only military terminals and public piers. These, and still other factors, contribute to a variation in the levels of profit enjoyed by the individual carriers under the uniform rates of the MSTS shipping contract.

(*h*) Heretofore, it has been assumed that rates paid by MSTS were at such a level that it was not likely the uniform rates would exceed the varying tariff rates of any member of an association. It was also assumed that profits to a common carrier for transporting military cargo could not be considered excessive if the rates charged MSTS were no higher than rates it charged the general public for like goods. From information previously available to MSTS, it appeared that these assumptions were valid. This situation existed because many commodities shipped by MSTS under class rates were not identified. In early rate comparisons these unidentified commodities were freighted, i.e., priced out, at the carrier's "not otherwise specified" (n.o.s.) tariff rate. The n.o.s. rates to the public are often higher than the mean level of rates for specified commodities. Consequently, the rating of unidentified cargo at the carrier's n.o.s. rates (the only actual tariff rates available to MSTS for that cargo) distorted any comparison of MSTS shipping contract rates with tariff rates.

(*i*) Recently developed procedures, utilizing electronic data processing equipment, now make possible the identification of a large number of previously un-

identifiable commodities. Greater precision in rate comparisons has been the result. Likewise, there is being developed a more realistic basis for calculating the savings in costs experienced by the carriers in not performing the loading and discharging of cargo over their own piers. It now appears that much of the military cargo, heretofore unidentified and therefore freighted at the n.o.s. rate, should be assimilated to commercial commodities moving at lower rates; also, that a larger sum, representing cargo-handling costs, should be added to rates charged under the MSTS shipping contract in order to compare the gross revenue received by them under tariff rates available to commercial shippers of goods having like characteristics.

(*j*) In addition to the above-changed conditions, MSTS is now able, with considerable effort, to ascertain and keep informed of most of the rates charged the public by the carriers. This arises due to the fact that the statutes were amended, effective in 1962 (Public Law 87–346 1961), to make meaningful the requirement that offshore ocean common carriers file their tariffs with the Federal Maritime Commission. Prior to that time, MSTS was able to obtain only some of the applicable tariff schedules, and then with difficulty. This new knowledge has permitted even greater precision in the comparisons of MSTS shipping contract rates with tariff rates available to the public.

(*k*) The difficulties confronting MSTS in negotiating rates at a level known to be reasonable are compounded by the carrier's refusal to provide pricing data under Public Law 87–653 (1962). This statute relates to negotiations in a sole source procurement situation. It requires a contractor, when negotiating without competition, to furnish accurate pricing data where there is no effective Government regulation nor reliable market indexes. In that connection, the Federal Maritime Commission does not establish the carriers' rates on the basis of fair return, and there are virtually no tariffs to the public for FIO service pertaining to general cargo. Many of the charges quoted to the public have little significance to MSTS, since the commodities to which they are individually applicable do not move commercially in any appreciable volume.

(*l*) Without the required information, MSTS is unable to ascertain at this time whether the rates it pays an individual berth operator are in excess of those charged by that operator for similar services rendered to, or the carriage of like goods shipped by, the general public. Nor can MSTS ascertain whether the public actually moves cargo under the carriers' n.o.s. rates on file. Neither can MSTS readily determine whether a number of commodities that move in volume by MSTS under the MSTS shipping contract also move for the public under any arrangement. To the contrary, it is definitely known that many commodities carried under the MSTS shipping contract do not move in significant volume, if at all, at the high rates listed in the commercial tariffs, which have heretofore been the basis of comparing charges to MSTS.

(*m*) The holders of MSTS shipping contracts have been requested to furnish, route by route, data on which to base an acceptable estimate of (i) the costs saved to the carriers by reason of their not performing the loading and discharging of cargo under the FIO rates stated in the MSTS shipping contract and (ii) the gross revenue received by the carriers for transportation of like goods for the public. This information has not been forthcoming, and there is every indication that it will not be furnished. In the meantime, MSTS is continuing, with limited success, to make every effort to procure substitute data from other sources. Also, every effort is continuing to be made to negotiate rate adjustments that reflect more accurately the charges paid by the public, notwithstanding pressure by the carriers on some routes to increase further the existing rates to MSTS.

(*n*) Unless the renegotiation board requires the carriers to provide pertinent data regarding the relation of their profit under the MSTS shipping contract to that derived from commercial cargo, no Government agency will be in a position to determine with assurance whether the charges paid by MSTS are in excess of those paid by the public.

In the above circumstances, Commander Military Sea Transportation Service (COMSTS) cannot recommend that the subject exemption be extended, except upon ample proof by each ocean common carrier that its charges under the MSTS shipping contract on each of its routes do not exceed the charges actually collected from private shippers for cargo moving on such route and having shipping characteristics similar to that cargo carried for MSTS. In that regard, it is pointed out again that by statute the holders of MSTS shipping contracts are under a compulsion not to charge the Government more than they charge the public.

I should be pleased to provide your staff any further information available to MSTS bearing on this subject.

Sincerely yours,

GLYNN R. DONAHO,
Vice Admiral, USN, Commander, Military Sea Transportation Service.

MARCH 20, 1965.

Memorandum for the record.
Subject: Rate increases negotiated in 1964—common carriage.

1. Rate adjustments under the MSTS shipping contract during 1964 are as follows:

(a) U.S. east and gulf/Mediterranean area

The shipping contract rates were increased varying amounts with exception of the rate applicable for vehicles of 11,200 pounds or less consigned to Spain which was decreased 2.8 percent. Based upon fiscal year 1963 cargo tonnages it was computed that the adjustments resulted in an overall rate increase of 3.056 percent, and would amount in an increased cost of $702,672 per year over fiscal year 1963 payments for movement of an identical amount of cargo. The rate adjustments were effective July 1, 1964, applicable to the following contractors and contracts:

Contractor	East coast contracts	Gulf coast contracts
American Export Isbrandtsen Lines	MST-80	
Prudential Steamship Co	MST-81	
Global Bulk (SML)	MST-83	
Waterman Steamship Corp	MST-82	MST-71.
Lykes Bros. Steamship Co	MST-86	MST-70.
Isthmian Lines, Inc	MST-2333	MST-2332.
Central Gulf Steamship Corp	MST-2385(X)	MST-2386(X).
States Marine Lines		MST-72.
American President Line	MST-2314 (inbound only)	

(b) U.S. west coast/Far East and Hawaii/Far East

Effective June 1, 1964, the shipping contract rates for household goods, personal effects, and unaccompanied baggage were increased by 3 cents per cubic foot ($1.20 per MT). Concurrently the berth term ocean rates applicable to through Government bill of lading (TGBL) movement of military household goods, personal effects, and unaccompanied baggage were also increased by an identical amount. Based on projected movements of these commodities the estimated increased cost resulting from those rate adjustments were computed to be:

	Per year
Shipping contract increase	$73,546
TGBL–HHG increase [1]	195,708
Total increase to DOD	269,254

[1] Payment for movement of TGBL–HHG is made by the shipper services to the inland van carriers who in turn pay the ocean carrier.

The shipping contract increase applied to the following contractors and contracts:

U.S. west coast/Far East trade

Contractor	California/Far East contracts	Northwest Pacific/Far East contracts
Pacific Far East Line	MST-47	MST-59.
States Steamship Co	MST-49	MST-60.
States Marine Lines	MST-51	MST-61.
Waterman SS Corporation	MST-190	MST-815.
American Mail Line	MST-2373(X) (Eastbound only)	MST-63.
American President Lines	MST-48	
Isthmian Lines Inc	MST-2331	
American Export Isbrandtsen Lines, Inc	MST-SC-180(X) (Eastbound only)	

Hawaii/Far East trade.—Hawaii/Far East service is provided as a supplement to certain west coast/Far East or east coast/Far East shipping contracts. Those contracts providing rates, terms, and conditions for Hawaii/Far East service are:

Contractor:	*Contract*
Pacific Far East Line, Inc	MST–47.
American President Lines, Ltd	MST–48.
States Steamship Co	MST–49.
States Marine Lines, Inc	MST–51.
United States Lines Co	MST–98.
Waterman Steamship Corp	MST–190.
Isthmian Lines, Inc	MST–2335.

(*c*) *U.S. east and gulf/Far East*

Effective September 15, 1964 the shipping contract rates applicable to household goods, personal effects, and unaccompanied baggage were increased 4 cents per cubic foot ($1.60 per MT). Concurrently the berth term rates applicable to TGBL movement of the same commodities were decreased by 9 cents per cubic foot ($3.60 per MT). Based on projected movements of these commodities the estimated net change in costs resulting from these rate adjustments were computed to be:

	Per year
Shipping contract increase	$69, 687
TGBL–HHG decrease	91, 377
Net decrease to DOD	21, 690

The shipping contract increase applied to the following contractors and contracts:

U.S. east and gulf/Far East trade

Contractor	East coast/Far East	Gulf coast/Far East
American President Lines	MST-99	
American Export Isbrandtsen Lines, Inc	MST-SC-790(X)	
United States Lines	MST-98	
Lykes Bros. SS Co		MST-77.
Isthmian Lines, Inc	MST-2335	MST-2334.
States Marine Lines	MST-96	MST-79.
Waterman SS Corp	MST-101	MST-78.
Central Gulf Steamship Corp	MST-SC-791(X)	MST-SC-800(X).

DEPARTMENT OF THE NAVY,
MILITARY SEA TRANSPORTATION SERVICE,
Washington, D.C., April 19, 1963.

Mr. LAWRENCE E. HARTWIG,
Chairman, the Renegotiation Board,
Washington, D.C.

DEAR MR. HARTWIG: Upon request of members of your staff and in amplification of our letter, serial 155M7 of February 27, 1963, the following data are offered for your consideration.

Shipping contracts between the Military Sea Transportation Service (MSTS) and the various U.S.-flag carriers on different trade routes are negotiated by the Commander, Military Sea Transportation Service (COMSTS). In many cases, the actual negotiation is between COMSTS and all the carriers on the route, represented by the Atlantic and Gulf American Flag-Berth Operators or the Trans-Pacific American Flag-Berth Operators. Both these groups have filed agreements with the Federal Maritime Commission pursuant to the provisions of section 15, Shipping Act of 1916. The purpose of these agreements is to permit the carriers to consult together and to establish a single rate binding upon all the carriers in a particular trade, without violating the antitrust statutes.

Shipping contracts are entered into only with common carriers who have proven their intent to operate on a given trade route by performing an average of at least one voyage per month for 3 months. As common carriers, these operators are required to file their tariffs with the Federal Maritime Commission where the service is to or from the United States. The bulk of MSTS cargo is shipped on routes subject to this filing, but some few shipping contracts do not cover routes to or from the United States.

In general, the concept of the shipping contract is to establish rates for ocean transportation only. As the goods are loaded and discharged over military terminals at the expense of the Government, the rates are referred to as "free in and out" (FIO) rates. They are presumed to represent published tariff rates (where they are required to be published) less components that represent costs not incurred by the carriers in rendering the FIO service contracted for, such as terminal overhead, stevedoring, solicitation costs, etc. These deductions for components of service not rendered do not represent the costs of the particular carrier with whom the contract is made, but are negotiated on the basis of a cross section of the costs of all the members of the organized group of carriers. This also means that the rates actually paid do not reflect the FIO ocean transportation costs of a particular contractor, who may operate either fast or slow ships or large or small ships; also, few or many ships. Not only is it important to MSTS that it establish uniform rates for ocean transportation, but the same administrative considerations require the use of "class" or "consolidated" rates with a minimum of categories. Consequently, MSTS negotiates that type of rates for use under the shipping contract. Goods that present a particular problem in handling, such as weight or a poor stowage factor, are placed in special categories, but the bulk of the items move under a "general cargo" category that includes commodities ranging from items that carry a very low rate to the public to those of the highest rates. A comparison of the return or profit to a particular contractor under this general cargo rate and the tariff to the public would depend upon the "mix" or "consist" of commodities carried, as well as the contractor's individual investment, costs of operation, subsidy payments, etc.

In negotiating uniform class rates for FIO service, MSTS accepts the best rates it can obtain, negotiating with the organized groups on the basis of such cost information as it can develop relating to those components of berth service not rendered to MSTS. It undertakes to obtain a further reduction to reflect certain aspects of its cargo, such as volume, varied nature, continuing flow, and two-way shipments. The class rates are developed on the basis of a projected consist of cargo on the particular route. Calculations are made on this hypothetical basis to determine whether such class rates can reasonably be expected under the projected consist to result in the Government's paying, in total cost, no more for the ocean movement of its cargo than would the public for the same movement. While MSTS has the advantage of an experience factor in judging the probable consist of all cargo to be shipped by it during a projected year, at the time class rates are established it has no knowledge of what commodities actually will be carried by any particular contractor. Also, its cargo manifesting documentation does not always reveal the exact nature of the commodities when they are actually carried, with the result that only with considerable administrative cost can MSTS develop exactly what commodities were carried by a particular ship on a particular voyage. It would be infeasible to undertake to develop this information for each of the contractor carriers, yet such is essential to precise comparison in retrospect of rates paid under the shipping contract and rates that would have been paid under published tariffs (where such exist).

The negotiation of shipping contract class rates that are known to be higher than tariff rates (adjusted to FIO) covering some commodities is justified by MSTS on the theory that it can withdraw those commodities from the shipping contract and ship them under berth terms at tariff rates, in the event the tariff rates are so much lower than the shipping contract rates as to warrant the administrative expense and operational inconvenience of such withdrawal. Also, under the shipping contract, adjustments in the rates to reflect changes in either

published tariffs or the consist of military cargo can be negotiated upon relatively short notice to the carriers. Such adjustments have been negotiated on several occasions.

MSTS has seldom exercised its legal right to withdraw particular commodities from the shipping contract and to resort to berth terms under the tariffs available to the public. Up until the recent enactment of legislation requiring the filing of prospective rates on certain routes, it was not easy to keep informed as to the rates charged the public; likewise, precise information regarding the cost of those components of berth service not rendered under FIO shipments has not been available. Besides, there is an incalculable but substantial administrative cost and serious operational inconvenience connected with the withdrawing of a particular commodity from the established routine shipping contract procedures, both for handling the cargo itself and the related accounting. It is known, therefore, that some MSTS cargo may move under the shipping contract at rates higher than those charged the public for the same goods. This presents a problem to MSTS for which no practical resolution short of legislation has been developed. It also confronts the carriers with a problem, because under the Cargo Preference Act of 1904 (10 U.S.C. 2631) each ocean carrier has the burden of not charging MSTS more than it charges private shippers for the same goods.

MSTS is not in a position to advise the Renegotiation Board what return on investment or profit was realized from that MSTS cargo carried by any particular contractor. Nor can it furnish data to be the basis of a decision by your Board. Also, MSTS does not have readily available information as to whether the total paid any particular contractor for the year 1962 exceeded the amount that would have been paid by a private shipper of a like movement with the same carrier. It necessarily follows that MSTS cannot advise the Board whether any particular shipping contract carrier realized an excessive profit in the year 1962 from cargo carried by it under shipping contracts.

It may be helpful to your Board to know that MSTS constantly reviews those berth rates to the public that are published, and it is generally aware of significant changes in the overall consist of its cargo on each of the major routes. On the basis of such information as it can feasibly develop, the uniform FIO class rates established by its shipping contracts during the year 1962, when considered in connection with cheaper costs at military terminals and administrative savings, resulted in the movement of that part of its cargo carried by private ships at total overall costs to the Government no higher than it would have incurred for the same movement had it been accomplished under berth terms available to the public.

Sincerely yours,

ROY A. GANO,
Vice Admiral, U.S. Navy, COMSTS.

Re exemption of common carriers of ocean shipments under prime contracts with the Military Sea Transportation Service for transportation of cargo at rates based on the manifest measurement or manifest weight of such cargo. Calendar year ended December 31, 1963.

Mr. LAWRENCE E. HARTWIG,
Chairman, the Renegotiation Board, Washington, D.C.

DEAR MR. HARTWIG: In response to your letter of January 31, 1964, please be advised that during the calendar year 1963 the Military Sea Transportation Service negotiated upward adjustments in rates paid berth line operators in the following areas:

U.S. East & Gulf Mediterranean Rate Negotiations (1963 rate negotiation):	
Annual business (fiscal year 1962):	
Shipping contract	$16,461,415
Through bill of lading movement of household goods (TGBL–HHG)	6,059,084
Total	22,520,499
Carriers requested:	
4.68 percent increase in shipping contract rates or $770,394 per year	
No change was requested in TGBL–HHG rates	
Final agreement:	
Shipping contract—3.33 percent increase	[1] 648,168
TGBL–HHG—18.8 percent decrease	[1] 583,414
Net increase on total business	[1] 62,754
Summary:	
Carriers requested	[1] 770,390
Final increase	[1] 62,754
Reduction through negotiation	[1] 707,636
U.S. East & Gulf Caribbean Rate Negotiations (1963 rate negotiation):	
Annual business (fiscal year 1963):	
East Coast Canal Zone	1,047,941
East Coast other Caribbean	1,936,842
Total	2,984,783
Carriers requested:	
Canal Zone—6.56 percent or	[1] 68,745
Other Caribbean—8.89 percent or	[1] 170,185
Total requested	[1] 238,930
Final agreement:	
Canal Zone—5 percent or	52,394
Other Caribbean—7.36 percent or	142,671
Total increase	195,065
Summary:	
Carriers requested	[1] 238,930
Final increase	[1] 195,065
Reduction through negotiation	[1] 43,865

[1] Per year.

These upward rate revisions were made in the shipping contracts at the request of the shipping contractors due to increased vessel operating costs. The extent to which rates are increased is determined by a comparison of cost components currently in effect as against those same cost components that existed at the time of the last rate negotiation in the area concerned. The components considered were as follows:

1. Basic wages
2. Overtime and penalty wages
3. Payroll taxes and fringe benefits
4. Subsistence
5. Maintenance and repairs
6. Stores and supplies
7. Insurance
8. Fuel
9. Other miscellaneous vessel expenses

In negotiating rate adjustments consideration was given to any difference in the outbound and inbound tariffs available to the public, but only to assure that the increased rate to MSTS did not exceed the tariffs to the public. Otherwise, we have used ship costs for a round trip as the basis for adjustment. As the volume and nature of cargo moving inbound varies markedly from that moving outbound, it has been found difficult to relate with any greater precision the rates for one direction to the ship costs per cargo ton for that direction.

If we can be of further assistance, please do not hesitate to call on us.

Sincerely yours,

ROY A. GANO,
Vice Admiral, U.S. Navy, COMSTS.

Senator DOUGLAS. If you have any other statement, we would be glad to have it.

We would like to submit to you a list of written questions and ask for your indulgence in replying to them in the not too distant future.

Admiral DONAHO. Yes, sir.

Senator DOUGLAS. Thank you very much, gentlemen.

(The document referred to follows:)

APRIL 12, 1965.

Vice Adm. GLYNN R. DONAHO,
U.S. Navy, Commander, Military Sea Transportation Service, Navy Department, Washington, D.C.

DEAR ADMIRAL DONAHO: In connection with your testimony before the Subcommittee on Federal Procurement and Regulation, of the Joint Economic Committee, the chairman has asked me to forward the following questions for MSTS consideration and response.

* * * * * * *

(Fifteen questions set forth in this letter appear below preceding answers.)

It would be most helpful to the subcommittee if you could provide answers to these questions no later than April 23, 1965.

Thank you very much for your cooperation.

Sincerely yours,

JAMES W. KNOWLES,
Executive Director.

DEPARTMENT OF THE NAVY,
OFFICE OF THE SECRETARY,
OFFICE OF LEGISLATIVE AFFAIRS,
Washington, D.C., May 3, 1965.

Senator PAUL H. DOUGLAS,
Chairman, Subcommittee on Federal Procurement and Regulation, Joint Economic Committee, New Senate Office Building, Washington, D.C.

MY DEAR MR. CHAIRMAN: In letters dated April 12 and 20, 1965, to Vice Adm. G. R. Donaho, commander, Military Sea Transportation Service, Mr. Knowles of your subcommittee staff posted certain questions pertaining to recent hearings

on discriminatory ocean freight rates. It was requested that these questions be answered for the record. I hope that the enclosed answers will satisfy the requirements of the subcommittee.

Also enclosed is a copy of a memorandum prepared for the Judge Advocate General of the Navy in response to a complaint by Mr. Paul Hall to the President's Maritime Advisory Committee. This memorandum is pertinent to the testimony before your committee of the representative of the American Maritime Association concerning the operation by the Military Sea Transportation Service of Government-owned tankers.

If I may be of further assistance to you, please do not hesitate to call on me.

Sincerely yours,

C. R. KEAR, Jr.,
Captain, U.S. Navy, Chief of Legislative Affairs, Deputy.

DEPARTMENT OF THE NAVY,
MILITARY SEA TRANSPORTATION SERVICE,
Washington, D.C., May 1, 1965.

Senator PAUL H. DOUGLAS,
Chairman, Subcommittee on Federal Procurement and Regulation,
Joint Economic Committee,
New Senate Office Building,
Washington, D.C.

MY DEAR MR. CHAIRMAN: Enclosed herewith are answers to the questions which you forwarded in your letter of April 12 and the related issues in your letter of April 20, 1965.

I also enclose a copy of a memorandum which was prepared for the judge advocate general of the Navy in response to a complaint by Mr. Paul Hall to the President's Maritime Advisory Committee. This memorandum is pertinent to the testimony before your committee of the representative of the American Maritime Association concerning the operation by the Military Sea Transportation Service of Government-owned tankers.

Sincerely yours,

GLYNN R. DONAHO,
Vice Admiral, U.S. Navy, Commander Military Sea Transportation Service.

COMMANDER MILITARY SEA TRANSPORTATION SERVICE REPLY TO QUESTIONS SET FORTH IN JOINT ECONOMIC COMMITTEE LETTER OF APRIL 12, 1965

1–1. Q. It is our understanding that most MSTS shipping contract rates are identical for inbound and outbound movements.

A. This understanding is correct, except for the following specific commodities moving in the specified trade routes:

(*a*) Empty Conex containers inbound on all major trade routes that terminate in continental United States. The contracts do not provide rates for outbound movement of empty Conex.

(*b*) Unboxed vehicles, weighing up to and including 11,200 pounds per unit, between the U.S. east coast and Norway or Denmark—$14.60 per MT, FIO (outbound) and $20 per MT, FIO (inbound).

(*c*) Unboxed vehicles weighing over 11,200 pounds per unit between the U.S. east coast and Norway or Denmark—45 cents per cubic foot (C.F.) plus 2 cents per C.F. for each long ton (LT) over 5 LT (outbound) and 58 cents per C.F. plus 2 cents per C.F. for each LT over 5 LT (inbound).

(*d*) Unboxed, privately owned, used passenger vehicles of foreign manufacture between U.S. east and gulf coats and the Bordeaux-Hamburg Range—$14 per MT, FIO (inbound) and $26.60 per MT, FIO (outbound).

(*e*) Unboxed vehicles, up to and including 8,960 pounds per unit between U.S. east and gulf coasts and the United Kingdom—$13.60 per MT, FIO (inbound) and $21.80 per MT, FIO (outbound).

(*f*) Unboxed vehicles, up to and including 11,200 pounds per unit, between U.S. east and gulf coasts and Spanish Mediterranean ports—$27.80 per MT, FIO (outbound) and $26 per MT, FIO (inbound).

(*g*) Unboxed vehicles, up to and including 11,200 pounds per unit, between U.S. east and gulf coasts and Mediterranean areas excluding Spanish ports—$29.40 per MT, FIO (outbound) and $26 per MT, FIO (inbound).

(*h*) Unboxed, privately owned, passenger automobiles shipped with Seatrain Lines, Inc., between U.S. east coast and Puerto Rico—$13.60 per MT (outbound) and $13.20 per MT (inbound).

(*i*) General cargo shipped with Panama Canal Company between New Orleans, La., and the Canal Zone—$16 per MT, FIO (outbound) and $13.20 per MT, FIO (inbound).

Several factors explain the aforementioned rate ditfferentials. In the case of empty Conex containers, there is no outbound movement. Outbound, the Conex containers are loaded with various commodities and therefore the loaded Conex containers are transported at the appropriate commodity rate. The rate for the return of these empty containers is relatively low, since they are transported on a space-available basis.

The rate differential existing in inbound and outbound vehicle rates is due to commercial tariff construction. During the negotiations the commercial carriers indicated that the vehicle rates were distorted for commercal reasons. It was then necessary to accommodate this differential in the contract due primarily to the statutory limitation of the 1904 act. The same reason applies to the general cargo differential applicable to the Panama Canal Company northbound contract rate.

1–2. Q. Could you provide the committee with calculated savings from the ordinary commercial rates for both outbound and inbound shipments?

A. In the attachment to COMSTS letter serial 135M342 of February 27, 1964, the calculated savings were analyzed both inbound and outbound on the volume routes between U.S. east/gulf coasts and Far East; U.S. Pacific coast and Far East; U.S. North Atlantic and United Kingdom; and U.S. North Atlantic and continental Europe. A further review cannot be made within the time frame of your request. Since the commercial tariff rates have been subjected to general increases, especially in the trades originating on the U.S. east and gulf coasts, the computations would serve only to indicate greater savings. Except for minor instances, MSTS rates have not changed while the commercial rates have increased.

1–3. Q. Do you realize a larger savings on outbound shipments than from inbound shipments according to your calculations?

A. The magnitude of the indicated savings, according to our calculations, has no specific bearing upon the fact of inbound or outbound movement. In some categories of cargo, the saving is greater for the outbound portion of the cargo; however, this is not true in all cases. Factors involving cargo "consist" distort the inbound/outbound savings. Outbound military cargo is composed of all items required to sustain the military establishment. Inbound military cargo consists mostly of privately owned vehicles, household goods, and items returned for salvage or further use. The consumable items of general military cargo are not present in the inbound cargo "consist."

1–4. Q. If so, doesn't this substantiate the findings of the JEC that the outbound commercial tariffs of the United States are significantly higher than the inbound commercial tariffs on the same trade routes?

A. The rate comparison figures neither confirm nor deny the validity of the committee's statement regarding the disparity between inbound and outbound commercial rates.

2. Q. If MSTS rates are in fact lower than commercial rates, why do American-flag steamship lines seek out MSTS cargo in preference to commercial cargo?

A. American-flag steamship lines seek MSTS cargo in preference to commercial cargo because it is offered with dependable regularity in large volume and provides a nucleus of cargo around which to plan an outbound voyage. These factors, rather than rate differentials, are considered to determine the ocean carrier's preference for military cargoes. If commercial cargoes were available in the same quantity and with the same dependable frequency, the preferential position of MSTS cargo probably would decline.

3. Q. If MSTS rates are in fact lower than commercial rates, would it not be beneficial for American lines to fill their ships with commercial cargoes rather than MSTS cargoes—leaving the MSTS cargoes to foreign-flag lines?

A. Yes, subject to the comments in response to question 2.

4. Q. In 1963 MSTS paid the subsidized carriers nearly $100 million for shipping service. On a net revenue basis, deducting the cost of loading and discharge applicable to other commercial cargo, this represents more than 30 percent of the total net revenue of these ships derived from freight. However, MSTS cargoes occupied but 11 percent of the actual ship space during 1963 on these vessels. U.S. carriers derived more than 30 percent of their net revenue from MSTS but provided only 11 percent of their space in return. Does this not indicate that MSTS rates are considerably higher than average commercial rates?

A. The question is too broad for a factual answer. MSTS cargoes are unique in composition; i.e., general, vehicles, ammunition, empty containers, tanks, aircraft, etc. No meaningful comparison on a worldwide basis between average commercial rates of revenue and the cubic footage occupied by cargo can be made. After studying individual trade routes in the aggregate, we consider our rates compare favorably with the applicable (not average) commercial rates.

5–1. Q. Does MSTS use commercial rates fixed by conferences as a reference in negotiating shipping contract rates?

A. MSTS uses all tariffs, both those of conferences and those of independent American-flag lines, for reference or as broad guidelines. While the commercial rates are used for guidance purposes, the lowest applied tariff is used to construct a ceiling for MSTS rate purposes.

5–2. Q. Are the commercial rates of nonconference lines in the same trade considered?

A. Nonconference line tariffs are considered if these nonconference lines are American flag. Foreign-flag nonconference tariffs are not considered.

5–3. Q. If so, to what extent, and how?

A. The American-flag nonconference tariffs are used to the same extent as the conference tariff in that the lowest applicable tariff, conference or nonconference, is used as a ceiling on the negotiated shipping contract rate. That is, the aggregate shipping contract cost should not exceed the aggregate cost for moving like cargo at the rates contained in the commercial tariff having the lowest rate level.

6. Q. Apparently MSTS pays the same rate to all U.S. carriers for the shipment of its commodities to the same port of destination. Previously MSTS had indicated to the committee that its rates are established on a cost basis. If that is so, why aren't the rates charged by the subsidized operators lower due to their subsidy than the rates charged by nonsubsidized U.S. operators to MSTS?

A. MSTS does pay uniform rates to all common carriers operating on a given route. However, rates are not negotiated on a cost basis. The operator's costs are but one of several factors that are considered in negotiating rates, and then only to the extent MSTS has data regarding such. To the extent any weight is given to the carriers' costs, the subsidy of part of these costs may be said to distort the basis on which freight rates are made.

We have for some time been trying to develop an equitable basis for taking into account the theoretical difference in cost of performing the service for subsidized and nonsubsidized operators; no workable or reasonable system has been devised so far. The command is actively working on this issue.

7–1. Q. You have stated before the committee that on one trade route (U.S. to ARA/HBB) commercial rates have increased 120 percent since 1950. You additionally stated that direct carrier operating costs have increased 77 percent during this period but that the rates paid by MSTS have increased only 25–48 percent in this period. However, on page 12 you indicate that higher carrier costs attributable to increased terminal expenses such as longshore charges are excluded from the calculation of MSTS FIO rates.

(*a*) If this is so, can you tell us what items of carrier operating expenses have increased to the extent of the 48 percent in MSTS rates?

A. Carrier costs recognized by MSTS in negotiating increases in ocean freight rates are limited to these items of operating expense:

Basic wages
Overtime and penalty wages
Payroll taxes and fringe benefits
Subsistence
Maintenance and repair
Stores and supplies
Marine insurance
Fuel
Other vessel expenses

7–2. Q. Have you considered the extent to which such items of increased operating expenses are offset by operating differential subsidy paid to the carriers of the Government?

A. Yes; but we have found no way to give effect to our consideration. See answer to question 6.

8. Q. You refer to a saving for fiscal year 1964 of $3.4 million resulting from discounts allowed for volume shipments. Information before this committee indicates that in fiscal year 1964 MSTS paid some $170 million for freight transported under shipping contract terms. Thus MSTS has effected a 2-percent reduction by means of such discounts.

A. I would like to indicate the various reductions realized under shipping contracts:

(i) The shipping contract rates applicable to each class or category of cargo are negotiated at a level which will result in a cost below the comparable cost of moving like goods at commercial tariff rates. This basic reduction from the commercial tariff rates is discussed in the COMSTS letter of February 27, 1964, in which it was estimated as ranging from a low of 0.3 percent to a high of 52.7 percent depending upon the trade area and commodity rate category involved.

(ii) The shipping contracts normally provide for a reduction of at least 10 percent for cargo which is carried on deck. On-deck reductions apply in all shipping contracts except those applicable between the U.S. west coast and Hawaii, between the U.S. gulf coast and the Canal Zone, and in certain container-van contracts. On-deck reductions apply on all cargo unless specifically exempted. Hazardous cargo and empty containers are generally exempted from on-deck reductions in all contracts.

(iii) Depending upon the trade involved, shipping contracts may provide sliding scales of rates for a specific commodity, depending upon the quantity carried on one vessel.

(iv) In addition to the reductions described above, most shipping contracts provide for discounts predicated upon the total tonnage of cargo loaded on one ship under one contract. With a few exceptions, volume discounts are based on the principle that when the total under-deck cargo on one ship exceeds 3,500 measurement tons (MT) the rates for such excess are reduced 20 percent. If the total under-deck cargo on one ship exceeds 5,000 MT, the rates applicable to such excess are reduced 30 percent. When reduced rates apply to under-deck cargo, the greater applicable discount (20 or 30 percent) is applied to the on-deck cargo in lieu of the normal 10-percent on-deck discount. Provision for volume discounts is contained in all shipping contracts where it is likely that the total cargo on one vessel may, at times, exceed 3,500 MT.

8–1. Q. Does the MSTS allotment system impede the attainment of such discounts?

A. No. The MSTS cargo allotment system, of and by itself, does not impede the concentration of cargo for attainment of discounts on volume shipments. The following factors, however, are more significant in militating against the consistent attainment of such discounts; needs of the shipper service for prompt shipment; the requirement for a fairly uniform and constant flow of military supplies; the physical limitations of military cargo terminals; the lack of space in berth line ships for large tonnages of military cargo.

8–2. Q. Does the Wilson-Weeks agreement impede the attainment of greater savings through consolidation of shipload lots and charter terms?

A. No. It can be construed as requiring consolidation in order to achieve reduced rates under the shipping contract through its prudent management requirements.

8–3. Q. How does the 2-percent discount obtained by MSTS compare with discounts made available to commercial shippers of volume movements?

A. The reported 2-percent discount is an additional reduction resulting from the consolidation of shipments in order to achieve the benefits of the reduced rates under the shipping contracts. The basic reduction from the commercial rates was discussed in the COMSTS letter of February 27, 1964, and these reductions are calculated from the contract rates established in conference tariffs. Commercial tariff contract rates are those lower rates offered to shippers who contract to ship all cargo exclusively with lines which are members of the conference.

There are other rates filed by commercial carriers which are called emergency rates or project rates. In effect, these give special consideration to individual commercial shippers. These rates are applicable to cargo moving under special circumstances, such as large tonnages of materials and equipment to be used in construction of major public or private works in a foreign country, and shipped at the convenience of the carrier rather than at the direction of the owner of the cargo. We do not consider these rates to be generally available to commercial shippers of volume movements. For this reason, they are not considered in the negotiation for discounts.

8-4. Q. Does the 2-percent figure for fiscal year 1964 reflect an increase or decrease over other recent years?

A. The 2 percent is relatively stable because reduced rates under the shipping contract remain the same throughout the years. The only factor which would tend to distort this figure would be sudden requirements for military buildups at some oversea area such as Berlin in 1961.

8-5. Q. Why doesn't MSTS get more volume discounts?

A. As indicated in the COMSTS letter of February 27, 1964, reductions applicable to MSTS cargo ranged from a low of 0.3 percent to a high of 52.7 percent, depending upon the trade area and commodity. I have indicated that we enjoy an additional 2-percent overall reduction through the use of volume discounts. The operational hindrances in obtaining more incidents of reduced rates were previously discussed.

9-1. Q. In your statement you indicate that the agreement between Secretary Wilson and Secretary Weeks arranged in 1954 requires the MSTS to offer its cargo first to American-flag liner-type ships. Does this agreement prevent MSTS from offering its cargo to tramp-type vessels when its cargo is more suited for charter movements rather than liner movements?

A. No. The Wilson-Weeks agreement does not prohibit the utilization of tramp-type steamers. As long as the cargo, the ports of loading, and the ports of discharge are compatible to liner operations, cargo is first offered the American-flag liner operators. If American-flag liner operators are unable to meet requirements, then charter is considered.

9-2. Q. Do you think this agreement should be changed?

A. Yes. On January 23, 1965, a memorandum was initiated to the Secretary of Commerce recommended a change in the Wilson-Weeks agreement. The change recommended would, in my opinion, place the determinations concerning the use of chartered shipping on a more realistic, businesslike basis.

10. Q. As part of your statement you point out that Department of Defense cargo is loaded and discharged at Army and Navy piers. Consequently, the rates that you pay steamship carriers are FIO rates, or rates excluding loading and discharging charges. It is my understanding that most commercial rates do include these charges, but you also state that only the stevedoring charge is added back to the MSTS rates to compare them with the ordinary commercial rate. Why don't you also include the other costs of loading and unloading; namely, agency and brokerage fees, port terminal charges, wharfage, etc.? In many cases these charges exceed the actual cost of stevedoring.

A. The stevedoring cost figures are furnished by either the Army or Navy terminal operators. It is possible that the figures furnished do not, in all cases, represent fully the cost of the service saved the commercial carrier by not performing the stevedoring. We attempt to obtain accurate figures of this nature from the carriers; however, due to the sensitive business nature of this information, the carriers have been reluctant to divulge it. Some of the charges noted are not properly loading and unloading charges. Agency and brokerages are vessel costs, and are given consideration in that context. Port terminal charges and wharfage, depending upon the custom of the port (or trade) are or are not loading and discharging costs. When these items are components in the commercial rate, an equivalent component is included in the rate we use for making comparisons.

11. Q. It is our understanding that MSTS uses a figure of $8.99 per MT for stevedoring on general cargo. In other words, it adds to the cost it pays a steamship line $8.99 to compare its rate with commercial tariff rates. A recent study of the Department of Commerce estimates loading and unloading charges

at $20 per MT and the lines themselves use this figure in the pooling agreements on file with the FMC as the cost of loading and unloading cargo. Why do you use the apparently unrealistically low figure of $8.99 for your calculations?

A. The reference in this question to $8.99 per MT as the cost of stevedoring apparently is based on the chairman's computation of the difference between the $33.42 rate shown on page 1237 of "Discriminatory Ocean Freight Rates and the Balance of Payments," part 5, and the MSTS freight rate he quotes of $24.43 for general cargo moving between U.S. North Atlantic and Continental Europe. The actual shipping contract freight rate, at the time the COMSTS letter was written (February 27, 1964) was $20.80 per MT. The correct allowance for stevedoring expense therefore should be the computed total shipping contract cost of $33.42 per MT minus the shipping contract FIO rate of $22.80 per MT, or $12.62 per MT. The figure of $12.62 rather than $8.99 was used in the study of rates on the North Atlantic/Continental route.

The question also refers to "a recent study of the Department of Commerce" and pooling agreements which estimates loading and unloading charges at $20 per MT.. While MSTS has not been able to complete a review of the study mentioned, it has analyzed the pooling agreement of January 29, 1964, between certain carriers serving the U.S. North Atlantic/Continental trade route. Analysis of this agreement shows a "carrying charge deduction" (not otherwise defined) of $20 *per payable ton* (italic supplied) for cargo handled at New York or Boston. The agreement does not specify what costs are included in this "carrying charge deduction." It might well be that, in addition to stevedoring expense, other cargo costs such as cargo solicitation, advertising, overhead, profit, and cleaning of ships' holds have been included in the deduction of $20 per payable ton. The $20 figure very probably contains a factor for overtime differential (i.e., the difference between straight time and overtime costs when work is performed in excess of normal working hours and on weekends). MSTS does not normally include the cost of overtime differential for stevedoring, since overtime work is usually ordered for the ocean carrier's convenience and is paid for by the carrier regardless of whether the cargo is loaded or discharged at military or commercial terminals.

It is noted that the $20 deduction is on a payable ton basis. A "payable ton," sometimes called a "revenue ton," is a term used in commercial practice to express a unit of cargo for purposes of rate assessment. For example, if a parcel of cargo measures 160 cubic feet (4 measurement tons) and weighs 2,240 pounds (one long ton) and the applicable rate in the commercial steamship tariff is assessed per long ton, that parcel of cargo would be described as one "payable ton." Under circumstances such as these, the $20 per payable ton stevedoring cost would in reality be equivalent to $5 per measurement ton. With very few exceptions, all of the MSTS rates and all cost comparisons are predicated on a measurement ton basis. Accordingly, stevedoring and terminal costs in MSTS studies are also expressed per measurement ton. Experience on the North Atlantic/Continental Europe trade has shown that MSTS cargo averages 2.63 measurement tons per one long ton. Applying the factor of 2.63 to the MSTS stevedoring cost figure of $12.62 per measurement ton would produce a stevedoring allowance of $33.19 per long ton. In the North Atlantic trade it has been found that about 50 percent of the commercial rates are on a weight basis and 50 percent on a measurement basis. If the MSTS stevedoring rates of $12.62 per measurement ton and $33.19 per long ton are combined in a simple average, the stevedoring cost per payable ton would be $22.90, which exceeds the $20 per payable ton deduction set forth in the pooling agreement.

The $12.62 figure used by MSTS is a composite cost per measurement ton for both loading on the U.S. east coast and unloading at ports of the Bordeaux/Hamburg range. The $20 figure applied only to the "carrying charge deduction" for cargo originating in New York. If a composite cost were similarly computed for the entire east coast based on the data contained in the pooling agreement, the result would indicate an average cost less than $20 per payable ton. This is evident since the pooling agreement of January 29, 1964, shows $17 per payable ton for cargo originating Philadelphia and $15 per payable ton for cargo originating at other ports south of Philadelphia, including Hampton Roads.

12. Q. If $20 per ton were used rather than the $8.99 figure, how much more would MSTS pay for shipment than the ordinary commercial shipper outbound and inbound?

A. As shown in the response to question 11, the stevedoring factor used by MSTS was $12.62 per MT rather than $8.99 per MT. Further, the components and application of the $20 per payable ton cost have not been ascertained. Our rate of $12.62 per measurement ton would, on a simple average basis, convert to a cost of $22.90 per payable ton. The stevedoring factor used by MSTS was $2.90 per payable ton higher than the cost shown in the pooling agreement. Accordingly, the use of a $20 per payable ton factor, in lieu of the factor actually used, in all probability would show MSTS rates as even more cost favorable.

13–1. Q. Why doesn't MSTS negotiate individually with steamship lines rather than through rate-fixing associations such as the AGAFBO?

A. By virtue of section 15 of the Shipping Act of 1916, ocean common carriers have the legal right to form organizations such as AGAFBO and WCAFBO. Such organizations are subject to approval by the FMC and, when approved, are exempt from antitrust laws. MSTS is not in a position to deny the carriers their legal rights. However, MSTS negotiates with these groups only with respect to common carriage and on an area or industrywide basis. Where special lifts or charters are involved, MSTS negotiates with the individual shipowners.

13–2. Q. How many American-flag steamship companies operating liner type ships does MSTS use which are not members of AGAFBO or the equivalent association on the west coast?

A. The U.S.-flag carriers serving U.S. east and gulf ports under shipping contract that are not members of WCAFBO are as follows:

Gulf and South American Steamship Co., Inc.
Panama Canal Co.
Sea-Land Services, Inc.
United Fruit Co.
Seatrain Lines, Inc.

U.S.–flag carriers serving U.S. west coast ports under shipping contract which are not members of FCAFBO:

Alaska Steamship Co.
Oceanic Steamship Co.
Pacific Micronesian Lines, Inc.
Sea-Land Services, Inc.

There are other carriers used by MSTS under berth term arrangements utilizing a Government bill of lading who are not members of either AGAFBO or WCAFBO. The list is not complete, but would include:

Sapphire Steamship Lines, Inc.
TMT Trailer Ferry, Inc.
Oliver J. Olsen, Inc.

and any other line offering regularly scheduled American flag service over any route required for the transportation of MSTS cargoes.

14–1. Q. Mr. Marshall P. Safir testified before the committee that he offered MSTS rates which are considerably below the AGAFBO rates for general cargo and for household goods. But shortly after he made his offer AGAFBO rates were reduced below his rates. Is this correct?

A. No. This is not correct. AGAFBO has not reduced the rates for general cargo. The rates for household goods were reduced by AGAFBO. Sapphire Steamship Lines, Inc. established a rate for household goods, on a Government through bill of lading arrangement, of $7 per hundredweight for U.S. east and gulf coast to Bordeaux-Hamburg Range including United Kingdom. AGAFBO filed a reduced rate of 45½ cents per cubic foot with the Federal Maritime Commission, applicable to household goods in this trade. The 45½ cent rate equals $7 per hundredweight when the household goods stows at 6½ pounds per cubic foot. This stowage factor has been accepted by the industry and Government as the worldwide average. Additionally, AGAFBO filed a temporary rate reduction for household goods moving under MSTS shipping contract (commonly called Government container method, i.e., shipped in military transportation system) of 23 cents per cubic foot, FIO. This 23 cents per cubic foot FIO rate equals the 45½ cents per cubic foot berth term rate when 22½ cents per cubic foot is added to the 23 cent FIO rate to cover costs of stevedoring (loading and discharging) and other intangible factors (such as credit risk, solicitation, multiple accounts,

etc.). This factor of 22½ cents per cubic foot has been accepted by MSTS and the ocean carriers as a standard worldwide cost differential and is used when converting FIO shipping contract rates for household goods to a berth term basis.

14-2. Q. Is it also correct that prior to Sapphire Steamship Co.'s tariff AGAFBO was negotiating rate increases with MSTS?

A. No.

14-3. Q. Is MSTS going to intervene in Federal Maritime Commission's proceedings concerning Sapphire Lines, and if not, why not?

A. MSTS will assist in any case involving a rate problem to which MSTS is a party, upon request by the FMC.

15. Q. Will MSTS permit the AGAFBO conference to raise its household goods and general cargo rates back to previous levels if Sapphire Lines is unsuccessful?

A. AGAFBO has been advised that we will protest against any rate increase to take effect automatically and that MSTS desires rate stability for a minimum period of 6 months. If AGAFBO reduces a rate, MSTS will take advantage of the reduction but will not agree to automatic increases in the event Sapphire is not able to continue in service.

April 20, 1965.

Vice Adm. Glynn R. Donaho,
U.S. Navy, Commander, Military Sea Transportation Service,
Navy Department, Washington, D.C.

Dear Admiral Donaho: This is with further reference to my letter of April 12, setting forth a number of questions on the subject of ocean freight rates germane to the hearings conducted by the Subcommittee on Federal Procurement and Regulation.

Subsequent to my letter, some related issues have arisen to which the committee desires your response. These additional questions are as follows:

* * * * * * *

(Three questions submitted to MSTS with this letter appear below preceding answers.)

Your early response to these questions will be very helpful to the subcommittee.

Sincerely yours,

James W. Knowles, *Executive Director.*

Replies to Questions in JEC Letter of April 20, 1965

1. Q. Have the Atlantic and Gulf American Flag Berth Operators attempted to exercise any pressure or suasion on MSTS to discourage uilization of the Sapphire Steamship Lines, a newcomer to Atlantic shipping?

A. Yes. However, "pressure" from AGAFBO can be established as being official only with respect to written communications from AGAFBO regarding an MSTS decision that Sapphire Steamship Lines, Inc., was a berth line carrier. For your information, a copy of an AGAFBO telegram and a copy of my response are attached, along with a letter from AGAFBO on the same subject.

2. Q. In the course of the hearings it was alleged that AGAFBO and its west coast counterpart, WCAFBO, were formulated initially at the instigation of the MSTS. Mr. W. Lyle Bull, Special Representative of American Export Isbrandtsen Lines, testified before the subcommittee that these organizations were formed "at the request of the Military Sea Transportation Service to afford a means of having a single channel through which MSTS could conduct freight rate negotiations." Do you concur with this allegation? If not, did the MSTS exercise any influence toward the formation of these organizations?

A. The historical data available from the files of MSTS do not support this allegation. To explain the formation and influence, if any, exerted by MSTS toward the formation of these organizations, I am enclosing a copy of a letter that was forwarded by my predecessor to the Federal Maritime Board on January 13, 1960. The attachments to this letter present a brief sketch of the formation of these groups. The only changes which have occurred subsequent to the January 13, 1960 letter were changes in membership. An up-to-date list of the AGAFBO and WCAFBO member lines was furnished you under cover my letter of April 22, 1965.

3. Q. Does the existence of AGAFBO and WCAFBO have the effect of eliminating the element of competition in bidding that usually characterizes the letting of Government contracts? What would be the disadvantage if MSTS were to change its present practices and negotiate individually with each line?

A. The existence of AGAFBO and WCAFBO tends to inhibit the element of competition when MSTS deals for berth liner services on an industry or area wide basis. Contract carriage, i.e., charters, and special lifts are not negotiated with the groups but with individual carriers, and in these situations competition does exist where more than one shipowner is involved. In the event current practices were to be eliminated and MSTS were to undertake to deal for all types of ocean carriage individually with each line, limited tariff benefits could result, in theory. However, MSTS would find itself dealing with a traditionally organized industry that is accustomed, in actual practice, to establishing rates either formally by conference action or informally by tacit leadership of a principal carrier or conference. At the same time, MSTS would be confronted with a substantial administrative burden. The principal handicap from dealing with the carriers as a group arises from the refusal of the carriers to provide MSTS with realistic pricing data as required by Public Law 87-653 (1962) in a sole source procurement situation. If the required information could be obtained, there would be an administrative advantage in dealing with the group in area matters involving berth liner services.

[Telegrams]

Vice Adm. GLYNN R. DONAHO,
Military Sea Transportation Service, Department of the Navy, Washington, D.C.:

Reference is made to your telegram concerning use of Sapphire Steamship Lines for carriage of military cargo, authorization for the use of opportunist cutthroat competition of this kind is not consistent with DOD policy under the memorandum of agreement between DOD and Department of Commerce dealing with the utilization, transfer, and allocation of merchant ships dated July 1, 1954, and MSTS policy which requires an ocean carrier to qualify financially and as a berth carrier by providing one sailing per month for 3 months prior to participating in military cargo. Shapphire Lines cannot be considered a berth carrier under the above agreement. Sailings being established by Sapphire are for the carriage of military cargo only, which means that Sapphire Steamship Lines is being put in business by the Department of Defense. In view of recent experience with inexperienced and financially unsound American-flag operators it is obvious that it is not in the best interest of DOD to utilize a venture of this type just to benefit temporarily from unreasonable low rates which make no provision for services from and to the range of ports required by DOD or long-range ocean shipping capability for the Department of Defense. Maximum utilization of Sapphire service as requested in your message could have serious effect on existing operators service and certainly can only have a detrimental effect on the service available by the American merchant marine in the interest of the foreign commerce of the United States. Accordingly, it is requested that your instructions be suspended until Sapphire meets DOD and MSTS established requirements.

R. L. HANSEN,
Secretary, Atlantic & Gulf, American Flag Berth Operators.

APRIL 6, 1965.

From: Commander, Military Sea Transportation Service, Washington, D.C.
To: Mr. R. L. Hansen, Secretary, Atlantic & Gulf, American Flag Berth Operators, New York, N.Y.

1. Your telegram of April 2, 1965, passed separately to information addressees is acknowledged.

2. Sapphire Steamship Lines has met all criteria for establishing itself as a berth operator and has provided MSTS with satisfactory evidence of financial stability and intention to stay in business.

3. Use of Sapphire Steamship Lines as a bona fide berth carrier is consistent with DOD policy requiring maximum utilization of available U.S. flag berth space. Department of Defense policy does not preclude competition among berth line

operators. Additionally Armed Services procurement regulations require MSTS to utilize lowest cost service considered to be dependable and available.

4. The MSTS policy requiring an ocean carrier to provide one sailing per month for 3 months concerns the granting of a shipping contract and participation in the cargo allocation system. This requirement is not a prerequisite in the transportation of cargo by a berth line carrier under a GBL arrangement.

5. In view of all factors involved instructions concerning use of Sapphire will not be suspended.

(Signed) Vice Adm. G. R. DONAHO.

ATLANTIC & GULF,
AMERICAN-FLAG BERTH OPERATORS,
New York, N.Y., April 23, 1965.

Vice Adm. GLYNN R. DONAHO,
Commander, Military Sea Transportation Service,
Department of the Navy, Washington, D.C.

DEAR ADMIRAL DONAHO: This acknowledges your telegram of April 7, 1965, reference Sapphire Steamship Lines, Inc.

The booking of MSTS cargo on GBL after one sailing from a port represents a departure from previous MSTS qualification standards wherein lines were required to maintain a minimum of one sailing per month for 3 consecutive months. As recently as last year an American flag berth operator who had met all MSTS criteria pertaining to a shipping contract to a given area except regular service for 3 months was not permitted to carry MSTS cargo on a GBL basis until the completion of these requirements even though it had requested MSTS authority to do so. AGAFBO felt this to be a fair requirement for any line wishing to qualify.

It is our understanding the justification for this single call policy stems from a DOD interpretation of the "lowest landed cost" feature and the offering of military cargo to Sapphire Lines to the fullest extent would continue when Sapphire Lines rates are lower than the AGAFBO space rate and/or individual lines GBL rates. This, of course, applying to the 3-month initial service period.

We further understand that on completion of the initial 3-month period under the circumstances recited above Sapphire Lines would be "entitled" to cargo on the basis applying to the regular AGAFBO line, if rates are equal or continue on a priority basis if cheaper.

On the assumption that our understandings do reflect the policies of DOD may we point out that—

1. The use of any operator to a fuller extent than the established system of sharing amongst all lines in proportion to service performed, obviously permits the favored carrier to offer wholesale prices.

2. Under this new approach the DOD disregards the value of the full range of service offered by AGAFBO carriers and many other supplemental features whose value must certainly be emphasized by recent events. We include here—

(*a*) The majority of the AGAFBO membership are committed to fleet rebuilding programs including certain DOD national defense features over and above ordinary commercial construction.

(*b*) Sapphire Lines are not owners of any ocean tonnage but are operators chartered tramp vessels under no similar obligations to our national welfare.

(*c*) DOD offers to Sapphire Lines and Sapphire Lines is prepared to accept only the most lucrative of the entire DOD movement without requirement to provide the costly extended port coverage so necessary to DOD operations and offered by the AGAFBO membership.

(*d*) The performance by AGAFBO tonnage versus non-AGAFBO tonnage in national defense exercises such as Steel Pike, etc., has received the highest praise and their inclusion as vital elements of our ready sea capability has been well recognized.

Obviously, "lowest landed cost" has been computed on the basis of the strictly present per ton costs ignoring the cost and the significance of the needs of defense in making the decision to extend preferential treatment to a steamship line of no historical background or dependable future commitment to our national defense welfare.

In view of AGAFBO's instantaneous response to any national crisis such as Korea, Suez, the Berlin buildup and the potentiality of its capability at present, we feel the facts outlined above justify a reconsideration of DOD's decision toward Sapphire Lines and will appreciate your advice.

Very truly yours,

R. L. HANSEN, *Secretary*.

JANUARY 13, 1960.

Mr. ALLEN DAWSON,
Regulations Office, Federal Maritime Board, General Accounting Office Building, Washington, D.C.

DEAR MR. DAWSON: Pursuant to your request the enclosed report is forwarded reflecting the historical background of the Atlantic and Gulf American-Flag Berth Operators and West Coast American-Flag Berth Operators and their relationship with Military Sea Transportation Service (MSTS) in matters pertaining to MSTS shipping contracts.

Sincerely yours,

ROY S. BENSON,
Rear Admiral, U.S. Navy,
Deputy Commander, Military Sea Transportation Service.

STATEMENT OF HISTORICAL BACKGROUND OF AGAFBO AND WCAFBO

1. In early 1950, MSTS undertook the problem of adjusting the then existing free alongside (FAS) type space charters of the Office of the Chief of Transportation, Department of the Army, and the Bureau of Supplies and Accounts, Department of the Navy, to a free in and out (FIO) type contract whereby freight charges would be assessed on the basis of actual manifested measurement of cargo shipped. It was immediately apparent to both MSTS and industry that the task of MSTS' dealing with each individual carrier in an attempt to establish a standard shipping contract containing uniform rates, terms, and conditions for a given area, presented an extremely difficult administrative problem.

2. In the interest of providing an expedient and effective means to accomplish this conversion and to secure some measure of continuity, it was jointly concluded by MSTS and industry representatives that the steamship companies on both the east and west coasts would pursue the adjustment of contract rates, terms, and conditions on a collective basis. Each carrier group appointed a spokesman to represent it. They included operators on the east and west coasts and for all areas served. The spokesman was delegated authority to commit participating carriers to uniform rates, terms, and conditions to be incorporated in a standard form of shipping contract.

3. This practice continued until 1956 when the volume of work and importance of the spokesman's duties reached such magnitude it was determined by the steamship companies that two full-time secretaries should be employed, one to represent each major group. The secretaries were assigned the function of handling all correspondence, assembling cost data, receiving and disseminating information, and attending conferences with MSTS and the shipper services incident to the administration of the MSTS shipping contracts.

4. A chronological history of the establishment of the various groups of American flag berth operators and the establishment of the official Atlantic and Gulf American-Flag Berth Operators (AGAFBO) and West Coast American-Flag Berth Operators (WCAFBO) groups is attached hereto, and includes the names of the spokesmen and secretaries.

ATLANTIC AND GULF AMERICAN-FLAG BERTH OPERATORS

1950

P. E. McIntyre (U.S. Lines), spokesman for AGAFBO.
Cocke (Lykes), spokesman for AGAFBO.

1951–52

P. E. McIntyre (U.S. Lines), spokesman for AGAFBO.
Cocke, spokesman for AGAFBO.

1953–54

P. E. McIntyre (U.S. Lines), spokesman for AGAFBO.
R. L. Hansen (Waterman), spokesman for AGAFBO.
F. G. Slater (American Export), spokesman for AGAFBO.
Cocke (Lykes), spokesman for AGAFBO.

1955

P. E. McIntyre (U.S. Lines), spokesman for AGAFBO.

1956

P. E. McIntyre, secretary of AGAFBO.
R. L. Hansen (T. J. Stevenson), spokesman for AGAFBO.
John Gammie (States Marine), spokesman for AGAFBO.

1957

P. E. McIntyre, secretary of AGAFBO.
R. L. Hansen, spokesman for AGAFBO.
John Gammie (States Marine), spokesman for AGAFBO.

1958

P. E. McIntyre, secretary of AGAFBO.
R. L. Hansen, spokesman for AGAFBO.

1959

R. L. Hansen, secretary of AGAFBO.
John Gammie (States Marine), spokesman for AGAFBO.

WEST COAST AMERICAN-FLAG BERTH OPERATORS

1951

Pries (PFE), spokesman for WCAFBO.
Pennington (PAC Transport), spokesman for WCAFBO.

1952

Miller (APL), spokesman for WCAFBO.
Pries (PFE), spokesman for WCAFBO.

1953

Pennington (PAC Transport), spokesman for WCAFBO.

1954

A. R. Page (States Steamship), spokesman for WCAFBO.

1955

Wester (PFE), spokesman for WCAFBO.
A. R. Page (States Steamship/PTL), spokesman for WCAFBO.

1956

A. R. Page, secretary of WCAFBO.
Wester (PFE), spokesman for WCAFBO.
I. Thayer (States Steamship), spokesman for WCAFBO.

1957

A. R. Page, secretary of WCAFBO.
P. Dolter (APL), spokesman for WCAFBO.

1958

A. R. Page, secretary of WCAFBO.
Jacobsen (American Mail), spokesman for WCAFBO.

1959

A. R. Page, secretary of WCAFBO.
P. Dolter (APL), spokesman for WCAFBO.

ORIGINAL PARTIES TO FEDERAL MARITIME BOARD AGREEMENT NO. 8186 OF AUGUST 29, 1956 (WCAFBO)

American Mail Line
American President Line
Isthmian Lines
Pacific Far East Lines
Pacific Transport Lines
States Steamship Co.
States Marine Corp.
States Marine Corp. of Delaware
Waterman Steamship Corp.
Additional parties as of present: Isbrandtsen Co., Inc.

DEPARTMENT OF THE NAVY,
MILITARY SEA TRANSPORTATION SERVICE,
Washington, D.C., March 11, 1965.

From: Commander, Military Sea Transportation Service.
To: Judge Advocate General.
Subject: Maritime Advisory Committee meeting of February 8, 1965.
Reference: (a) Judge Advocate General letter dated February 23, 1965, re February 8, 1965 Maritime Advisory Committee meeting.
Enclosure: (1) Draft statement regarding comments by Mr. Paul Hall at subject meeting.

1. Enclosure (1) is furnished in accordance with your request stated in reference (a).

(Signed) GLYNN R. DONAHO.

DRAFT STATEMENT REGARDING COMMENTS OF MR. PAUL HALL AT FEBRUARY 8, 1965, MEETING OF PRESIDENT'S MARITIME ADVISORY COMMITTEE

1. In his comments before the President's Maritime Advisory Committee at the meeting held on February 8, 1965, Mr. Paul Hall, of Seamen's International Union, urged the elimination of Military Sea Transportation Service (MSTS). The basis for this position was an allegation that since 1954, MSTS had spent some $45 million in the operation of Government-owned tankers over what would have been the cost of providing the same service by means of privately owned tankers.

2. Mr. Hall arrives at his $45 million estimate by first assuming a 95 cents per 1,000 ton-mile differential between the cost of operating the Government-owned tankers and the charter hire paid for those commercial tankers chartered by MSTS. Assuming a differential exists at whatever level, it does not follow either that the same service could have been obtained from commercial tankers or that had it been, the cost would have been less. Certainly, the implication of inefficiency cannot be supported. The Government-owned tankers and the commercial tankers do not provide comparable service or service that can be equated on the basis of cost per 1,000 ton-miles.

3. The Government-owned fleet of 25 tankers comprises small-size tankers. It includes five small T–1 type tankers of 30,000-barrel capacity, which are utilized for shuttle service between Japan and Korea, Middle Pacific island bases, Artcic and Antarctic. This type of shallow-draft tanker is required to meet requirements in these areas and is not available for charter on the commercial market. Sixteen of the remaining 20 are World War II T–2 type tankers which, although now over 20 years old, must be maintained to provide required service to military installations with limited-depth of water, limited storage, and small requirements. These tankers are maintained in a higher than commercial standard of material condition in order to insure continuous reliable service in future years. The cargo tanks of these ships have been coated, the cargo tank bulkheads and cargo lines have been renewed. Ships of this size are rapidly disappearing from the U.S.-flag fleet; because of their age and size they cannot compete in the commercial market. In order to maintain military readiness, MSTS must continue to have ships of this size available.

4. These relatively small, overaged, Government-owned tankers are used for short voyages with multiport discharges to deliver small quantities. Both the routes and the service in which the tankers operate result in a high cost per ton-mile. Except for the high standard of maintenance, the MSTS operating costs compare favorably with privately owned tankers of the same size engaged in similar service.

5. On the other hand, the commercial tankers chartered by MSTS are, in the main, large "super" tankers including tankers up to 67,000 deadweight tons with cargo capability up to 500,000 barrels. They are engaged primarily in long-haul trades such as the Persian Gulf to Japan, transporting predominantly single-grade cargoes such as bunker oil which can be loaded at a single refinery and often discharged into a single military terminal. The movement of large quantities in a single lift on a long volage to a minimum number of ports results in lower LTM cost to both the operator and the charterer. In addition, many of the tankers are chartered on an opportune basis for a particular lift at very favorable rates because the owner is obtaining revenue cargo both ways, such as transporting grain to the Middle East and chartering to MSTS for petroleum from the Middle East to the Far East or Europe.

Senator DOUGLAS. Our final witness this morning is Mr. William S. Gaud, Deputy Administrator for the Agency for International Development.

STATEMENT OF WILLIAM S. GAUD, DEPUTY ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT; ACCOMPANIED BY LESLIE A. GRANT, DEPUTY GENERAL COUNSEL

Senator DOUGLAS. Mr. Gaud, in the statement which Mr. Boggs prepared and which I approved, we make the statement that we discovered that AID maintains no surveillance over ocean freight rates.

So in the course of your testimony I hope you will deal with that question.

Mr. GAUD. I shall, sir.

Shall I proceed with my statement?

Senator DOUGLAS. Yes, sir.

Mr. GAUD. Mr. Chairman, I am glad to appear before this committee to discuss cargo shipments financed by the Agency for International Development, and the relation of the AID program to cargo rates and the U.S. balance of payments.

It is the aim of the Agency for International Development to make its foreign assistance program as efficient and as effective as possible. We welcome the opportunity to work with this committee toward that end.

Your report of January 6, 1965, has led us to request the Federal Maritime Commission to undertake a study of freight rates applicable to the AID cargo. This follows the recommendation in finding No. 7 of the report. The Commission has agreed to make such a study. We will be working closely with the Commission, and we hope that the study will prove productive. We will do our best to make it so.

I should like to submit for the committee's information copies of the exchange of letters between AID and the Federal Maritime Commission with respect to this study.

Senator DOUGLAS. We will be very glad to have them printed at this point.

(The documents referred to follow:)

FEBURARY 9, 1965.

Rear Adm. JOHN HARLLEE, U.S. Navy (Retired),
Chairman, Federal Maritime Commission,
Washington, D.C.

DEAR ADMIRAL HARLLEE: The recent Joint Economic Committee Report (Senate Report No. 1) recommends a study of discriminatory rates as described in finding No. 7. This is to ask if you would undertake such a study on behalf of AID.

We believe it would be constructive to compare general trends in rate levels on trade routes where AID-financed cargo moves in significant volume with general rate trends in other trade routes. AID-financed liner cargo from the United States goes to some 60 countries, but more than two-thirds of the tonnage moves to 5 or 6 countries. See attached table. Note that there are marked changes from year to year.

Currently, some dozen broad commodity classifications make up over 80 percent of the 3-million-ton annual flow, which might facilitate rate comparisons. A reconnaissance survey might point to where further study may be warranted and to whether conclusions can be reached that the freight rates charged by liners for AID-financed cargo are discriminatory or unfair or unreasonable.

In connection with the study, the following picture may be helpful as a frame of reference. AID itself is not a shipper. While some procurement and shipment are arranged for us by other Government agencies, the great share of AID-financed cargo arises out of export transactions made by suppliers here with importers in the AID recipient countries. Thus, we are akin to a bank. Of the AID dollar going to procurement of goods, some 8 or 9 percent is for ocean freight. By dividing the freight by the U.S. liner tonnage from the United States, we find the average freight rate for a ton of cargo was $36.60 in fiscal 1958, $36 in 1959, $31.70 in 1960, $32.30 in 1961, $26.50 in 1962, $28.25 in 1963, and $28.50 (preliminary) in 1964.

To implement the Presidential balance-of-payment directives, AID took steps in 1960 and 1961 to give increasing emphasis to the procurement of U.S. goods and services. In fiscal 1960, 2 tons of AID cargo arose offshore to 1 ton from the United States; this ratio was reversed in fiscal 1962. AID freight payments to foreign flag vessels (liners, tankers, and tramps) have been steadily reduced from $31.6 million in fiscal 1960 to $27.5 in 1961, $11.3 in 1962, $5.5 in 1963, and $3 (preliminary) in 1964, while freight paid to U.S.-flag vessels increased from $43.3 million in 1960, to $47 in 1961, $67.3 in 1962, $83.2 in 1963, and $89 (preliminary) in 1964. As more cargo originated in the United States, U.S. flag participation has tended to increase because more of our ships have been available here than offshore; but a more important factor, perhaps, influencing the degree of U.S.-flag participation has been the relative nonavailability of ships under the flags of the recipient countries. Many are now acquiring merchant marines.

Huge quantities of coal and grain were financed under the Marshall plan, but these commodities have all but disappeared from the current program of AID financing. As the need for dry bulk carriers lessened, liners have played an increasing role and now carry a preponderance of our cargo from the United States—machinery, the gamut of general cargo, steel, industrial raw materials, lumber and fertilizer.

AID's tonnage statistics, needed to measure performance under the cargo preference law, are derived from paid vouchers for materials and equipment going to particular countries. We have not kept statistics by trade routes as there has been no need. Detailed statistics of commodities moving on specific trade routes can be determined, with some limitations, only by extensive use of computers. In this connection, we have turned over to the Department of Commerce our computer tapes representing all AID-financed transactions for 1963 for use in its study, just begun, which it is making for the Joint Economic Committee. However, for a reconnaissance study directed to rates for AID cargo, we believe we can produce by hand tabulation some close approximations of tonnage of the principal commodities that move to recipient country destinations, and from this trade route information might be deduced for broad rate level analyses. Since the Commerce study is not directed at discriminatory rates for AID cargo, we believe there is a real and urgent need for a study of rates under your leadership, useful to your Commission, to AID and to the Joint Economic

Committee. We would hope that such a study, in reconnaissance at least, could be finished before the committee resumes its hearings.

If the study meets with your approval, I would propose that we schedule prompt meetings between our respective staffs. Herbert J. Waters, Assistant Administrator for Material Resources, would represent AID in any such discussions. He will be assisted by Robert C. Duane, Director of the Resources Transportation Division.

Sincerely yours,

DAVID E. BELL.

AID-financed liner shipments from the United States—Without title II

[In long tons]

Area	Fiscal year 1961	Fiscal year 1962	Fiscal year 1963	Fiscal year 1964
Far East:				
Korea	267,775	708,682	384,097	509,936
Vietnam	73,810	312,052	147,109	331,937
China	209,400	256,830	44,577	52,882
Indonesia	0	25,000	18,000	88,700
Philippines	36,984	0	0	0
Cambodia	29,963	8,000	18,000	0
Total	617,932	1,310,564	611,783	983,455
South Asia:				
Pakistan	71,030	550,000	681,219	698,971
India	24,900	88,359	800,735	741,999
Afghanistan	2,200	16,237	0	0
Iran	5,330	12,931	0	0
Yemen	11,820	11,926	0	3,000
Total	115,280	679,453	1,481,954	1,443,970
Mediterranean:				
Turkey	67,560	220,177	122,000	155,000
Morocco	25,480	175,147	17,161	26,038
Yugoslavia	8,960	66,000	7,800	1,040
Tunisia	32,640	59,602	5,691	35,945
Italy	20,000	41,692	3,368	0
Israel	0	40,000	183,000	71,215
UNRWA	30,000	34,027	2,758	0
Greece	42,000	31,000	22,000	15,000
United Arab Republic	49,000	0	26,000	37,000
Algeria	0	0	10,950	0
Jordan	36,000	1,016	0	0
Total	311,640	668,661	310,728	341,238
Latin America	5,029	117,287	424,148	355,954
All other countries	299,187	106,167	245,244	54,990
Grand total	1,349,068	2,882,132	3,073,857	3,179,607
U.S. flag	716,076	[1] 2,229,224	[2] 2,300,000	[3] 2,500,000
U.S. percent	53	[1] 77	[2] 75	[3] 78

[1] Contains a fiscal year estimate for loans.
[2] Without taking into account "refused" cargoes.
[3] Estimated.

FEDERAL MARITIME COMMISSION,
Washington, D.C., February 19, 1965.

Mr. DAVID E. BELL,
Administrator, Agency for International Development,
Department of State,
Washington, D.C.

DEAR MR. BELL: This is in response to your letter of February 9, 1965, wherein you ask if we would on behalf of your agency undertake a study of discriminatory ocean freight rates with respect to AID-financed cargoes.

A preliminary analysis of your proposal and finding No. 7 of the report of the Joint Economic Committee, 89th Congress, 1st session, Report No. 1, indicates that a study in the depth contemplated could not be accomplished by mid-April. However, it is believed that the project could be completed within a reasonable period of time to be fixed after an initial review and evaluation of the information and data in your records, and a determination and agreement as to the objectives and

results to be achieved by the project. Of course, I am sure that you recognize that another controlling factor will be the number of available qualified personnel to be assigned to this project from our respective agencies; our rough estimate of the minimum personnel requirement would be two economist/statisticians of GS-14 to 16 level, two tariff examiners grade 12 to 14 level, one statistical typist and clerical assistant grade 6 to 7 level, and one clerk typist grade 3 or 4 level.

In view of the foregoing, I am sure that you would agree that immediate discussions between our respective staffs should be undertaken for the purpose of reaching the required determinations, and in this connection I have designated Mr. Timothy J. May, Managing Director of the Federal Maritime Commission, to represent me in this matter. Mr. May is located at 1321 H Street NW., room 444, and can be reached at DUdley 6-4331.

Notwithstanding the limitations imposed by the short supply of qualified staff personnel, I want to assure you we are most anxious to extend every assistance to AID in the discharge of its statutory responsibility to insure that rates on AID cargoes are fair and reasonable.

Sincerely yours,

JOHN HARLLEE,
Rear Admiral, U.S. Navy (Retired), Chairman.

AID AND THE BALANCE OF PAYMENTS

Mr. GAUD. I would like first of all to say a word about the relation of foreign aid to our balance of payments—a relationship that is not always understood.

The basic function of the foreign aid program is to provide goods and services to the developing nations—goods and service which they cannot finance from foreign exchange earnings or from capital borrowing on commercial terms.

AID provides the credit for the purchase of these goods and services. But because of the U.S. balance-of-payments situation AID has, since 1961, taken steps to assure that such purchases have the least possible adverse impact on our balance of payments. We do this by insisting that these purchases be made in the United States.

President Johnson underscored this policy in his balance-of-payments message of February 10, 1965, when he said:

> Until we master our balance-of-payments problem AID officials will send no aid dollars abroad that can be sent instead in the form of U.S. goods and services.

This policy has been increasingly successful. More than 85 percent of all aid funds committed in fiscal year 1966 will be spent in the United States. If we look at commodity purchases alone, the results are even more favorable. In the first quarter of fiscal year 1965, 94 percent of all commodity purchases under the AID program were made in the United States.

Administrator Bell discussed this situation in detail before the Senate Committee on Banking and Currency on March 9. He pointed out that while AID spent approximately $2 billion in calendar year 1964, no more than $400 million was spent outside the United States.

Offset against this was $150 million in repayments from past aid loans, leaving a net adverse effect on the balance of payments of $250 million.

I believe that Mr. Bell's statement will be helpful to this committee and ask your permission that its full text be inserted in the record.

Senator DOUGLAS. That will be done.

(The document referred to follows:)

STATEMENT OF HON. DAVID E. BELL, ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT, BEFORE THE SENATE BANKING AND CURRENCY COMMITTEE

Mr Chairman, thank you for the privilege of appearing before this committee. As Administrator of the Agency for International Development, I am particularly pleased that these hearings are being held, for they present an excellent opportunity to give the facts to the Congress, and to attempt to clear up some of the misconception surrounding the relation of aid to our balance of payments.

Foreign aid is by its very nature closely involved with the flow of payments. Thus each action and step taken by AID is and must be evaluated from the point of view of our balance-of-payments situation.

The foreign-aid program provides goods and services to other countries which they cannot obtain through normal means—through their export earnings and through obtaining capital on commercial terms and by private investment. A successful aid program is one which enables the recipient country to strengthen its economy to the point where it can obtain goods and services it needs for steady expansion and growth by normal trade and normal capital movements—and without further need for aid grants and soft loans. This is what was achieved in Western Europe under the Marshall plan, and has since been achieved in Japan, Spain, Greece, Taiwan, and other countries.

It is plainly important to seek to carry out this important national program, like any other, at a minimum cost to the United States.

In the first years of the U.S. foreign aid program after World War II, during the Marshall plan and most of the 1950's, our aid appropriations were, in general spent wherever in the world prices were lowest. During the Marshall plan period, of course, the United States was the only major source in the world for most of the goods those countries needed. Therefore most of the aid dollars, although not tied to U.S. procurement, were spent in this country. Later in the 1950's the revived European economies became increasingly effective competitors for U.S. aid purchases.

Beginning in 1959, in response to the changed situation of the U.S. balance of payments, our policy respecting aid purchases were changed. Today, with small exceptions, aid appropriations can only be spent in the United States, for goods and services produced in this country. This has undoubtedly raised the cost to the Federal budget of providing a given amount of goods and services under the aid program, since some items are being purchased with aid appropriations in the United States which could be bought more cheaply in other countries. But our present policies are intended to minimize the adverse effect of the aid program on the balance of payments, even if that results in some increased cost to the budget.

I

There are two approaches to measuring the impact of AID's expenditures on the balance of payments. The first, which might be called the accounting approach, measures the direct result of the AID spending: are the dollars appropriated by the Congress spent directly in this country or are they spent abroad or transferred to another country or to an international organization.

Under this method of measurement, which is similar to the Department of Commerce figures on the balance of payments, during fiscal year 1964—the latest data available—the gross adverse effect on the U.S. balance of payments of AID's economic assistance programs was about $513 million.

We have now received preliminary estimates for the calendar year 1964 which show substantial further improvement. The payments abroad dropped to about $400 million. This is offset by repayments of past assistance extended by AID and predecessor agencies of over $150 million, making a net effect of about $250 million.

The current expenditure rate under our economic assistance program is almost exactly $2 billion per year. Thus in 1964, for every dollar of economic aid extended, 20 cents showed as a current adverse impact in our balance of payments—not considering current or future receipts.

Put the other way round, 80 percent of AID expenditures last year represented not dollars going abroad, but steel, machinery, fertilizer, and other goods and services purchased in the United States.

Under these circumstances, of course, a cut in AID appropriations would primarily reduce U.S. exports. and would have only a very small effect on the balance of payments.

Moreover, the proportion of appropriations spent in the United States is rising. Eighty-five percent of new obligations are being committed for direct expenditure in the United States.

The $400 million of AID offshore payments in calendar 1964 is made up of the following major elements:

One hundred and twenty million dollars representing payments of U.S. voluntary contributions to international organizations, such as UN agencies, the Indus River project administered by the IBRD, and the Social Progress Trust Fund.

Seventy-eight million dollars for commodity purchases in other less developed countries—cases where, for example, required goods are unavailable in the United States or shopping costs are too high.

Nineteen million dollars for commodity purchases in other developed countries. These are either tag end expenditures of major projects approved before aid was tied in 1959 or items unavailable from any other source, approved on a case-by-case waiver basis.

Sixty-six million dollars in cash transfers—transfers of funds made in a very few cases where normal procedures for providing assistance are not feasible or made in small amounts to cover local costs of technical assistance projects. The amount of such transfers has been reduced sharply in recent years and is expected to be only $40 million in calendar 1965.

Thirty million dollars for local expenses of AID direct hire personnel stationed abroad. This represents the local expenses which could not be met by use of Treasury-owned local currencies.

Eighty-seven million dollars for other expenditures outside the United States. This includes payments by U.S. contractors for such necessary items as wages. It also includes payments to schools and hospitals abroad, disaster relief expenditures, offshore expenses of participants, and other project costs.

As indicated above, this $400 million was offset by about $150 million in repayments of principal and interest on loans extended by AID and its predecessor agencies.

II

This then is the "accounting" measure of the direct flow of dollars abroad resulting from our economic aid program.

The true net economic effect of foreign assistance on our balance of payments cannot be measured so simply. This is because there are indirect effects not revealed by the direct accounts. A substantial portion of the dollars that go out under our aid program, to the United Nations, for example, comes back through regular commercial channels for purchases of U.S. goods.

Dollars which go out and enter the economy of a less-developed country may be used later by that country to buy needed goods in the U.S. market or may go through trade channels to a third country, which will use the dollars for purchase of goods in the U.S. market.

These are examples of the so-called feedback effect, which means that the effect of aid outflows on the U.S. balance of payments is overstated, because dollar outflows, to a considerable extent, are immediately reflected in increased U.S. export sales for dollars.

But there is another indirect effect in the opposite direction. When an aid recipient is able to buy U.S. imports under a tied loan; that is, has a letter of credit opened in a U.S. bank which can only be spent in the United States, then that country may use the tied dollars to buy goods that it would have otherwise bought with dollars it already owns. These other dollars—free exchange—are thus available for other purchases either in the United States or elsewhere. This is the so-called substitution effect, meaning that to some extent aid-financed imports are "substituted" for imports that would have been bought with "free" dollars, and to this extent the effect of tied aid on the U.S. balance of payments is understated.

There are no good estimates of the size of the feedback and substitution effects. Only indirect evidence is available. With respect to the question of how much substitution occurs, for example, it is clear that most of the less-developed countries have severe shortages of dollars, and need more goods from the United States than they can afford, even with the addition of aid. Furthermore, sta-

tistics do not indicate that a dropoff in commercial trade occurs when there is an increase in aid. Quite the opposite. The most frequently cited example is Latin America. While expenditures under the Alliance for Progress have been increasing over the past 3 years, so have Latin American purchases from the United States through regular commercial channels. In fact, according to preliminary estimates, commercial U.S. exports to Latin America increased by $500 million in 1964 alone. Thus, it is the best guess of the economists who have studied these matters that the amount of substitution is relatively small.

Overall, it is our conclusion that the indirect economic effects of aid on our balance of payments roughly balance each other, and even allowing for some variation from time to time, the true effect of aid on our balance of payments would not differ very much in either direction from the figures shown by the accounting estimates referred to earlier.

To sum up, our balance-of-payments figures show, by the "accounting" measure, the share of our expenditures made directly for U.S. goods and services is 80 percent and rising, and the share paid to foreigners and international organizations is 20 percent and falling. These figures do not take into account indirect effects, but it is our best guess that they would be little different if they did. AID dollars spent abroad which return quickly in payment for commercial exports roughly offset the amount of AID financing for goods that would have been exported anyway. As nearly as we can tell these two imperfections roughly cancel each other out and 15 to 20 percent is a valid indication of the real adverse impact of aid on the U.S. balance of payments.

III

I should like to say a word about the relationship of U.S. aid and holdings of U.S. gold.

Some aid recipients have bought gold from the United States in the past few years, mostly to finance their gold subscription to the International Monetary Fund.

In the main, however, gold transactions between United States and aid recipients result in a net gain in U.S. holdings. During 1964, for example, less developed countries purchased $28 million worth of gold from the United States (of which all but $3 million was subscribed to the IMF), but they sold $89 million worth of gold to us for dollars in the same period.

There is thus no direct relation between aid and an outflow of gold to aid recipients. In fact, the reverse is true. The U.S. gold problem lies with the industrial countries of Europe, not in our relations with the aid recipient nations.

IV

I have been speaking thus far of AID expenditures. There are other U.S. programs which can properly be referred to as "foreign aid" in a broad sense. I should like to mention these briefly, with a word about their balance-of-payments impact.

Military assistance consists principally of the provision of U.S.-produced military equipment. Taking into account the costs of U.S. personnel overseas to administer the program, some oversea training costs, and other oversea expenditures, the estimates are that over 85 percent of military assistance expenditures are made directly in the United States, and the remainder are made offshore.

The Public Law 480 program provides U.S. surplus agricultural commodities by sale and donation to other countries. In view of the nature of the program, virtually all of the expenditures under it are made directly in the United States, with only minor and unavoidable offshore costs in foreign ports. The same is true of expenditures under the Export-Import Bank loans.

The Peace Corps expenditures are almost entirely for the living expenses of the volunteers abroad, and for their training and supervision in the United States. It is estimated that about 75 percent of Peace Corps expenditures are made in the United States. It is estimated that about 75 percent of Peace Corps expenditures are made in the United States and about 25 percent offshore.

Finally, U.S. contributions to international agencies such as the International Development Association are paid in dollars and are shown in the Department of Commerce statistics as 100-percent outflows. In fact, however, a substantial share of the total expenditures of these international organizations is made in the United States. Consequently, the accounting estimate of balance-of-payments impact in this case overstates the true effect.

I should also like to stress that we are seeking in every way we can devices to use local currencies, owned by the United States as a result of food-for-peace sales or other U.S. assistance, to meet the local costs of our aid missions. The net effect of this policy is to enable us in many countries to substitute U.S.-produced commodities for what would otherwise be dollars used to purchase local currencies to cover the local costs of U.S. Government activities.

V

President Johnson's message of February 10 said "Until we master our balance-of-payments problem AID officials will send no aid dollars abroad that can be sent instead in the form of U.S. goods and services." We are doing just that. I have asked that every project and every commodity order be closely examined. Waiver of tied procurement regulations will be allowed only when it is clearly justified in the U.S. interest. Local costs will be paid for out of U.S. local currency holdings wherever possible.

We expect, as I have indicated, to see some further increase in tied purchases and expenditures in the United States, but we are close to the limit. Some minimum offshore expenditures will remain—principally the local expenditures of our employees and those of our contractors who are stationed overseas, the contributions of the United States to international organizations, and a few special cases where tying to U.S. procurement is unfeasible or unwise.

The President, advised by his Cabinet Committee on the Balance of Payments, has concluded that this small remaining element of offshore expenditures under the aid program is a cost to our country which is far outweighed by the benefits to our own interests that will accrue from the achievement of economic and social progress in the less-developed countries.

A similar judgment underlay the distinction drawn by the President in his recent balance-of-payments message between U.S. private investment abroad in advanced countries—which for the time being is to be discouraged—and U.S. private investment abroad in less developed countries, which the U.S. Government is continuing strongly to encourage.

VI

Looking beyond the immediate present the foreign aid program has a number of effects which are positively beneficial to our balance of payments.

First, our aid today is overwhelmingly in the form of dollar-repayable loans—unlike the situation under the Marshall plan, when 90 percent of our aid was in the form of grants. Future repayments of interest and principal on today's loans will be a positive factor in our balance of payments.

Secondly, the evidence is plain that countries which with our aid achieve steady economic growth become increasingly better markets for U.S. exports and more attractive places for U.S. investment abroad. Over the last 15 years our exports to Europe have doubled and and our exports to Japan have tripled. As other countries—Spain, Greece, Taiwan, and so on—gain economic momentum and our aid comes to an end, the same kind of result is evident.

Moreover, the aid program in case after case has directly led to the introduction of American products and services in other countries, and to followon markets unrelated to the aid program. Aid has in fact been one of our best export promotion mechanisms.

VII

In conclusion, Mr. Chairman, I am pleased to report that since 1961 we have steadily reduced the effect of foreign aid on our balance of payments. We are continuing the efforts to minimize the effect as part of the action program announced by President Johnson last month.

We will do more. But the upper limit may soon be reached as the adverse impact has already been reduced to $400 million, not including repayments.

In addition, it is important to recognize that a continuation of the present program will have a long-range positive impact on our balance of payments as a result of a dollar repayment flow, expanding markets for our exports and improving opportunities for our private investment abroad.

Mr. GAUD. Mr. Bell's statement does not deal specifically with the AID expenditures for shipping and their relation to the balance of payments. The reason is that, as I will discuss in a moment, the AID

48-063 O—65—pt. 1——6

finances very little shipping on foreign-flag vessels. Our funds are used to finance shipment of cargo on U.S.-owned vessels.

Senator DOUGLAS. The law, I believe, provides that there must be a 50-percent shipment of goods in American-owned vessels?

Mr. GAUD. That is right.

Senator DOUGLAS. You heard the testimony, I believe, of Under Secretary Murphy, saying that in practice this was what was observed, no more, 50–50.2 or 51 percent. The figures that we gather indicated 75 percent of AID cargoes are going on U.S.-flag ships and now you say that virtually all the cargo goes on U.S. vessels.

Mr. GAUD. No, sir; I beg your pardon. I have not made that clear. I say that we don't finance the cargo when it goes up under foreign flags. We only finance it if it goes on U.S. vessels.

Senator DOUGLAS. What percentage of your cargo goes on U.S. vessels?

Mr. GAUD. The figure for 1964: 71 percent of our cargo was on American vessels.

HOW AID FINANCES SHIPMENTS

Before considering freight rate levels and the factors which effect such levels, I should like to discuss briefly how AID operates.

AID is essentially a planning, programing, and financing agency. Pursuant to statutory provisions, operations are caried out to the maximum extent practicable through established channels of trade and commerce and in accordance with normal trade practices.

AID does not itself make the some 200,000 ocean freight contracts per year that are necessary to accomplish the transportation to recipient countries of the goods and equipment used in its programs. Nor, as a general rule, does AID itself purchase those goods and equipment.

There are some exceptions to this latter proposition. Some goods for technical assistance projects, public safety programs, and other special purposes are bought by other U.S. Government agencies—primarily the General Services Administration. In these cases the procuring agency also arranges the shipping. Perhaps 10 percent of the $1.15 billion of commodity procurement during fiscal year 1964 was handled that way. The other 90 percent was bought by recipient country governments and private importers through commercial trade channels.

AID makes funds available to developing countries—or to enterprises within those countries—on either a loan or grant basis. These funds—approximately 70 percent of them are loans repayable in dollars—are usually made available in the form of a line of credit which is used by the recipient country to finance the foreign exchange costs of goods and services needed in the country's development program.

That is a line of credit, of course, with American banks.

These funds can be used to pay ocean shipping costs provided the goods are shipped in U.S.-flag vessels. Indeed, 50 percent of the tonnage must be so shipped under the cargo preference law. If the goods move on foreign bottoms, however, shipping costs must be paid from the recipient country's own resources. AID now pays foreign-flag freight only when U.S.-flag space cannot be obtained to ship goods bought by the U.S. Government itself, and under a few old agreements which have not yet been fully discharged.

Senator DOUGLAS. Forgive me for interrupting, but I want to clarify this. Since you ship 71 percent of your goods in U.S.-flag vessels, you pay for these out of AID funds?

Mr. GAUD. Yes.

Senator DOUGLAS. Very well.

Mr. GAUD. In fiscal year 1964 only $4 million out of $92 million for ocean shipping was paid to foreign-flag carriers.

Senator DOUGLAS. Those are the payments which you made?

Mr. GAUD. That is correct out of AID funds.

Seantor DOUGLAS. So you paid $88 million to domestic carriers?

Mr. GAUD. To U.S. flag and $4 million to foreign flag; and the balance of the goods which were shipped under foreign flag were paid for by the recipient countries.

When AID funds are used for shipping costs on goods bought by aid recipients, the shipping arrangements may be handled in different ways. In many cases the developing country makes the dollars available for essential imports by private importers. The importers, who pay for the commodities in their own currency and have to resell on a competitive basis, have a direct interest in buying at the lowest landed cost. In order to fix the total price at the time the commodity contract is made, the importer will usually contract with the U.S. exporter on a cost and freight (c. & f. or c.i.f.) basis. The exporter, in order to protect his profit margin, will naturally ship the goods at the lowest freight rate he can get. We estimate that some 60 percent of the AID financed cargo is handled this way.

In other cases, especially where AID funds are made available for specific projects or specific commodities or equipment, the borrowing government or a fixed-price construction contractor may do the buying and contract for the ocean freight. Here again, the borrower's or contractor's financial interest is served by obtaining the lowest freight rate he can get.

While AID does not deal directly with the individual commodity suppliers and ocean carriers who sell the goods and services that our dollars are paying for—there are more than 100,000 separate commodity transactions and about 200,000 separate freight transactions per year—we do prescribe certain conditions and requirements, both statutory and administrative, which must be complied with if AID funds are to be used.

In the case of ocean shipping, these statutory and administrative requirements relate to both the flag of vessels used and the freight rates charged. Before dealing with these, however, let us first look at the legislative and policy backdrop against which AID operates.

THE LEGISLATIVE AND POLICY FRAMEWORK WITHIN WHICH AID FINANCES FOREIGN AID SHIPMENTS

AID has no legislative grant of regulatory authority in the area of ocean shipping. Nothing in the Foreign Assistance Act or elsewhere gives the Agency any regulatory or other special power to deal with shipping conferences or to modify, with respect to foreign aid shipments, the effect of existing maritime legislation.

AID must operate withinthe context of the overall policy and regulatory statutes which apply to maritime shipping.

There are several factors which are primarily responsible for the way in which foreign aid cargoes are shipped.

First is the cargo preference law. It requires that at least 50 percent of Government-sponsored cargo be shipped in U.S.-flag commercial vessels to the extent they are available at rates which are "fair and reasonable for U.S.-flag vessels."

Congressional committees over the years have carefully monitored compliance with this provision by Federal agencies (see, for example, H. Rept. 80, 84th Cong., 1st sess.). They have insisted that the 50-percent figure constitutes a minimum requirement, and that U.S.-flag shipping should be maximized. In April 1962 President Kennedy issued a directive (quoted in S. Rept. 2286 of Oct. 8, 1962) emphasizing this policy and stating that:

> This requirement is a minimum and it shall be the objective of each agency to ship a maximum amount of such cargoes on U.S.-flag vessels.

Second is the Shipping Act of 1916 and the support it provides for the conference system of ratemaking. More will be said in a moment of that act and the part it plays in this situation—particularly with reference to liner freight rates.

Third is the U.S. balance-of-payments position. Section 604(a) of the Foreign Assistance Act provides in effect that funds made available under that act for commodities are, so far as practicable, to be spent within the United States. Consistent with this direction, AID adopted in 1961 a new freight policy that it would no longer finance freight on any non-U.S.-flag transportation medium.

This policy has a positive effect on our balance of payments. It also has a very direct bearing on the manner in which AID financed cargo is shipped, inasmuch as it virtually rules out AID's financing of freight on foreign bottoms.

AID's unwillingness to spend dollars for foreign-flag freight leads many of the developing countries to choose shipment on U.S. bottoms whenever they have a choice. This is not true of those developing countries which have sizable merchant fleets of their own—they can and do pay shipping costs in their own currencies. Most of the developing countries, however, are not fortunate enough to own a merchant fleet of any size. They must, accordingly, pay freight charges in convertible currencies. Being short of foreign exchange—which indeed is the very reason they are receiving aid from the United States—they almost always elect to use the funds that are made available to them by AID to cover shipping costs as well as commodity costs.

All of the above factors—the cargo preference law, our own balance-of-payments position, the balance-of-payments position of the developing countries and the fact that few of those countries own large merchant fleets—work in the same direction. They tend to force foreign-aid cargo onto U.S. bottoms. The figures bear this out. In fiscal year 1962, 55 percent of AID-financed cargo was carried on U.S.-flag vessels. This percentage increased to 61 percent in fiscal year 1963 and to 71 percent in fiscal year 1964. We believe, however, that this trend will soon be reversed in view of the fact that an increasing amount of foreign-aid cargo is going to Latin America (where there are many locally owned merchant vessels) and to India and Pakistan (both of which are steadily enlarging their own fleets.)

CHARTER RATES

About one-third of AID-financed tonnage is shipped under charters. The cargo preference law provides that charter rates must be "fair and reasonable." This is scarcely a self-executing standard.

The Comptroller General of the United States has suggested that a "fair and reasonable rate" might be based upon the operating cost of the carrier plus a reasonable profit. An agency with a large staff of maritime rate specialists competent to conduct studies into cost-and-profit ratios in the maritime industry, might be able to arrive at an independent determination of "fair and reasonable rates" on a case-by-case basis. AID however, cannot do this. As a practical matter, AID cannot go beyond the two tests it now uses: The Maritime Administration rate list and going market rates.

Congressional committees have directed the Maritime Administration to maintain a list of fair and reasonable rates for U.S.-flag vessels and to make the list available to other Government agencies. Although the cargo preference law places the responsibility for compliance with the law upon each administering agency, the broad responsibilities placed upon the Maritime Administration in providing guidance on the subject of what constitutes "fair and reasonable rates", has tended to make its rate list authoritative. AID uses this rate list as a maximum rate limitation. Thus, regulation No. 1, the basic AID monitoring control device for commodity shipments, provides that:

> AID will not finance ocean freight under any charter which has not been submitted to and received prior approval by AID/W. AID will not approve a charter if the freight rate exceeds—
>
> * * * * * * *
>
> The maximum rate determined by the Maritime Administration in connection with the Cargo Preference Act (46 U.S.C. 1241).

AID applies the standard of going market rates as an additional limitation on charter rates. This operates to reduce the rate level below the maximum stated in the rate guideline list. Thus, regulation No. 1 provides that further:

> AID will not approve a charter if the freight rate exceeds—
> (*a*) The rate prevailing for similar shipments on the same voyage;
>
> * * * * * * *
>
> In determining the rate prevailing for similar shipments, recognized sources of charter market rate information will be consulted, and, if necessary will be supplemented by other information which contributes to a realistic determination of the prevailing charter rate.

AID compels compliance with these tests by requiring that each rate receive its prior approval. In addition, AID requires the carrier and the charterer to execute a supplier's certificate. By virtue of this certification, and notwithstanding AID's prior approval of the charter rate, the charterer and carrier remain accountable to AID in two situations: if the freight rate is discriminatory; that is, if it exceeds the lowest rate charged by the carrier for similar shipments on the same voyage—or if AID's prior approval was based on false or misleading representation made to it by the charterer or ocean carriers.

The right of AID to prevent rate discrimination against AID-financed cargo was denied in *Bloomfield Steamship Co.* v. *United*

States of America, decided last year in the U.S. District Court for the Southern District of Texas.[1]

In this case the carrier operated a liner service to north European ports. It negotiated a series of special rates with a group of AID shippers for the movement of certain "open rated" items. Open rated items consist of commodity categories for which a liner carrier is not required under the Shipping Act of 1916 to file its rate with the Federal Maritime Commission. It is this characteristic of open rated items; that is, that they are separately negotiated on a case-by-case basis between carrier and shipper, which makes the *Bloomfield* decision important with respect to charter rates as well as open rated liner charges.

The carrier certified its compliance with the following market freight rate limitation which appeared in an older version of regulation 1:

> The rate charged by a supplier of ocean transportation services shall not exceed the prevailing rate for similar freight contracts nor the rate paid to the supplier for similar ocean transportation services by other customers similarly situated.

It was later discovered that rates charged and on AID-financed shipments exceeded the rates which the carrier charged commercial shippers for the same service during the relevant period. In some instances the carrier's rate for AID-financed cargo was higher than for commercial cargo on the same vessel. Bloomfield argued that the Cargo Preference Act is the dominant legislation in the area of maritime affairs; that that act was designed to assist high cost U.S. carriers, and that therefore there is nothing wrong in charging higher rates for AID-financed cargo than for commercial cargo. It maintained that AID was without legal power to prohibit the carrier from thus discriminating against AID-financed cargo. Cargo preference, it maintained, ties AID's hands as long as the rates are "fair and reasonable." The district judge upheld the carrier's position:

> In the absence of any statutory provision setting American flag commercial rates as ceilings, it is my conclusion that Congress did not intend the act to have such an effect, either per se or through agency interpretation such as the [AID] regulation and certificate provision here relied upon by the Government.

The *Bloomfield* decision has been appealed to the Fifth Circuit Court of Appeals. If the decision of the district court is upheld, it is doubtful whether AID will be able to enforce its rate limitations based either on discrimination or on going markets rates.

LINER RATES

Ocean carriage by liner vessels is governed by the Shipping Act of 1916. In most cases liner rates are established by action of liner conferences. Occasionally, a nonconference liner may operate on a given route and fix its rates independently of conference action.

The rates which a conference files with the Federal Maritime Commission pursuant to the Shipping Act are the only lawful rates which each carrier covered by the filed tariff can charge. Having been thus filed, the rates thereby assume under the act the quality of being "fair and reasonable." The Federal Maritime Commission

[1] Civil Action No. 13809. A memorandum opinion was rendered on Mar. 13, 1964. It has not yet been published.

may, of course, disapprove a rate which has been filed. But until such disapproval the filed rate is the only rate a carrier may lawfully charge. To grant a shipper a lower rate, a carrier must amend the filed rate.

AID of necessity operates within this system. But it role is limited. It does not book cargo; it is not a shipper; it does not negotiate freight rates. It merely finances shipments.

AID is, of course, interested in keeping liner rates at a fair and reasonable level. It has assumed to date, however, that this was primarily the task of the AID-financed commodity supplier who arranges for ocean shipment, or the developing country which does so. It is in the interest of both of the latter to keep freight rates down—to negotiate whenever possible for a reduction in rates, or to complain about rate levels before the Federal Maritime Commission.

This committee has suggested that AID has not been playing an active enough role. It has recommended that a study be made as to whether the statutory requirements as to the reasonableness of freight rates are being applied to AID-financed cargo.

AID has acted on that recommendation by asking the Federal Maritime Commission to make such a study. We will gladly consider any further recommendations or suggestions that the committee may make.

Senator DOUGLAS. What I would like to get at is this: Have you accepted the ordinary commercial rates, the outbound rates?

Have you made any effort to get lower rates? Have you in the past exercised any surveillance over the rates which you pay?

Mr. GAUD. We have to break this into several parts to answer accurately, Mr. Chairman.

First, about one-third of our tonnage, the tonnage which we finance, is shipped under charters, and the cargo preference law provides that charter rates must be fair and reasonable.

Senator DOUGLAS. Do you make any efforts to see that the rates are fair and reasonable?

Mr. GAUD. We require the prior approval by AID of every charter before we will agree to finance it.

Senator DOUGLAS. Approval by AID?

Mr. GAUD. Approval by AID.

Senator DOUGLAS. You are AID.

Mr. GAUD. Yes.

Senator DOUGLAS. Then what considerations do you take into account in deciding whether or not these rates are fair and reasonable?

Mr. GAUD. In addition to examining the rates ourselves, we use two standards. One is the guideline rate list published by the Maritime Administration.

Senator DOUGLAS. On the basis of 1957.

Mr. GAUD. That is all there is. We would be happy if there were one that were more up to date.

The other thing that we do sir, is we apply the market, the going market, rates.

Senator DOUGLAS. Do you mean the rates charged by the carriers?

Mr. GAUD. Yes, sir.

Senator DOUGLAS. The conference rates?

Mr. GAUD. I am talking now about charters. Conference rates don't apply to charters. These rates are negotiated rates, and we apply two tests. The maximum, the ceiling, is the guideline rate published by the Maritime Administration. We also test the proposed charter rate by the going market rates.

Senator DOUGLAS. How do you determine the going market rate?

Mr. GAUD. We get information on this and we also require the shipper to sign a certificate, a supplier's certificate, in which he certifies that the rate which he is charging us does not exceed the lowest rate charged by the carrier for similar shipments.

We tie the rate down to the going market rate as nearly as we can determine it and require a certification.

Senator DOUGLAS. When did you start doing this?

Mr. GAUD. We have been doing it since we have been in the business, going back to the days of the Marshall plan. We have run into a good deal of trouble with this, Mr. Chairman, recently, because of a decision of one of the Federal courts in Texas.

As we said a moment ago, the Cargo Preference Act requires these rates to be fair and reasonable. We had a case a few years back where goods financed by our predecessor agency, ICA, were shipped on the same vessel with similar commercial goods to Germany. The commodity was the same—wheat. The vessel was the same, the loading date was the same, the loading port was the same, the discharge port was the same, and the total weights were comparable. But they charged us $12.50 a ton and they charged commercial shippers only $6.75 a ton.

Senator DOUGLAS. What was the company? What was the shipping company?

Mr. GAUD. Bloomfield Steamship Co. We sued.

Senator DOUGLAS. The facts were admitted?

Mr. GAUD. There was no question.

Senator DOUGLAS. The facts were admitted.

Mr. GAUD. We sued to recover the difference between the rates that we had paid and the rates that had been paid by the commercial shippers on the same vessel. We were through out in the Federal district court. We have taken an appeal to the Court of Appeals in the Fifth Circuit.

The court held that the legislative history of the Cargo Preference Act showed that the Congress never intended that the shipping rates paid by the Government under the Cargo Preference Act should be judged or determined by U.S.-flag commercial rates; that we were not similarly situated with commercial shippers because we were the Government, which had to ship under the Cargo Preference Act.

It is a fascinating decision. It holds, in effect, that a fair and reasonable price does not depend upon he market price. It doesn't depend upon anything that anybody else does.

Senator DOUGLAS. You are going to appeal that to the Supreme Court, you say?

Mr. GAUD. We certainly are, as far as we can.

Senator DOUGLAS. I think it is an outrageous decision.

Mr. GAUD. It leaves us in a good deal of doubt as to what we can do to determine fair and reasonable rates under charters and on open rated items shipped on liners.

If we can't take the market into account, if we can't take what anybody else pays into account, what in heaven's name do we do?

To continue with your question, we impose these same requirements with respect to bulk goods that are shipped open rated on liners. As far as liners are concerned, as far as shipments on liners are concerned, other than the open rated items—those for which tariffs are fixed, as you know, sir, the conference has a great deal to do with the rates. They are filed with the Federal Maritime Commission. They are the only lawful rates which the carriers covered by the filed tariff can charge.

Under section 817 of the Shipping Act of 1916, these rates thereby assume the quality of being fair and reasonable. Until they are disapproved or until an amended rate is filed, they are the existing rates.

Our cargo, the cargo which we finance—we don't ship any of it but the cargo which we finance—travels on liners pursuant to those rates. The question in each case is whether the Government of India or the Government of Israel, or the shipper, can obtain an amended rate. They can complain to the Maritime Commission and get an amended rate.

Senator DOUGLAS. It is pretty hard for them to do that.

Mr. GAUD. It is certainly not easy.

Senator DOUGLAS. In practice, very few of them do get it.

Mr. GAUD. That is true.

Senator DOUGLAS. And, therefore, the extra amount which they have to pay either increases the amount of aid which you have to give them——

Mr. GAUD. And is hard on the American taxpayer, as it increases the cost of the AID program.

Senator DOUGLAS. In practice, do you have to sweeten up their allotments because of the high price which they have to pay for the shipping?

Mr. GAUD. I can't make a really educated guess on that. I would say no, not consciously. We are not aware of having done that. Certainly the whole business of tying our aid to U.S. procurement, because of the balance-of-payments problem, means that the aid money that we give isn't as effective as it would otherwise be.

There are many items, of course, in which the United States is competitive, heavy machinery and that sort of business. But when it comes to steel, as an example, these aid recipients could buy steel elsewhere, more cheaply.

Senator DOUGLAS. We are not going into that question. We are in shipping. I am trying to find out if U.S. rates are competitive or if outbound rates are competitive. I think the evidence is piling up very rapidly that outbound rates are very much higher than inbound rates.

Mr. GAUD. We have no inbound shipping, of course. Outbound rates on U.S.-flag vessels are clearly higher than the rates on foreign flags. There is no question about that.

Senator DOUGLAS. And higher than our American-flag ships coming into this country.

Mr. GAUD. So I understand.

Mr. BOGGS. Mr. Administrator, what percentage, roughly, of your cargo goes on liners as opposed to the percentage that goes on bulk carriers in terms of dollar expenditures?

Mr. GAUD. Roughly 50 percent of the tonnage goes on liners at tariffs. The other 50 percent goes either under charter or on open rated liners.

Senator DOUGLAS. So that this higher rate which is paid on the liners becomes a very appreciable portion of your total shipping cost.

Mr. GAUD. Yes, it does. Under the law—as I said a moment ago—$88 million is what we pay altogether for U.S.-flag shipping charges, that being for the roughly 71 percent of the cargo that is traveling on U.S. vessels. And if you knock one-third off of that, you are down to $60 million, which we would spend in any event on these U.S.-flag vessels.

Mr. BOGGS. But my point is out of the $88 million, how much of that goes to conference liner vessels?

Mr. GAUD. I am told that we do not keep running figures or records on the basis where we could distinguish between conference and nonconference liners.

Mr. BOGGS. How much of it goes to liners, of the $88 million?

Mr. GAUD. $69 million of that in fiscal year 1964.

Senator DOUGLAS. That is more than half. Do you exercise any surveillance over those rates, or do you accept the rates filed with the Maritime Commission?

Mr. GAUD. Under the practice that we have followed in the past, Mr. Chairman, we have considered that the question of negotiating freight rates was primarily up to the shipper, and there have been occasions on which we have intervened on behalf of shippers. But by and large we, being a planning and financing agency, have not engaged very much in that. W have left that to the shippers.

Senator DOUGLAS. Even though you pay the cost?

Mr. GAUD. That is correct.

Senator DOUGLAS. If you could reduce the shipping rates, the cost would not be as great. Since you are a planning agency, don't you think you might plan as to how to reduce these costs?

Mr. GAUD. I do. That is a fair question. As I said earlier, in response to the committee's suggestion we have asked the Maritime Commission to make a study of this situation. We haven't the facilities to do it ourselves.

Senator DOUGLAS. That is certainly a very honest statement on your part. We addressed a letter to you in January, I believe, and you took it up. I am very glad that we have stimulated this action and I wish to commend you.

Do you believe that the shipping function of AID should be transferred to the Maritime Administration?

Mr. GAUD. We have no shipping function, as I have just been saying. We don't ship anything.

Senator DOUGLAS. Do you think they should determine whether or not the rates charged by American ships are fair and reasonable instead of your merely accepting the published rate?

Mr. GAUD. I would certainly like to have some Federal agency charged with that responsibility and carrying it out.

Senator DOUGLAS. Rather than your doing it yourself?

Mr. GAUD. It is clearly not within our capacity.

Mr. BOGGS. Could I ask what is your responsibility under the Cargo Preference Act?

Mr. GAUD. Under the Cargo Preference Act, as I understand it, we are obligated to ship, as we see it and as we have been directed by the President, a minimum of 50 percent of our shipping on U.S.-flag vessels.

Senator DOUGLAS. You can't interpret that as a maximum.

Mr. GAUD. No, sir; not as I see it.

Senator DOUGLAS. The Department of Agriculture does.

Mr. GAUD. We haven't had an opportunity to go through my entire statement, but the President issued a directive, President Kennedy issued a directive, in April 1962 which stated expressly, "This requirement is a minimum and it shall be the objective of each agency to ship a maximum amount of such cargoes on U.S.-flag vessels." We are following that directive, Mr. Chairman.

Senator DOUGLAS. Thank you very much.

Mr. BOGGS. Would you answer the question about how do you interpret your responsibility under the Cargo Preference Act?

Mr. GAUD. To see that at least 50 percent of the cargo that we finance is shipped in U.S. bottoms, provided that shipping can be found at a fair and reasonable rate.

Mr. BOGGS. On the $69 million out of the $88 million which goes on liner vessels, how do you determine that those rates are fair and reasonable?

Mr. GAUD. We rely on the rates filed with the Maritime Commission.

Mr. BOGGS. And just because they are on file, they are fair and reasonable?

Mr. GAUD. We have been proceeding on that basis; that is correct.

Mr. BOGGS. The way I interpret the Maritime Commission statute, it says that it is to disapprove one of these rates if it finds it is so unreasonably high or low as to be detrimental to the commerce of the United States.

Mr. GAUD. That is right.

Mr. BOGGS. That is quite a different standard than the standard of a fair and reasonable rate. A rate could be unfair and unreasonable, but not necessarily detrimental to the commerce of the United States. What do you do in the case of those types of rates?

Mr. GAUD. It seems to me the question here is, What does the Maritime Commission do about it?

Mr. BOGGS. The Maritime Commission has no responsibility as far as those rates are concerned. They have repeatedly told us that. They don't regulate rates.

Mr. GAUD. I can't say there is complete agreement on what the responsibilities here are.

Mr. BOGGS. May I just get this for the record: In other words, you interpret the provision of the Cargo Preference Act which requires that at least 50 percent go in American bottoms is the jurisdiction of AID to determine, but as far as whether the rates on liners are fair and reasonable, that is a jurisdiction of the Federal Maritime Commission.

Mr. GAUD. We feel we have done the best we can to try to comply with this. We do not have the capacity or the know-how, or the expertise, to determine what would be an appropriate rate on a case-by-case basis. We aren't shippers. We do not have shipping experts. The goods we finance are shipped by importers or exporters, each

of whom has a selfish interest in making sure that he doesn't pay any more freight than he has to.

Senator DOUGLAS. You pay the bills. If you pay the shipping bills, it doesn't matter to him whether he pays a high rate.

Mr. GAUD. It matters a good deal to the developing country.

Senator DOUGLAS. It doesn't matter to the shipper.

Mr. GAUD. It will matter to the country.

Senator DOUGLAS. I know, but you were saying you depend on the shipper. It doesn't matter a bit to the shipper as long as you pay the freight.

Mr. GAUD. In those cases in which the transaction is on a c. & f. basis through commercial channels it matters a good deal to the shipper. That is 60 percent of our business. His profit depends on how much the stuff is shipped for. If the importer has agreed to buy it at a fixed price, cost and freight, freight is pretty important to the shipper.

Mr. BOGGS. Let me just get back to my original statement: That over that $69 million which goes on liners, you say that you really have no mechanism in AID to oversee whether those rates are fair and reasonable and, in effect, you really exercise very little surveillance over whether they are fair and reasonable.

Mr. GAUD. Yes. What we do is we go by the rates filed with the Commission and we also require the filling of a supplier's certificate in each case, similar to the one that we used in the *Bloomfield* case.

Senator DOUGLAS. Mr. Gaud, I regret the time is slipping through our fingers. I wonder if you could summarize rather briefly your statement. We will study it very carefully.

Mr. GAUD. I think we have covered the main points. There is only one other basic point here, I think, and that is as we said earlier, the main factors which control the way in which our goods are shipped are the Cargo Preference Act; the Shipping Act of 1916; the balance-of-payments position of the United States, which has led to our paying for freight only on U.S. bottoms; and then finally the balance-of-payments position of the countries to which we are giving aid, most of whom do not have foreign exchange resources and, therefore, to the extent they possibly can, choose to have their freight shipped on U.S. bottoms.

All of these factors work in the same direction and force this freight onto U.S. bottoms rather than foreign flag.

Senator DOUGLAS. Mr. Gaud, there is one final question I want to raise. In our previous report we pointed out that AID had refused to intervene in formal proceedings before the Federal Maritime Commission involving shipping rates paid by U.S. taxpayers and apparently AID refused even after the Maritime Commission had requested intervention.

As you know, it is most difficult for the Federal Maritime Commission to prove actions detrimental to the commerce of the United States when a shipper refuses to intervene in a proceeding. Can you please explain to this committee why AID, one of the biggest shippers in these cases, refused to intervene?

Mr. GAUD. Yes, sir. I would like to say a word about both of them. The first was the case of Iran. We were not asked to intervene. We did not refuse to intervene. Furthermore, our share of the traffic—

or shipping—to that area at that time was very small. The liner exports from the United States were running at the rate of about 450,000 tons a year. Our shipments in U.S.-flag vessels were less than 1 percent of that. In 1964 it was less than one-tenth of 1 percent.

Senator DOUGLAS. No problem of transshipment?

Mr. GAUD. No, sir.

The other case was the case of Chittagong, in East Pakistan. I would like to say a few words about that, if I may.

It was a very complicated proceeding. Calcutta used to be the port by which the area which is now East Pakistan was supplied. When partition took place in 1948, Calcutta was to all intents and purposes off bounds to the Pakistanis, as it was a part of India. Chittagong became the main port. It had thoroughly inadequate port facilities, thoroughly inadequate links to the interior, whether by way of railroads, roads, or inland shipping.

We made a number of loans to the Government to improve the port and to improve the links to the inland. There was a tremendous increase in cargo.

Senator DOUGLAS. That was your cargo, was it?

Mr. GAUD. That is right. There was a tremendous increase in cargo between 1961 and 1962. It increased seven times or eight times, our cargo did.

By the same token, with the increase in the aid programs of Germany, England, the World Bank, and others, their cargo was likewise increasing. Now, the port of Chittagong was having a devil of a time getting along at best and in May 1963 there was a cyclone which did a good deal of damage to the port. We immediately sent the best transportation expert we could find, former Brigadier General Gore, who was familiar with the port as well as Pakistan, over to report on it immediately; and to report further on the facilities in the port, the damage that had been done to them, and what could be done to improve the administration of the port, to try to get the Pakisanis out of this frightful situation they were in.

Meanwhile, cargo was piling up here in the United States. From the middle of August 1963 to the middle of September 1963, U.S.-flag lines refused over 15,000 tons of our cargo. They carried only 13,000 tons. There were only three sailings during that period.

The shippers couldn't get the stuff shipped; the factories that were making the stuff were calling us up all the time saying, "Look, we are going to break your contracts if you don't get this stuff out of the United States. You have to do something about it."

At this point, in an effort to get some ships to go to Chittagong, the conference put on a 40-percent surcharge. Subsequently there was a hearing before the Maritime Commission on this, as the committee's report says. The General Services Administration intervened on behalf of all Government agencies. We supplied it with all of the information in our files.

We feel that we cooperated fully with that proposition and, Mr. Chairman, with all due respect, I take issue with the description of our attitude in those two cases.

Senator DOUGLAS. In other words, you say you contributed to the Government's case even though you didn't intervene directly?

Mr. GAUD. Yes, sir.

Senator DOUGLAS. How often has AID complained to the Federal Maritime Commission concerning ocean freight rates?

Mr. GAUD. Very rarely.

Senator DOUGLAS. Ever?

Mr. GAUD. We have done that on steel.

Senator DOUGLAS. You have complained on steel?

Mr. GAUD. There are a few selective cases, but not many.

Senator DOUGLAS. But you have complained on steel?

Mr. GAUD. Yes, sir.

Senator DOUGLAS. I congratulate you on steel. When the facts were first brought out on steel by this committee, it was what kicked off the whole thing, and the companies protested that there was no discrimination on steel. I am glad you joined us on that commodity.

Thank you very much.

We will meet tomorrow morning at 10 o'clock.

(Whereupon, at 12:30 p.m. the subcommittee recessed, to reconvene at 10 a.m., Thursday, April 8, 1965.)

DISCRIMINATORY OCEAN FREIGHT RATES AND THE BALANCE OF PAYMENTS

THURSDAY, APRIL 8, 1965

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON FEDERAL PROCUREMENT AND
REGULATION OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met at 10 a.m., pursuant to recess, in room AE–1, the Capitol, Senator Paul H. Douglas (chairman of the subcommittee) presiding.

Present: Senator Douglas; Representative Widnall.

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

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

Yesterday the committee heard testimony from the Government agencies most involved in the shipment of Government-sponsored cargoes. Today we have asked Mr. Nicholas Johnson, the Maritime Administrator, to testify regarding matters on the opposite side of the equation; namely, the supply of American-flag vessels. After Mr. Johnson has concluded his testimony, we have invited representatives of the American steamship industry and labor to testify before the committee and comment upon the testimony of the Government witnesses. It is my understanding that the labor union representatives will not testify today, but will submit statements for the record.

Yesterday both the Agency for International Development and the Department of Agriculture agreed that their agencies were not technically competent to determine whether or not ocean freight rates charged Government cargoes were in fact fair and reasonable. They agreed with my suggestion that it might be appropriate to transfer the cargo preference functions of their rsepective agencies to the Maritime Administration. I would like our witnesses here this morning to comment on this suggestion.

At yesterday's hearings there was considerable confusion concerning the regulations of the Department of Defense regarding the shipment of privately owned automobiles. I would like to insert in the record at this point the Department of Defense regulations concerning this matter. It appears that most officers and certain enlisted men can ship at Government expense one privately owned vehicle when a permanent change of station occurs. I would also like to point out that in 1964 the Department of Defense shipped 1,383,135 measurement tons of privately owned vehicles—its third to largest movement of commodities.

(The following excerpt is from the Office of Secretary of Defense memorandum of Mar. 6, 1961, to Secretaries of Army, Navy, Air Force; Chairman, Joint Chiefs of Staff; and the Assistant Secretaries of Defense:)

Subject: Oversea expenditure reduction program—individual.

* * * * * * *

The Military Departments will:

* * * * * * *

(*b*) Prohibit the transportation at Government expense of any foreign made motor vehicle purchased by Department of Defense personnel or their dependents overseas for delivery overseas unless:

(1) Owned or on order on the date of this memorandum.

(2) Adequate facilities do not exist for the maintenance and repair of motor vehicles produced and assembled in the United States. A list of all such areas in which Department of Defense personnel are located should be submitted, together with a full report of the circumstances to Assistant Secretary of Defense (Manpower) not later than April 1, 1961. After review, an approved list of such areas will be published.

Existing regulations and directives in conflict with this prohibition will be amended accordingly.

* * * * * * *

Each of the Military Departments should submit to the Assistant Secretary of Defense (Manpower) no later than July 1, 1961 and semiannually thereafter, an assessment of the results of this program insofar as the balance-of-payments problem is concerned.

(Signed) ROSWELL GILPATRIC, *Deputy*.

CHAPTER 11. TRANSPORTATION OF PRIVATELY OWNED MOTOR VEHICLES

11001 LIMITATION

1. *Privately owned motor vehicle.*—As used in this chapter, the term "privately owned motor vehicle" means any self-propelled wheeled motor conveyance that is primarily for use as a passenger-carrying vehicle including automobile, station wagons and similar vehicles, jeeps, motorcycles and motor scooters, pickup and panel trucks (not to exceed ¾-ton capacity and 17.6 measurement tons) and such trucks when converted to "campers," small autobuses of the Volkswagen, Micro, and similar types (not to exceed 9-passenger capacity), and other passenger-carrying or multipurpose motor vehicles designed for overland ground transportation which, while not specifically mentioned herein, may be found to qualify for shipment on the basis of the member's written certification that the vehicle is for his personal use as a passenger-carrying vehicle.

2. *Shipment.*—As used in this chapter, the term "shipment" means shipment by vessel, including port handling charges, to, from, and between oversea ports, and between U.S. ports when incident to changes in home yards and home ports. The term does not include land transportation to or from such ports, except as otherwise provided in chapter 8, part G, for members subject to the provisions of the Missing Persons Act. As customs and other fees and charges required to effect entry of a vehicle into a country are not part of shipment, such costs will be borne by the member.

(Effective August 14, 1964.)

Except as otherwise specified, the entitlements prescribed in this chapter are restricted to members on active duty as officers or warrant officers, or in enlisted grade of E–4 (with over 4 years' service) or higher grades on the effective date of permanent change-of-station orders. Enlisted members in pay grade E–4 with 4 years' service or less, E–3, E–2, and E–1 will be entitled to ship a privately owned vehicle incident to a permanent change of station between oversea areas or from oversea areas if they were assigned duty overseas on orders dated prior to April 1, 1956. For special provisions relating to members reduced in grade, see paragraph 11002–3. For transportation of privately owned motor vehicles of members of all the uniformed services under the Missing Persons Act, regardless of rank or grade, see chapter 8, part G, and related service regulations.

11002 ENTITLEMENT

1. *General.*—A member of an appropriate rank or grade who is ordered to make a permanent change of station, to, from, or between oversea duty station, or upon official change in home yard or home port of the vessel to which assigned, is entitled to have one privately owned motor vehicle personally owned by him shipped to his duty station via Government-owned or Government procured American-flag shipping facilities between the ports designated by the service to serve the old and the new duty stations. Shipment may be made between ports serving the old and new station other than the designated ports, provided the member reimburses the Government for any excess cost involved. Reimbursement for commercial transportation procured at personal expense is not authorized.

2. *Suspension of shipment.*—Oversea commanders may suspend shipment of privately owned motor vehicles to areas under their command in cases of military necessity or as a result of restrictions imposed by foreign governments.

3. *Members reduced in grade.*—A member who is reduced to an ineligible grade subsequent to shipment of his privately owned motor vehicle to an oversea station, or subsequent to its authorized acquisition overseas, is entitled to one shipment of such vehicle as prescribed in this chapter upon next permanent change of station from duty outside the United States. The member will not thereafter be entitled to shipment of a privately owned motor vehicle until such time as he qualifies therfor under paragraph 11001.

4. *Care and storage.*—The Government's responsibility commences upon acceptance of the privately owned motor vehicle for shipment and continues until the vehicle is delivered to the member or his authorized agent at destination or upon delivery to a commercial warehouse as provided herein. If the vehicle is not claimed within a reasonable time after notification of arrival, as determined by the port commander, the vehicle may be placed in commercial storage at the member's expense.

(Effective August 14, 1964)

5. *Transportation of privately owned motor vehicles incident to unusual or emergency circumstances—Official and personal situation.*—Orders authorizing transportation of dependents from outside the United States as provided in paragraphs 7102 and 7103 also may authorize transportation of one privately owned motor vehicle owned by the member to the port normally serving location to which transportation of dependents is authorized, provided that upon the member's ultimate return to the United States for duty, the shipment of a privately owned vehicle from the last or any previous duty station outside the United States to the United States will not be authorized, and provided further that in the event the dependents are authorized to rejoin the member at his oversea duty station in accordance with paragraphs 7102 or 7103, shipment of an automobile incident thereto is not authorized.

11003 PORTS USED

The services concerned will designate ports to be used for loading and unloading privately owned motor vehicles shipped in accordance with the regulations contained in this chapter.

11004 ADMINISTRATIVE INSTRUCTIONS

The services concerned will issue such regulations and instructions as may be deemed necessary for the judicious administration of the entitlements contained in this chapter.

Senator DOUGLAS. Our first witness is Mr. Nicholas Johnson, Maritime Administrator, of the Maritime Administration.

Mr. Johnson, we are very glad to welcome you.

STATEMENT OF NICHOLAS JOHNSON, MARITIME ADMINISTRATOR, MARITIME ADMINISTRATION, DEPARTMENT OF COMMERCE

Mr. JOHNSON. Mr. Chairman, I have a statement at this time which I will either submit for the record or read, as you wish.

Senator DOUGLAS. I wish you would read it.

Mr. JOHNSON. Mr. Chairman and members of the subcommittee, I am happy to appear before this subcommittee to discuss the three points raised in your letter of March 19, 1965, regarding rates for Government-impelled cargoes.

Your letter expressed concern that (1) the United States is paying exorbitantly high freight charges for the shipment of Government-sponsored cargoes; (2) that the rates on Government cargoes tend to exert inflationary pressures on the commercial rate structure; and (3) that Government cargoes occupy most U.S.-flag ship space, leaving our commercial cargo in the hands of foreign-flag steamship lines.

In regard to your first question, whether or not such rates are exorbitantly high is not a question which properly can be answered by the Department of Commerce at the present time. As you know, under Reorganization Plan No. 7 of 1961, the Maritime Administration as a promotional agency is specifically precluded from rate regulation. The reorganization plan itself makes this clear:

> Regulation would be made the exclusive responsibility of a separate commission organized along the general lines of other regulatory agencies. On the other hand, nonregulatory functions, including the determination and award of subsidies and other promotional and operating activities would be concentrated in the head of the Department of Commerce.

Although cargo preference is a significant part of our promotional program, the Maritime Administration has been given only limited authority to exercise general surveillance over such programs by section 901(b) of the 1936 act and House Report No. 80, 84th Congress, 1st session.

This surveillance is restricted primarily to assuring compliance with the allocation aspects of cargo preference. We make certain that at least 50 percent of such cargoes are placed aboard American-flag vessels. Our authority does not permit us to participate in rate negotiation for the cargo shipped.

The responsibility for negotiating shipping rates has always been that of the agencies whose programs require the procurement of ocean transportation for the shipment of cargo subject to the various cargo preference laws. (H. Rept. 80, 84th Cong., 1st sess., p. 10.)

Since the Maritime Administration has not been a party to rate negotiations, it would be difficult and even unfair to those directly involved to pass judgment on the resulting rates. Whether or not such rates are reasonable can best be answered by the parties to the rate negotiations, or in some cases by the appropriate regulatory authorities.

At this point it is useful to describe the responsibilities of the Maritime Administration regarding our formulation of "fair and reasonable" rates for Government-generated cargoes moving in bulk under voyage charters. We were requested to establish such maximum guidelines by the Committee on Merchant Marine and Fisheries in 1955.

In determining ceiling rates, we take account of the shipowner's basic costs, such as operating expenses, overhead, interest, and depreciation. Allowance is made for the realization of a reasonable profit. Voyage and fuel expenses also enter into the determination. Allowance is made for reasonable voyage expenses based on past records and for actual fuel consumption at the current price for a par-

ticular voyage. These costs are then considered in relation to the steaming time and the time provided for loading and discharges of cargo under the charter party. No allowance is made for demurrage or dispatch costs.

It is important to emphasize that these rates are only maximum guidelines for the Government agencies shipping preference cargo. In effect, we have said that for bulk shipments under voyage charters one should not pay more than this amount. In practice, the vessel operators almost always charge a rate below the ceiling because of competition among themselves. While we have been requested to develop such guidelines only for voyage charters for bulk cargoes, we have, when requested by other agencies, suggested a ceiling rate for certain types of parcel bulk cargo.

Although rate regulation is not a responsibility of the Maritime Administration, we have always been concerned with the effect of shipping rates upon the development of our foreign commerce. At the present time, the Maritime Administration and the Department of Commerce are engaged in exploratory studies of rates and their relationship to the flow of commerce.

Senator DOUGLAS. When do you expect to finish that study?

Mr. JOHNSON. We cannot give you a specific time this morning, Mr. Chairman.

Senator DOUGLAS. I would like to point out that we raised this matter in June 1963. I believe at that time the Deputy Maritime Administrator promised to make a study. A study, you know, can be used to delay and prevent action, as well as to make action taken wiser. A prolonged study is frequently a method of slowballing an investigation until the Senators or Congress who are interested pass from the political scene.

Don't you have any terminal date in sight?

Mr. JOHNSON. Let me say that the same tactics are applied to Maritime Administrators as are applied to Senators and Congressmen. I think your interest and my own are altogether the same here. Certainly as far as I am concerned, we are proceeding with all dispatch.

Senator DOUGLAS. I hope we don't have to go through many more months without results.

Mr. JOHNSON. In addition to this study, Mr. Chairman, the Department of Commerce is also participating in the Federal Maritime Commission's factfinding investigation No. 6, a comprehensive review of ratemaking policies and practices.

The second area of interest indicated in your letter of March 19 is whether cargo preference rates cause inflationary tendencies in the commercial rate structure. This is a difficult question to answer because many other factors such as vessel operating costs, cargo handling costs, and port charges influence ratemaking.

It would appear speculative at this time to say whether or not cargo preference has an inflationary effect upon the rate structure. Any constructive answer to this question will require extensive study. The Maritime Administration is already in the process of collating pertinent information and the results of the Department's studies will certainly provide insight into the subject.

Senator DOUGLAS. When do you expect to be able to answer this question or attempt an answer?

Mr. JOHNSON. I am afraid I would have to give you much the same answer, Mr. Chairman. We have no fixed date at this time.

As for your third point about the increasing percentage of cargo preference cargo carried aboard U.S.-flag vessels, the Maritime Administration shares the subcommittee's concern. There is no question that the liner operators have in recent years been increasing the amount of preference cargoes carried.

For example, Government-impelled cargoes—excluding military cargo—accounted for 31 percent of U.S.-flag liner cargo carryings inbound and outbound during 1962.

Senator DOUGLAS. Those two together, 31 plus 55, make 86 percent; isn't that true?

Mr. JOHNSON. It is not quite that bad. Actually, the 55 percent encompasses the 32. I also have figures for 1963 which will illustrate the point you have pursued earlier. The subsidized operators carried a total of 5.1 million tons in 1963 of military and other Government-sponsored cargoes. This is broken down to 1.3 million tons of military and 3.8 million tons of nonmilitary.

The total that year for the subsidized and the nonsubsidized operators——

Senator DOUGLAS. What was the revenue from 1.3 million tons of DOD cargoes?

Mr. JOHNSON. 1.3 million for Department of Defense carriage.

Senator DOUGLAS. What was the revenue?

Mr. JOHNSON. We have those figures, but I don't have them here, Mr. Chairman. I can supply them for the record.

Senator DOUGLAS. Thank you.

(Clarifying letter subsequently submitted for the record appears at end of testimony, p. 104.)

Senator DOUGLAS. When you check your figures, would you see whether the estimate which we make of $100 million paid for this 1.3 million tons is correct?

Mr. JOHNSON. Yes, sir.

The unsubsidized total carriage in 1963 was 1.85 million tons, for a total of nearly 7 million tons.

The point I wish to make with regard to the impact of the increasing cargo preference and military cargoes is that whereas in 1963 this constituted 44 percent of the subsidized liners' carriage, but for the existence of the nonsubsidized operators and their ships, this would have been 7 million tons out of the total 12 million tons carried by the subsidized operators, or 58 percent of their total carriage.

You can see that a slight variation in the amount of military and Government cargo has a rather profound effect upon the percentage carriage of Government cargoes by the subsidized operators.

Senator DOUGLAS. Let me ask this question, Mr. Johnson: Do you agree that Government cargo has imposed upon it a higher freight charge than ordinary commercial cargo?

Mr. JOHNSON. This depends upon the particular transaction involved, as you know. Much of this cargo travels under conference rates. The question then becomes one of whether the conference rate is itself affected by the existence of the Government cargo, which is another question to which you have addressed yourself, but so long as the cargo is moving at conference rates, then at least the simple

allegation cannot be made that the cargo is moving at higher than conference rates, by definition.

In the case of an open rate, there may very well be an instance of cargo moving at rates perhaps higher than what the rate would have been had it moved at a conference rate.

With regard to the bulk shipments, under voyage charters, as you know the guideline rates are substantially in excess of the world market rates.

Senator DOUGLAS. Then that raises a question as to whether the subsidized lines are not getting a double subsidy, first the subsidy itself and, second, Government preference cargo upon which higher than normal rates are charged.

Mr. JOHNSON. Yes, I think it would be fair to say that to the extent that they are moving cargoes at rates in excess of what the rates would be for commercial cargo, to the extent that this cargo is available to them and only to them as a matter of law, that it could be said that they are getting what might be described as a double subsidy on some of this cargo carriage.

Senator DOUGLAS. Yesterday, Under Secretary of Agriculture Murphy stated that the subsidized liners received double subsidies when they carried agricultural commodities under Public Law 480.

Is there any way that you could pay the direct subsidy so that the double subsidies on Public Law 480 and other Government-impelled cargo could be eliminated?

Mr. JOHNSON. Of course, this would be possible. It would be an alternative to the way the system is now operating. As you know, the agricultural shipments moving at rates in excess of world rates constitute a form of subsidy for the otherwise nonsubsidized contract carriers, known as tramp operators.

This represents on the order of magnitude of $80 million a year. The $80 million represents the difference between the world rate and what, in fact, is paid to the operators for carrying the cargo. But for this differential, they would be out of business, just as but for the subsidy the subsidized operators would be out of business.

Senator DOUGLAS. Yes, but when a subsidized liner gets a direct subsidy and then carries agricultural commodities in addition at a higher rate, isn't that a double subsidy?

Mr. JOHNSON. I think it might be described as such; yes, sir.

Senator DOUGLAS. It could be described as such? Wouldn't it be an accurate description?

Mr. JOHNSON. Yes. I have no basic difficulty with that.

Senator DOUGLAS. All right.

Mr. JOHNSON. Military and other preference cargo comprised 55 percent of the total export cargo carried by the U.S.-flag liner vessels in 1962. While it is presently impossible to designate with absolute accuracy the amount carried by subsidized liner operators, it is clear that the subsidized operators have been placing heavy reliance upon preference cargo since subsidized vessels carry 76 percent of the total liner cargo available.

It is difficult to place the responsibility for this increase upon any factor. It is probably the end result of several factors. First, there is a relatively fixed amount of tonnage under U.S.-flag registry. Increasing quantities of preference cargo, coupled with a fixed U.S.-flag carry-

ing capacity, must necessarily result in preference cargo occupying a higher percentage of space on U.S.-flag ships. This trend will be accentuated if the fleet is not expanded.

Here, again, I would like to refer to the earlier figures. In 1963, the subsidized lines carried about 12 million tons of cargo: 5 million tons of this 12 million tons represented military or Government-sponsored cargo. But for the existence of the additional unsubsidized liners, the total would have been 7 million tons. If that were to go to 8 million tons, then the percentage is increased from 58 to 66⅔ percent.

So a relatively small increase in the amount of Government cargo has a profound impact on the proportion of Government cargo carried by American-flag ships if the number of ships remains constant and the amount of Government cargo increases. Basically, in the last 4 years, we have seen an increase of about 25 percent in the amount of Government cargo carried by the subsidized operators, and no increase whatsoever in total carriage but for this military increase.

So the trend we have seen in the past clearly seems at this point in time, at least, to be continuing.

Secondly, there is a variance in the percentage of Government-generated cargo carried by U.S.-flag liners on the different trade routes. For example, 60 percent of the cargo carried by vessels operating on Trade Route 29 to the Orient is preference cargo, while such cargo represents only 5 percent of the total carried by U.S.-flag vessels on trade routes to South America and Africa.

The figures for the lines, I might interject, vary. About half of the lines, seven or eight of the lines, derive more than 25 percent of their revenues from military and other Government-sponsored cargoes, from 25 to 50 percent of their revenues. The other lines, on the other hand, derive, some of them, no revenue from this kind of cargo, or a very insignificant proportion of their revenue.

So any comments made with regard to the impact of this carriage must take into account the trade route and company involved.

This simply illustrates that the patterns of trade for Government cargoes necessarily vary somewhat from commercial cargo. Another possible factor is the dampening of the competitive spirit inherent in any guaranteed cargo program, since such guarantees may reduce solicitation expenses and the need aggressively to seek commercial cargo.

At this point I might interject the observation in 1937 of Joseph P. Kennedy, the first Maritime Administrator, that the subsidized operators, it seemed to him, were spending considerably more time in Washington than they were in soliciting cargo. Today we have seen only a continuation of that circumstance, as the amount of Government cargo has increased, and 25 percent of the gross revenue of the shipping company comes from the Maritime Administration subsidy program, and as much as 50 percent of the revenue for cargo comes from cargo supplied by Government agencies.

So in spite of the plight of the local Propeller Club and others in wishing that Washington were a larger port, it is in many ways one of the largest ports in the country.

Because of the importance of this problem, the Maritime Administration has instituted a study regarding the quantities of preference cargoes carried primarily by subsidized operators. This study will be

concerned with the revenues received by subsidized operators from the shipment of preference cargoes, since the amount of revenue will give some indication of the reliance placed upon such cargo. We hope to institute a similar study in the near future for MSTS cargoes.

In conclusion, I want to reiterate that the Maritime Administration and the Department of Commerce have very limited authority in rate formulation. Nevertheless, we are very concerned with the effect of all rates upon the foreign commerce of the United States, for one of the principal justifications for a maritime subsidy program is the promotion of American trade.

Senator DOUGLAS. Mr. Johnson, thank you very much.

If I may refer back to some arithmetic which was introduced earlier, I believe you stated the total amount of military cargo moved was 1.3 million tons. Is that correct?

Mr. JOHNSON. The total was, for 1963, Mr. Chairman, 2,154,000 tons. The 1.3 million figure which I referred to represents the movement on the subsidized liners.

Senator DOUGLAS. I am informed by Mr. Boggs that the subsidized lines received $100 million in revenue, approximately. Iwill ask Mr. Boggs to correct the statement.

Mr. BOGGS. I think the exact figure is $97 million for fiscal 1963.

Senator DOUGLAS. And the volume moved in fiscal 1963?

Mr. BOGGS. 1.3 million tons for calendar 1963.

Senator DOUGLAS. If these figures are correct, and if I can divide, this would mean that the average rate would be $77 per ton, and as I understand it, this does not include handling charges. Is that right?

Mr. JOHNSON. That is my understanding, Mr. Chairman, on much of the cargo that moves under these programs.

Senator DOUGLAS. And what is generally the ratio of handling charges to commercial cargo rates?

Mr. JOHNSON. Between 50 and 65 percent of the cost of moving goods is a cost incurred within 10 miles of the port, Mr. Chairman.

Senator DOUGLAS. Fifty percent of the total?

Mr. JOHNSON. Fifty to sixty-five percent of the total cost.

Senator DOUGLAS. So it would be equal to the freight charges?

Mr. JOHNSON. Yes.

Senator DOUGLAS. Equal to the freight?

Mr. JOHNSON. Yes, sir. If, indeed, it does not exceed the freight, which would more often be the case.

Senator DOUGLAS. That comes to $154 a ton.

I would like to ask you this question: Isn't that a rather high rate, either taken separately or collectively?

Mr. JOHNSON. I hear some groans from the back of the room, Mr. Chairman, from the port of Washington, that would indicate either that we have overstated the figure or that they think that is a very low rate, since their groan is not fully communicative.

Senator DOUGLAS. Let's get the facts into the record.

Mr. Boggs, do you say that $97 million was paid out by the military for military transportation in 1963, calendar 1963?

Mr. BOGGS. Approximately. It was fiscal 1963.

Senator DOUGLAS. Fiscal 1963?

Mr. BOGGS. There is a little discrepancy between the fiscal and the calendar years.

Senator DOUGLAS. What was the tonnage?

Mr. BOGGS. According to the Administrator, 1.3 million tons.

Senator DOUGLAS. That comes out to about $76 to $77 a ton for freight charges only. Doesn't that seem to be a rather high figure?

Mr. JOHNSON. Mr. Chairman, that would depend on the cargo involved. Obviously the rate varies with the cargo in question. It is a complicated issue. I don't mean to dodge it, but I think that we would need to be more precise.

Senator DOUGLAS. Then you add at least an equal amount for handling charges?

Mr. JOHNSON. Yes, Mr. Chairman. Indeed, I have some figures here that would indicate that the ratio between the total terminal costs, loading and unloading, and the cost for moving of the cargo, would be almost on the order of 2 or 3 to 1, port costs to the cost allocated to the movement of the cargo in the ship.

Senator DOUGLAS. In our hearings of November 19 and 20, 1963, published in part 3, on page 406, representatives of the lines testified that their average revenue per weight ton, U.S.-flag ships, was $45 for 1962. I would like to ask you, Mr. Boggs, did that include handling charges?

Mr. BOGGS. In most cases, I believe it did.

Senator DOUGLAS. Here we have a freight charge of $77 on military transportation, without the added charges for handling.

I wish you would get some of your bright young men to study those figures.

Mr. JOHNSON. Let me, Mr. Chairman——

Senator DOUGLAS. Might I say most of the cargo of MSTS was general cargo—not radioactive waste. There was only 20 tons of that, and 280,000 tons of explosives. But 5,910,000 tons of general cargo.

Mr. JOHNSON. I do have figures for the average cost of freight charges in the various trades in 1961 which might give some frame of reference here. It depends, obviously, upon the trade, but for 1961 the average revenue per ton for exports to Latin America were $54, to Europe and the Mediterranean $40, to Africa and the Middle East $41, and to the Far East $42.

The average revenue on imports from those areas were, respectively, $29, $48, $24, and $52.

Senator DOUGLAS. That is what we have been contending all along and it is a central point of our inquiry, that the inbound rates are much lower than the outbound.

I think there is a real field for inquiry here, on the difference of MSTS freight charges of somewhere around $76 per ton as compared to these other tonnage rates on private cargo which you have read, and which include, I guess, military cargo.

Mr. Boggs says you have to deduct handling and loading charges.

Mr. BOGGS. To put them on a comparable basis.

Mr. JOHNSON. This may very well be. Before I would pass a judgment on it, I would want to have more information than I have before me now.

Senator DOUGLAS. Does that complete your testimony?

Mr. JOHNSON. Yes, sir.

Senator DOUGLAS. I would like to ask you a few questions.

Yesterday, Mr. Johnson, both Under Secretary Murphy of the Department of Agriculture and Mr. Gaud of AID stated that the cargo preference laws could be administered more effectively by your agency than by their agencies. They said that their agencies did not have the technical staffs which were required to carry out the mandates of the cargo preference laws which required the determination of fair and reasonable rates. This tends to be forgotten.

In response to a question which I asked, Under Secretary Murphy stated in his judgment this could be done by Executive order. Did you notice that testimony?

Mr. JOHNSON. Yes, sir; I am familiar with that.

Senator DOUGLAS. Would you be willing to draft an Executive order for submission to the President recommending that the cargo preference functions of the AID and the Department of Agriculture, Bureau of Public Roads, General Services Administration, the Export-Import Bank, and so forth, be transferred to the Maritime Administration?

Mr. JOHNSON. If you are asking the simple question of the drafting of such an Executive order, we draft a good deal of material, and I would not want to say we would refuse to draft such a document.

As much as I appreciate the confidence of Under Secretary Murphy, as to the competence and administrative success of the present Maritime Administration, however, it would seem to me that this is a far more complicated question than might first appear.

There would, of course, be some advantages to centralizing the location, the administration, of Government transportation in one agency. There might be some administrative saving. On the other hand, there might be additional administrative costs, as I suspect the Department of Agriculture, for example, would want to keep some of its transportation experts on hand. This would promote some uniformity in the handling of cargo and setting of rates. It would make it easier for us to gather information and report it.

There might be some ease in budgeting and accounting. You would have one agency responsible for this program, rather than the number of agencies that we have now.

However, it seems to me there are also a number of disadvantages to this sort of an approach at this time.

So long as we have the present cargo preference program, and the form of subsidy is as it is, to put all transportation functions in one agency would create some inherent conflicts, without question. As it is now, each agency that is contracting for its own shipping has the incentive to hold its shipping costs to the lowest possible level. They are getting the appropriations in their budget for the shipping account, and they monitor it with great care, as Under Secretary Murphy explained to you.

This has provoked controversy, without question, but it has also, it seems to me, produced lower shipping charges to the U.S. Government. If the entire responsibility for this program were placed in the Maritime Administration, we would be jointly charged with holding the costs of transportaiton to their lowest possible levels and also holding the costs to the highest possible levels in order to promote the American merchant marine.

So this is a complicated question, I think. In large measure the answer to it turns upon the kind of subsidy program that you have for

the tramp fleet. I would certainly want to give it a considerable amount of thought before not only drafting but actually advocating an Executive order of this kind if, indeed, something other than an Executive order would not be necessary for this purpose.

Senator DOUGLAS. I appreciate the becoming modesty which you display, but the evidence I have heard makes me feel that I should recommend to this committee that it recommend to the President that such an Executive order be drafted.

Mr. JOHNSON. Without regard to the nature of the cargo preference program and the present subsidy program?

Senator DOUGLAS. We will work that out. But in general, I think it would be desirable to concentrate these functions.

As I remember the Presdent's state of the Union message, he said that more competition was needed in ocean transportation, particularly in regard to freight rates. Is my memory accurate on that?

Mr. JOHNSON. There was a considerable concern at the time on the part of those present in this room, as to whether the sentence in the state of the Union message which referred at one point to competition in transportation, which was then followed by a comma and the phrase "and a new policy for our merchant marine," was meant by the President to suggest that he actually was in favor of competition for the merchant marine. This debate has waged on at some length and has not at this point been resolved.

Senator DOUGLAS. Have you had a chance to indulge in exegesis of this statement?

Mr. JOHNSON. No, that is out of my line.

Senator DOUGLAS. Do you think the comma separates the merchant marine from the desire to have more competition?

Mr. JOHNSON. Well, a year ago, when I was a law professor, we would spend at least an hour on that.

Senator DOUGLAS. If it were a semicolon, it would. But a comma is not as sharp a break in meaning.

Mr. JOHNSON. It seems to me there is something happily ambiguous about a comma, Mr. Chairman.

Senator DOUGLAS. Do you regard this as a mandate to you to foster competition?

Mr. JOHNSON. Well, I certainly believe, as I have indicated in my statement, that one of the principal purposes, aside from the defense reason, for a subsidy program at all is the promotion of American trade. It is lower freight rates that encourage imports and exports to promote American economy. I think competition aids that end; yes, sir.

Senator DOUGLAS. You are not opposed to competition?

Mr. JOHNSON. No. I was always brought up to favor it, Mr. Chairman.

Senator DOUGLAS. So was I. I am somewhat surprised sometimes, though.

Mr. JOHNSON. It is more a philosophy than a practice, I believe, Mr. Chairman.

Senator DOUGLAS. We have developed a good deal of evidence which reveals that American exports are discriminated against by steamship conferences. If our regulatory agency is not successful in eliminating this discrimination in the near future, will you require American subsidized lines to get out of the conferences?

Mr. JOHNSON. I believe Secretary Connor has spoken on that subject and indicated in his judgment it is very complicated. I certainly think it is no simpler than the Secretary indicated. However, I would again reiterate what I have said with regard to the purpose of a maritime subsidy program and an American merchant marine as a device to promote American economic growth and trade. To the extent that the conferences tend to impede that, it seems to me that they are working at cross-purposes with what we are trying to promote with the maritime subsidy program.

Senator DOUGLAS. And the inbound conferences won't even permit their proceedings to be made known to the American Government. Isn't that true? They have their home offices beyond the seas. They deny us the right to examine what they have done. They are backed up by their governments. They deny that we have any rights over them. What is left except getting American subsidized lines out, or denying to foreign lines the right of the ports in the United States, just as the British threatened to deny the right of landing to American airplanes if we persisted in lowering transocean passenger rates, air rates?

Mr. JOHNSON. Well, as I indicated, in light of Secretary Connor's statement, I think I would not want to take a definitive position on any definitive solution to the problem at this time.

Senator DOUGLAS. I hold you in very high esteem, Mr. Johnson, but there are certain members of the legislative branch that are not going to be satisfied if all we get is "We are studying it" or "It is too complicated to make up our minds about." These are matters that will ultimately have to be decided. While I appreciate that you should have due caution, this should not permanently paralyze action.

Mr. JOHNSON. I hope I have not indicated paralysis in my statements this morning. I have made very clear, and I think it is responsive to your question, that it seems to me the purpose of our subsidy program ought to be to provide an environment for American trade that encourages our imports and exports.

Senator DOUGLAS. I believe you made a speech in New Orleans on this subject, didn't you, on the 9th of February? [1]

Mr. JOHNSON. Yes. The speech in New Orleans encompassed a number of subjects.

Senator DOUGLAS. Am I correct in saying that in that speech you thought that cargo preference should be gradually discontinued in favor of direct subsidies to tramp ships?

Mr. JOHNSON. I suggested in that speech, Mr. Chairman, that there are a number of alternatives available to us. I did not use that speech as a declaration of any particular proposal of my own, but I did suggest that it seemed to me if we were to continue with our present program, the inevitable result would be an increase in cost and a decrease in the number of ships until at last the ships entirely disappeared and then the costs would go with the ships; that another alternative would be to consider reprograming this $80 million into the American merchant marine in a way that would get us 14 times as much shipping capability for the same investment. But I did not recommend one rather than the other.

---

[1] Congressional Record—Senate, Feb. 10, 1965, pp. 2523–2526.

Senator DOUGLAS. Those are interesting figures. You say you would get 14 times as much shipping if you have a direct subsidy than if you are overcharged—what is it, $80 million?

Mr. JOHNSON. $80 million is the amount of money we are talking about that is going to a segment of the American merchant marine. This is an $80 million subsidy, like the $200 million subsidy going to the subsidized operators. What I was exploring in that speech were ways in which that $80 million could be used to the benefit of the American merchant marine that would, in turn, get cheaper shipping rates for the American people and would also create a more expanded and more modern American merchant marine.

Senator DOUGLAS. Rates are now fixed on the costs of the wartime Liberty ships?

Mr. JOHNSON. In large measure; yes sir.

Senator DOUGLAS. And they have become largely obsolete?

Mr. JOHNSON. Yes. I did not wish to suggest that the rates were too high. That may or may not be the case. All I am suggesting is that the kinds of ships we are now using, of the size and speed and manning requirements that they possess, are not the most economic vessels within the American economy.

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

Mr. JOHNSON. Thank you, Mr. Chairman.

U.S. DEPARTMENT OF COMMERCE,
MARITIME ADMINISTRATION,
OFFICE OF THE ADMINISTRATOR,
Washington, D.C., April 16, 1965.

Hon. PAUL H. DOUGLAS,
Chairman, Subcommittee on Federal Procurement and Regulation, Joint Economic Committee, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: At the hearing on April 8, 1965, I testified that 1.3 million weight tons of military cargo were carried by the subsidized operators. This figure, considered together with the $97 million generated by this cargo, resulted in $77 per ton as the average cost. This latter figure is misleading for several reasons. The $97 million figure represents the revenue to subsidized operators from negotiated contracts rather than berth revenues for the fiscal year 1963. The 1.3 million tonnage figure, on the other hand, includes contract as well as berth tonnage for the calendar year 1963, and this tonnage represents weight rather than measurement tons. Since military cargo is usually more bulky in relation to its weight than ordinary cargo, MSTS rates are computed on a measurement rather than weight basis. The measurement ton is a unit of volume and contains far fewer pounds than a weight ton.

Since 1 weight ton of military cargo averages approximately 135 cubic feet, and a measurement ton is equal to 40 cubic feet, 1.3 million weight tons equals approximately 4 million measurement tons. The $97 million revenue figure divided by the number of measurement tons results in an average rate of $24.13 per measurement ton. But as previously mentioned, this would not be entirely accurate, because the figures represent weight and revenue for different items for different time periods. A valid comparison, however, can be made with the statistics contained in official MSTS publications.

According to the MSTS Financial and Statistical Report for the Fiscal Year 1964, part I, MSTS spent an estimated $203,246,000 for commercial shipping contracts and berth terms for the fiscal year 1963 (id. at 13). During the same fiscal year MSTS shipped approximately 7.7 million measurement tons (id. at 20). The resulting average rate equals $26.39 per ton.

During the hearing reference was made to several studies being conducted by the Department of Commerce and the Maritime Administration, and the chairman expressed interest in the approximate completion dates of these studies. I am now able to give you more information about those studies and their completion dates than I was during the hearing.

It is my understanding that the Department of Commerce has three areas relevant to these hearings presently under consideration: (1) a general investigation of the practices of conferences in order to ascertain how rates are formed; (2) an analysis of ocean transportation costs; and (3) an analysis of the effect of export/import freight rate disparities on the balance of payments. The first is scheduled for completion in time for the May 1965 hearings of the Federal Maritime Commission's factfinding No. 6 studies; the second and third are expected to be completed in time for the June 1965 hearings of the Commission on the same subject.

At the present time, the Office of Program Planning of the Maritime Administration has one study underway and another planned relating to the reliance of American-flag carriers on Government-impelled cargoes.

The first deals with the revenue derived from the carriage of cargoes subject Public Law 664 (sec. 901(b) of the Merchant Marine Act, 1936, as amended). The principal movements under this section are Public Law 480 cargoes which are shipped by the Department of Agriculture and the Agency for International Development. The first stage of this study involved the collection of raw shipping data for the calendar year 1964, including names of ships, date of cargo lift, the quantity of the lift, the commodity involved, the destination, the amount of freight differential, if any, and the total differentials paid. This phase is practically completed. The next phase is the collation, auditing, and validation of the data and the transference of this information into computer storage banks. This information, coupled with other information already at the Maritime Administration, will result in a summarization of the cargo shipped, the company involved, and the resulting revenues. We estimate final results in 4 to 5 months.

The second study involves a similar inquiry regarding MSTS cargo. This study has been planned but not started. The collection of data should begin in 2 to 3 weeks, and will probably take 3 to 4 additional weeks. Because the volume and availability of data are not yet known, it is impossible to estimate with accuracy the amount of processing involved. However, we do expect some results within the coming 6 months.

The chairman also referred to the fact that the Deputy Maritime Administrator during the 1963 rate hearings promised to make a study regarding shipping rates and our foreign commerce. A reading of the Deputy Maritime Administrator's testimony reveals no reference to such a promise in the opening statement and following questions. Such a study was mentioned, however, in material submitted for the record by the Department of Commerce after the Deputy Maritime Administrator's testimony. The relevant part of the material reads as follows:

"Through the Office of the Under Secretary for Transportation and the Assistant Secretary for Economic Affairs a systematic study is being made of the effects of ocean freight rates on the balance of payments. A number of persons in other agencies in the Commerce Department as well as in the Federal Maritime Commission are being called on for assistance. It is anticipated that this study will be completed in September 1963."

It is our understanding that the above study was never publicly released, but it did provide the basis for the undertaking of the three studies mentioned on page 609 of your printed hearings (hearings before Joint Economic Committee, pt. IV, 88th Cong., 1st sess. at p. 609). Those three studies are the same as those discussed above.

I hope this information will be of assistance to you.

Sincerely yours,

NICHOLAS JOHNSON,
Maritime Administrator.

Senator DOUGLAS I am going to change the order of the witnesses, and I am going to ask Mr. Marshall P. Safir, president of Sapphire Steamship Lines, Inc., to take the stand.

Senator DOUGLAS. We appreciate your agreeing to testify, Mr. Safir. I see that you have a statement.

Would you identify the gentlemen with you?

STATEMENT OF MARSHALL P. SAFIR ON BEHALF OF SAPPHIRE STEAMSHIP LINES, INC.; ACCOMPANIED BY GERALD M. ROBISON, THE PRESIDENT, AND STANLEY L. TEMKO, COUNSEL

Mr. SAFIR. On my right is the president of the Sapphire Steamship Lines, Gerald Robison, of Connecticut, and on my left is Mr. Stanley Temko of the law firm of Covington & Burling here in Washington.

Senator DOUGLAS. You may proceed.

Mr. SAFIR. Mr. Chairman and members of the committee: My name is Marshall P. Safir. I am the chairman of the board of directors of Sapphire Steamship Lines, Inc. Sapphire Lines is a recently formed American company, operating American flag ships in berth service. This service has already started between east coast U.S. ports and Europe, and will be extended later this month to include an additional service between gulf coast ports and Europe.

Although we are new to the shipping industry, from our knowledge of the inquiry which the subcommittee is conducting, we believe that the story of Sapphire Lines and and its experience to date will be of interest to you.

My business experience has not been in the ocean carrier field. For more than 20 years, however, I have been engaged as an executive in the moving, storage, and warehousing business, with considerable experience as an international mover. I am currently chairman of the board of the Weissberger group of moving and storage companies, which has been in business in New York for more than 80 years.

Let me at the outset tell you very succinctly why the Sapphire Steamship Lines was formed—it was simply the inability of moving companies to obtain a realistic trans-Atlantic Ocean rate for household goods from the member lines of AGAFBO. AGAFBO—the Atlantic and gulf American flag berth operators—is the association of U.S.-flag carriers established to deal with the MSTS for the carriage of Department of Defense cargo to and from Europe.

Senator DOUGLAS. In other words, this in a shipping conference?

Mr. SAFIR. This is a shipping conference which is organized for the purpose of dealing with the military transport service only.

One of these moving companies, Liberty Pac International Corp.—starting in September of 1964, proposed to the Department of Defense modifications in the DOD procedures for the carriage of household goods.

Senator DOUGLAS. What was the rate which the Department of Defense was paying prior to your negotiations with DOD?

Mr. SAFIR. The rate was 81 cents per cubic foot.

Senator DOUGLAS. What would that amount to per ton? Would that be $32.40?

Mr. SAFIR. $32.40.

Senator DOUGLAS. $32.40 for 40 cubic feet, a measurement ton.

You proposed to the Department of Defense modifications in the DOD procedures. What rates did you offer originally?

Mr. SAFIR. I think it can be best explained in my statement.

Senator DOUGLAS. I want to take you step by step.

Mr. SAFIR. We were offering a rate reduction of $2 per net hundredweight on the through bill of lading cost.

Senator DOUGLAS. $2 per hundredweight?

Mr. SAFIR. Yes, sir.

Senator DOUGLAS. I had always thought there were from 20 to 22.4 hundredweights in a ton?

Mr. SAFIR. I don't follow your point, Senator.

Senator DOUGLAS. You were offering $44.80 a ton.

Mr. TEMKO. Senator, I think this can be better understood if we differentiate between two stages. The stage that Mr. Safir is talking about now mainly was an offer of a moving company to the Department of Defense to lower the rate for the entire through Government bill of lading carriage, which is broader than just the ocean transportation segment.

In other words, this was a mover's offer to the Department of Defense to say that on each of the current rates then in effect, "We will lower the rate to the Department of Defense by $5 per hundredweight."

That is not just the ocean transportation.

Senator DOUGLAS. All right, go ahead.

Mr. TEMKO. Mr. Safir will get into the ocean transportation. But this starts off by saying, as we say here, that if the Army was paying, say, $30.60 per hundred pounds of military housing—military household goods, Liberty Pac offered to reduce that rate to $25.60.

In other words, it was $5 off each hundred pounds. I think this will come out.

Senator DOUGLAS. $5 on each hundred pounds would be $112 on a ton. Isn't that right?

Mr. SAFIR. That is right, sir.

Senator DOUGLAS. In other words, we are dealing with considerable amounts. Mr. Boggs has figures on household goods amounting to 583,000 tons in 1964. Millions of dollars are involved.

Mr. TEMKO. As Mr. Safir will say, conservatively for the 8 months of 1965 remaining, conservatively, there would be a saving to the Department of Defense of more than $5 million.

Senator DOUGLAS. All right.

Go ahead.

Mr. SAFIR. These proposals result in a saving to the Department of Defense of $5 per hundredweight of household goods. I wish to emphasize that amount—a $5 saving in the cost of moving each 100 pounds of military household goods going to most of Europe.

Senator DOUGLAS. That is $112 per metric ton?

Mr. SAFIR. Yes, sir.

In concrete terms, when a sergeant, for example, moves from Fort Meade, Md., to a post in Germany, the Government rate is reduced from $30.60 to $25.60 per hundred pounds.

The Liberty Pac proposal contemplated the utilization of certain reusable containers which would reduce handling costs and make possible other savings. It also contemplated a rate for the ocean carriage of military household goods which recognized, first, that such cargo was easy to handle, and, second, that such cargo moved in substantial amounts in both directions across the Atlantic and that it consequently should not be subject to an inflated rate based primarily on eastbound carriage.

Senator DOUGLAS. That is outbound?

Mr. SAFIR. Outbound and inbound.

Senator DOUGLAS. Did you say the inflated rate is based on the outbound carriage?

Mr. SAFIR. Yes. In other words, the homeward rate from Europe to the United States was the same as the outbound rate was.

Senator DOUGLAS. For the Government?

Mr. SAFIR. For the Government.

Senator DOUGLAS. Although generally not for private shippers?

Mr. SAFIR. On December 29, 1964, the Department of Defense approved the Liberty Pac proposal, stating that it could become effective April 1, 1965, as it has. Liberty Pac attempted to secure some downward revision in ocean freight rate but was unsuccessful in this effort.

Consequently, Sapphire Steamship Lines was organized to provide an American-flag berth service which would make available to Liberty Pac and all other movers of household goods a reasonable ocean freight rate.

One point so deserves emphasis here. While the impetus for the organization of the line was as I have stated, Sapphire Lines is not in business solely as an ocean carrier of household goods. Staffed by experienced steamship men, we are engaged in a regular berth service to carry—in either direction across the Atlantic—all commodities, for commercial shippers, for the Department of Defense, and for any other governmental organization.

We already have on file with the Federal Maritime Commission a rate for household goods which will result in savings to the Department of Defense during the year 1965—and I believe this is conservative—of more than $5 million. We also have on file effective for MSTS cargo—including a basic rate of 40 cents per cubic foot. This rate is 14½ cents lower than the AGAFBO rate for general cargo and represents an even greater savings over some of the other AGAFBO rates.

Senator DOUGLAS. Do I understand that the AGAFBO ships are also subsidized ships?

Mr. SAFIR. For the most part.

Senator DOUGLAS. But you are not a subsidized line?

Mr. SAFIR. No, sir.

Senator DOUGLAS. So you are not subsidized and you are charging a much lower rate than the AGAFBO ships which receive a subsidy in addition?

Mr. SAFIR. Yes, sir.

Senator DOUGLAS. This is very important. Thank you.

Mr. SAFIR. We have already booked MSTS cargo for our next eastbound sailing at our 40-cent rate, and each cubic foot so booked represents a saving to the Government of 14½ cents or more.

We believe these rates are realistic. On a proper utilization of ship capacity, well they will enable Sapphire Lines to make money—not an exorbitant profit, but a profit.

Senator DOUGLAS. I have to go to the floor, but I will stretch the time as much as I can.

Go ahead.

Mr. SAFIR. As I have said, Sapphire Lines has very recently begun operations. It may well be that its operation will serve to furnish this subcommittee, as well as the DOD and the MSTS and other interested Government agencies, with valuable data.

Its operating experience may well be useful in the consideration of some of the questions which have been of interest to the Joint Economic Committee, as well as other Government groups, and which are still unresolved. In this I refer to the reasonableness of the rates charged the Government in the ocean shipping field, as well as to some of the practices which have been followed in this field.

We are satisfied we can take care of ourselves in any fair contest. Sapphire Lines is a soundly conceived, viable operation which we expect will prosper as a commercial organization while charging reasonable rates to the shipping public and to the Government.

A matter of immediate interest to Sapphire Lines is the level of rates charged by the AGAFBO lines for the ocean carriage of MSTS cargo. The recent report of this committee pointed out that an MSTS comparison of MSTS rates with those available to commercial shippers showed that in many instances the MSTS paid higher rates.

The report also referred to the "extraordinarily high level of rates" for MSTS cargo. These high rates concern Sapphire Lines because they can be used in an attempt to exclude new companies, such as Sapphire Lines, from this area.

AGAFBO's members can, with little loss in overall profit, selectively reduce some MSTS rates to an extremely low level, while maintaining others at their high levels, in an effort to drive non-AGAFBO members out of business. These low, "fighting rates" are subsidized by the large profit reflected in the present high rates.

There is no doubt of the economic power of AGAFBO's members to utilize such "fighting rates." Moreover, there is some indication that AGAFBO may have actually resorted to this technique in the case of Sapphire Lines. I refer to the recent action of AGAFBO reducing, effective March 29, 1965 from 58½ to 23 cents per cubic foot its MSTS rate for household goods while its MSTS general cargo rate was maintained at its prior high level.

Senator DOUGLAS. They cut from 58½ to 23 cents after you had made your offer?

Mr. SAFIR. Yes, sir.

Senator DOUGLAS. Had they been seeking an increase before you made your offer?

Mr. SAFIR. Yes, sir.

Senator DOUGLAS. They had been seeking an increase before you made your offer?

Mr. SAFIR. Yes, sir.

Senator DOUGLAS. They had been seeking an increase before you made your offer. After you made your offer, they reduced from 58½ cents to 23 cents per cubic foot?

Mr. SAFIR. Yes, sir. Only on the commodity which represented the heart of my ability to operate.

Senator DOUGLAS. In other words selective price cutting on the products where you were offering competition?

Mr. SAFIR. That is correct. As noted above, Sapphire Lines' MSTS rate for general cargo is 40 cents. It is interesting that this new 23-cent rate was stated by AGAFBO in its filing with the Maritime Commission to be effective only until April 30, 1965, that is about 1 month, at which time it will jump back to the 58½ cent level.

Senator DOUGLAS. In other words, they lowered this rate to take the business away from you?

Mr. SAFIR. Yes, sir.

Senator DOUGLAS. Were they awarded the contract?

Mr. SAFIR. This is matter of a tender to the Government.

Senator DOUGLAS. Has the Government accepted the offer?

Mr. SAFIR. We don't know.

Senator DOUGLAS. Can we find out if the Government accepted the 23-cent rate?

Mr. BOGGS. I don't think there has been a decision.

Mr. SAFIR. It is just then filed. I would imagine since it is filed in the usual manner, it is an effective rate. It is a tariff rate.

Senator DOUGLAS. Is a representative from Admiral Harllee's commission in the room?

Mr. MAZURE. Yes, sir; I am James E. Mazure, special assistant to the chairman, Federal Maritime Commission.

Senator DOUGLAS. Have you accepted that rate?

Mr. MAZURE. As far as I know it is on file.

Senator DOUGLAS. And, therefore, the Department of Defense will grant the contract?

Mr. MAZURE. I don't know about the latter part. I can find out about the filing.

Senator DOUGLAS. Will you do so immediately?

Mr. MAZURE. Yes, sir.

Mr. SAFIR. I question whether this temporary 23-cent rate was not motivated by AGAFBO's desire to get rid of a serious competitive factor—I refer, of course, to Sapphire Lines.

I wish to thank the committee for the opportunity of appearing before it and to say that I share its interest in the areas under inquiry, for many years as a private citizen and now as the head of Sapphire Steamship Lines.

Senator DOUGLAS. I want to thank you for coming to testify, Mr. Safir. I am going to ask a series of questions of you. We will start with simple ones.

Do you believe that the current rates charged by American berth operators on Defense Department cargoes are exorbitantly high in relation to the subsidized carrier costs and in relation to the unsubsidized carrier costs?

Mr. SAFIR. I will answer this in two ways, sir. The answer to the first part is "Yes." The answer to the second and that is the unsubsidized, I am not certain about at all.

I do feel, however, that since AGAFBO represents both the subsidized and unsubsidized lines the subsidized lines are hiding behind the skirts of the unsubsidized.

Senator DOUGLAS. You are an unsubsidized line and you offered to carry Defense cargoes at a lower rate than the subsidized lines?

Mr. SAFIR. Yes, sir. And we feel that we can make a profit even at this rate.

Senator DOUGLAS. Why do you think the rates charged by the conference berth operators are so high?

Mr. SAFIR. I can't answer that.

Senator DOUGLAS. Have you made an estimate of how much money you think the Treasury would save if these rates were adjusted to "a fair and reasonable basis"?

Mr. SAFIR. No, sir.

Senator DOUGLAS. Have members of the conference dealing with the Defense Department tried to place obstacles toward your becoming a steamship operator?

Mr. SAFIR. Yes.

Senator DOUGLAS. The answer is yes?

Mr. SAFIR. Yes.

Senator DOUGLAS. I want to say that these statements are being given in response to questioning and you are answering very frankly.

If you would prefer to answer the questions under oath, I will be very glad to have you do so.

I won't require it. But if you would prefer to have it under oath, you may.

We don't question your integrity at all, Mr. Safir. I was really wondering whether we would give you more adequate protection if you spoke under oath. Whatever you say, however, is privileged and not subject to the law of libel.

Mr. SAFIR. Thank you.

Senator DOUGLAS. In response to the question "have the members of the conference dealing with the Defense Department tried to place obstacles toward your becoming a steamship operator," your answer is "Yes"?

Mr. SAFIR. That is correct.

Senator DOUGLAS. Would you elaborate on that?

Mr. SAFIR. I have a prepared statement in connection with that, sir.

A problem we have run into is the sniping and interference with our undertaking by some of the lines which have been entrenched in this trade. Obviously, we did not expect the companies which are in the AGAFBO group to look with joy upon our entrance into this business.

We also know that any new competitor in any business faces a hard row. It seems to us, however, that some of the things which we have experienced in the past few months go a good deal beyond this. We have, for example, been told by an AGAFBO line employee who stated that he spoke for AGAFBO, that AGAFBO would negotiate dual rates with all movers so that no household goods would move on Sapphire Lines.

He also told us that AGAFBO and its member lines would go to the Department of Defense and do everything possible to smear us, and "smear" was his word. And that if nothing else succeeded the AGAFBO lines would finally quote lower rates than Sapphire and would go right to the bottom if necessary. We have also received indications——

Senator DOUGLAS. They would do this as a group?

Mr. SAFIR. As a group.

We have also received indications from stevedoring concerns that representatives of at least some of AGAFBO's lines have urged them not to do business with Sapphire.

Beyond this, we have also received reports that some AGAFBO lines have told movers of household goods that those movers who shipped on Sapphire Lines might well run into difficulties in areas

of the world served by AGAFBO members but not served by AGAFBO lines.

Senator DOUGLAS. Did they mention what those difficulties were?

Mr. SAFIR. Is it possible for Mr. Robison, the president of the company, to answer that?

Senator DOUGLAS. Yes.

Mr. ROBISON. Mr. Chairman, those difficulties, as they have been understood by us, relate to operational difficulties that might be encountered by movers of household goods who do business with the Department of Defense in just getting shipments moved from point to point in areas which Sapphire Lines does not serve. For example, space might not be available on vessels, extraordinarily slow handling might be experienced, and other similar operational difficulties which would just make it difficult.

Senator DOUGLAS. Any threat of violence?

Mr. ROBISON. No, sir; not to my knowledge.

Do you mean personal violence?

Senator DOUGLAS. They are just not going to give you any service.

Mr. ROBISON. Yes, sir.

Mr. SAFIR. That completes the statement, sir.

Senator DOUGLAS. Would you identify for the record the name of the representative of AGAFBO who made these statements to you? Remember, you are not volunteering this testimony. You are responding to a question coming from the U.S. Senate.

Mr. SAFIR. The name of the man was Robert Watt.

Senator DOUGLAS. W-a-t-t?

Mr. SAFIR. Yes.

Senator DOUGLAS. By whom is he employed?

Mr. SAFIR. He is employed by the Waterman Steamship Co.

Senator DOUGLAS. But he said he was speaking for others?

Mr. SAFIR. He said he was speaking for AGAFBO.

Senator DOUGLAS. Have any representatives of the conference or any of your potential competitors threatened shippers who use your ships, or other potential customers of yours or other persons with retaliatory actions if your ships were to be used?

Mr. SAFIR. This can best be explained in this manner, Senator Douglas. We have had relationships with several shippers of household goods, movers, through a traffic management service that we had been performing prior to entry into the steamship field.

I can answer this question in this way only: We had seven such clients, including Liberty-Pac, which was the one that was mentioned originally; as of today we have two left.

Senator DOUGLAS. Do you have any evidence as to why the other five discontinued?

Mr. SAFIR. No, sir.

Senator DOUGLAS. Did they tell you why?

Mr. SAFIR. Yes. In some cases it was poor service. In some cases it was for nonpayment of their invoices. In some cases it was slow movement of the cargo. And all of which seem to have, and, in fact, have no basis in fact.

Senator DOUGLAS. You can prove that these have no basis in fact?

Mr. SAFIR. Yes, sir.

Senator DOUGLAS. Have members of the conference attempted to have your credit sources cut off?

Mr. SAFIR. I don't know.

Senator DOUGLAS. What do you think about it?

Mr. SAFIR. Well, what is on the record is best to talk about. There had been a change in AGAFBO's rules effective around late December of this year, when the intentions of Liberty-Pac became known, that they wanted a lower rate for the new container mode. There was a section 15 agreement filed by AGAFBO which changed the credit terms for household carriers.

It required that each carrier either post a $100,000 bond with AGAFBO, or that credit would be limited to 15 days thereafter, and if there was no payment in 15 days then the carrier would go on to a c.o.d. order, rather, a cash basis, to pick up his shipments.

This was a complete reversal. We had always owed the AGAFBO members a considerable amount of money. The nature of the business, with a 3-month situation between the time we originate the removal in Dusseldorf, Germany, and the time it is delivered in Des Moines, Iowa, plus the time it takes for the Army Finance Office to pay us, represents a considerable outlay of cash. To collapse the credit——

Senator DOUGLAS. And in the past they had always been letting you have 3 months?

Mr. SAFIR. Letting us have a very substantial credit line, a very generous credit line.

The move toward this new approach took place coincidentally with the emergence of the idea of Liberty-Pac first chartering its own ships and then later on establishing the Sapphire Line.

We have found since that time that under no circumstances can we ever get current enough so that we are off a cash basis. One of the main reasons that most of our clients have left us is the fact that they have been badgered by lawyer's letters from AGAFBO members, saying that the traffic management services was not paying the bills on time, impugning our integrity wherever they could, and creating such a distateful atmosphere that it is not inconceivable that a good customer could sour on such an organization that was in such conflict with such a powerful group.

Senator DOUGLAS. Have your telephones been tapped?

Mr. SAFIR. I don't know, sir. I cannot prove that that is the case.

Senator DOUGLAS. Do you think it is?

Mr. TEMKO. I really think he does not know, and I really don't think it helps, sir, to surmise on it.

Senator DOUGLAS. Has AGAFBO invited you to join the conference and make peace with it?

Mr. SAFIR. Through no official means, sir.

Senator DOUGLAS. Through no official means?

Obviously, they seem to be using a stick. Has any carrot been held out to you?

Mr. SAFIR. No, sir.

Senator DOUGLAS. I am sure no literal carrot.

Mr. SAFIR. No, sir.

Senator DOUGLAS. You say through no official means. Have there been unofficial approaches?

Mr. SAFIR. A suggestion made of why don't we join AGAFBO.

Senator DOUGLAS. Who made that suggestion?

Mr. SAFIR. It was made by a party by the name of Walsh, Ed Walsh, to Arnold Weisburger, who is the vice chairman of the board.

Senator DOUGLAS. Whom does he represent?

Mr. SAFIR. Mr. Walsh? At the moment it is hard to say.

Senator DOUGLAS. By whom was he employed?

Mr. SAFIR. He was formerly with the States-Isthmian Lines, and I don't know whether he is now connected with any other company.

Senator DOUGLAS. Let me see if I correctly understand the situation. You offered a lower rate than the approved AGAFBO rate on household goods, and you did this at a time when AGAFBO was seeking an increase. Is that correct?

Mr. SAFIR. Yes, sir.

Senator DOUGLAS. Your lower rate was $25.60 per hundred pounds, and immediately following your offer AGAFBO reduced its rate on household goods from 58½ cents to 23 cents per cubic foot?

Mr. SAFIR. Yes, sir. This was the rate to MSTS.

Senator DOUGLAS. And prior to that time they had been trying to get a higher rate?

Mr. SAFIR. That is my understanding.

Senator DOUGLAS. You quote your rates in two forms: First, the $25.60 per hundred pounds for household goods, and 40 cents per cubic foot for general cargo?

Mr. SAFIR. I think that requires some explanation, sir.

There are two factors involved in this through bill of lading business. That is the overall rate which includes the terminal service cost of packing the man's dishes and glassware in his home, the transportation to a rail head, moving to the port of exit and then ocean freight and then additional inland and unpacking cost at the residence. So the rate is all inclusive at $30, let's say.

The ocean portion of that rate in the past averaged out to approximately $13 a hundred pounds of the $30-odd.

What we have done is reduced that rate to the mover, the Sapphire Lines, from the $13 approximation, which is represented on a conversion to 81 cents a cubic foot, down to $7 per 100 pounds or 45½ cents a cubic foot, approximately.

That is on household goods alone.

Senator DOUGLAS. Let me make this clear. You propose to effectively cut the rates in half, is that right?

Mr. SAFIR. Almost. Not quite, but almost.

Senator DOUGLAS. Not quite but almost half?

Mr. SAFIR. Almost.

Senator DOUGLAS. And still make a profit?

Mr. SAFIR. Yes, sir.

Senator DOUGLAS. And then in reprisal for this, they came down below your figure, from 58½ cents which they had said was too low, to 23 cents?

Mr. SAFIR. There are two rates involved here, sir.

You have the 81 cent quotation which we mentioned a moment ago as being the former AGAFBO rate for through bill of lading services. You also have—because the Government does shipping that is not done on the through bill of lading but in its own in-house methods—a rate

for household goods; there was a rate, of 58½ cents, which was higher than the general cargo rate.

Household goods was in the category of premium cargo. When AGAFBO reduced its rates from 81 cents, apparently to meet my competition for 30 days, they also felt impelled to level off the rate by giving the Government, for its own in-house method, a similar reduction.

So they reduced their 58½ cent rate down to what they have purported is a similar reduction, down to 23 cents from the 58½ cents.

Senator DOUGLAS. Did they have an 80-cent rate, too?

Mr. SAFIR. Eighty-one cents. That was berth terms.

Senator DOUGLAS. Did they reduce that?

Mr. SAFIR. To 45½ cents, berth terms. Also only for 30 days.

Senator DOUGLAS. And what had been your rate on what AGAFBO had charged 80 cents for?

Mr. SAFIR. We put it on a per-hundred-pound basis, but converted to cube it would be about 45 or 46 cents.

Senator DOUGLAS. And they came down slightly below you?

Mr. SAFIR. I would say about the same.

If I may volunteer an additional explanation, you asked how can we do this. The rate that we quoted on this $7 or 45 cents situation is not too different on the movement from Europe back to the United States as their existing rates that they are down to now on their vehicles that they are bringing home. All we have done is reduced the rate for bringing home a container of household goods down to the rate for the privately owned vehicles that MSTS has negotiated the lines down to.

So if it is appropriate for vehicles, it is appropriate for a container of household goods to bring home.

Senator DOUGLAS. In other words, MSTS drove a sharper bargain on automobiles being brought home by military personnel than they drove on household goods going out; is that right?

Mr. SAFIR. No, I can't say that, sir.

Senator DOUGLAS. You say that the rate which AGAFBO filed, however, was to prevail for only 1 month, and that on April 30 it was to go back to 58½ cents.

Mr. SAFIR. Unless it was to be further extended. They made that qualification.

Senator DOUGLAS. How long would this contract apply?

Mr. SAFIR. We are obliged to a 6-month ship charter on four vessels at the present time.

Senator DOUGLAS. So your contract would have applied for 6 months?

Mr. SAFIR. Yes, sir; at least.

Senator DOUGLAS. And if you lose that contract——

Mr. SAFIR. We have no contract, Senator, with the Department of Defense.

Senator DOUGLAS. But if you had received the contract from the Department of Defense, how long would your rate have lasted? Was it for a year?

Mr. SAFIR. Contracts, Senator Douglas, are not let for household goods for a specific period. It is just for a given shipment. We were taking our chances that the moving industry would come with us on the basis of this situation. This was a calculated risk.

Senator DOUGLAS. In other words, you believed that the other van lines would join together and would get a better system of packing goods, more compact shipments, and that this would justify both lower rates and lower shipping rates; is that right?

Mr. SAFIR. No, sir; not exactly. The original Liberty-Pac concept had inherent in its inland increment a savings of about $2 a hundred pounds. We felt that because of the fact that the new container, which is a permanent steel situation rather than the existing wood or plywood type, would affect ease of handling in shipping and was capable of being stowed on deck rather than underdecks. As such, it should receive some consideration as far as the rate was concerned.

This was the original situation. If the lines had given me a rate at that time, I don't think I would be here today. It was not our intent at that time to go into the steamship business.

Senator DOUGLAS. When this Mr. Walsh suggested that you join AGAFBO, were hopes held out that you could get an assignment of cargo?

Mr. SAFIR. There were no inducements offered, sir, to join AGAFBO except an informal invitation. Further than that, nothing.

Senator DOUGLAS. Most transactions in life appear through informal invitations. What was the inducement to join AGAFBO aside from being freed from retaliatory effects?

Mr. SAFIR. None. No one mentioned that we would be free from retaliation in any way at all. As a mater of fact, we would have been more subject to controls had we done so.

Senator DOUGLAS. What was the attitude of Military Sea Transportation Service to your offer of a lower rate using steel containers which would protect the goods from rain and weather troubles?

Mr. SAFIR. Favorable.

Senator DOUGLAS. Suppose the lines run you out of business, as they seem to be doing——

Mr. SAFIR. Trying to do, sir.

Senator DOUGLAS. And later return the rate to 58½ cents? How can they justify that?

Mr. SAFIR. I can't answer that, sir.

Senator DOUGLAS. I think we are realizing that the tactics which Tarbel said the Standard Oil Co. practiced in the 1870's and 1880's have not completely disappeared; that is, of predatory price cuts, and coercion of potential competitors.

Is any representative of the Maritime Commission present?

Mr. JAMES MAZURE. I am Admiral Harllee's assistant.

Senator DOUGLAS. Has this matter come to your attention?

Mr. MAZURE. Yes, it has, and I am advised that the Managing Director has been in touch with Sapphire on the matter and is attempting to collect data on this rate with a view toward possible investigation of it.

Senator DOUGLAS. But if in the meantime he is forced out of business——

Mr. MAZURE. On the face of it, Senator, we have no reason to disapprove the rate. It is a rate reduction.

Senator DOUGLAS. The 1914 Federal Trade Commission Act and the Clayton Act made predatory price cutting a form of unfair competition, and so, I believe, did the Shipping Act.

Mr. MAZURE. It is unlawful under the Shipping Act; yes, sir. The rate was filed, Senator, on March 29. My understanding is that the staff immediately contacted Sapphire in an attempt to gather the data that it would need to go into even a preliminary investigation. I don't know at this time how much success we have had in gathering that data. Without that kind of information, we cannot proceed to investigate.

Senator DOUGLAS. Is the representative of Military Sea Transport Service present? Has he reported back as to what has been done with the carriage contract? Someone went to the telephone, I believe.

You didn't inquire of the Military Sea Transport Service?

Mr. MAZURE. I did not, Senator. We have no way of knowing whether that tender has been accepted.

Senator DOUGLAS. I would like somebody to inquire from MSTS what action has been taken. I see a volunteer.

Mr. W. LYLE BULL. I am with the AGAFBO Lines, Mr. Chairman. I am to testify. I simply want to say, if I may, sir, that in view of the allegations made by Mr. Safir, we of the AGAFBO Lines categorically deny anything, but we are going to see that there is an immediate investigation by the Maritime Commission as to the acceptance of the Sapphire offer. It has not been made clear that that offer was presented through the Department of Defense, not to MSTS, under a tender, and has been accepted by the MSTS.

Senator DOUGLAS. Which offer was accepted?

Mr. BULL. The Sapphire offer.

Senator DOUGLAS. Has been, or was?

Mr. BULL. Has been. The Military Sea Transportation Service has simply granted—they have made one sailing on April 1, I believe, and they have another sailing scheduled to come up on April 14.

In connection with that, and in consideration of the low general cargo rate, MSTS after reviewing the financial status of Sapphire, has agreed to ship on Sapphire on Government bills of lading, not under a shipping contract, on the next sailing, under berth terms.

Senator DOUGLAS. Who received the sailing on April 1, AGAFBO or Sapphire?

Mr. BULL. Sapphire had a sailing on April 1. I can give you much more detail. I didn't want to interrupt you too long, Senator, but when I come to the table I can give you very much more detail.

Senator DOUGLAS. Did you get the sailing on April 1, Mr. Safir?

Mr. SAFIR. We sailed on April 1 without any general cargo from MSTS; none.

Senator DOUGLAS. In other words, you did not get the contract for moving on April 1.

Mr. SAFIR. We had filed rates a few weeks ago for MSTS cargo, and it apparently, and I think properly, took time for the MSTS to check out both my financial responsibility and everything else in connection with this. MSTS has taken a position that cargo will be booked on our vessels after we have made at least one prior sailing from a particular port.

So since we are sailing now on the 14th on our second sailing, MSTS has booked a fair amount of general cargo on our vessel.

Senator DOUGLAS. On the 14th?

Mr. SAFIR. On the 14th.

Senator DOUGLAS. The question comes whether they will do so again since AGAFBO has a lower rate.

Mr. SAFIR. Only as to household goods, sir.

Mr. TEMKO. Not at this time, Senator. Right now, at least as of the last readings we have, the Sapphire Lines rate for general MSTS cargo was 40 cents per cubic foot and I think the lowest AGAFBO rate for general cargo is 54½ cents, the difference which Mr. Sapphire referred to in his prepared statement.

Senator DOUGLAS. General goods or household goods?

Mr. TEMKO. This is general goods.

Senator DOUGLAS. I want to thank you, Mr. Sapphire, for coming. It is a very public-spirited act for you. I appreciate you coming very much.

Mr. SAFIR. Thank you, Senator.

Senator DOUGLAS. I hope the Maritime Commission will follow this case very closely.

Mr. MAZURE. We shall, Senator.

Senator DOUGLAS. I intend to direct a letter to the Commission and obtain a report.

The next witness will be Mr. John W. Lyle Bull.

TESTIMONY OF W. LYLE BULL, SPECIAL REPRESENTATIVE OF AMERICAN EXPORT ISBRANDTSEN LINES, APPEARING IN BEHALF OF THE AMERICAN STEAMSHIP TRAFFIC EXECUTIVE COMMITTEE AND THE ATLANTIC & GULF AMERICAN-FLAG BERTH OPERATORS; ACCOMPANIED BY ALEC COCKE, PRESIDENT, LYKES BROS. STEAMSHIP CO.; EDWIN A. WESTER, VICE PRESIDENT OF PACIFIC FAR EAST LINE; AND ELMER MADDY, COUNSEL

Mr. BULL. My name is W. Lyle Bull, special representative of American Export Isbrandtsen Lines in Washington, D.C. I am appearing before your committee, however, on behalf of the American Steamship Traffic Executive Committee and the Atlantic & Gulf American-Flag Berth Operators, known as AGAFBO. This is an organization composed of all of the American-flag lines, both subsidized and unsubsidized, operating regularly scheduled sailings in berth line services from U.S. gulf, South Atlantic and east coast ports. I am accompanied by Mr. Edwin Wester, vice president of the Pacific Far-East Lines, a member company of the West Coast American Flag Berth Operators (WACAFBO), an organization similar to AGAFBO but comprised of American-flag lines operating berth services from our west coast ports.

I am also accompanied by Mr. Alec Cocke, vice president of Lykes Brothers Steamship Co., and Mr. Elmer Maddy, our attorney. While it is not in my prepared statemnet, I would like to explain that both AGAFBO and the west coast group are organizations formed—they are not conferences but organizations formed—at the request of the Military Sea Transportation Service to afford a means of having a single channel through which MSTS could conduct freight rate negotiations. It is unfortunate, Mr. Chairman, that I can't read my prepared statement now because, with your permission, I would line to address myself to some of the things you have just heard with respect to the Sapphire Steamship Co.

As to the statement made by Mr. Watt, we can accept no responsibility for it. AGAFBO has never made any threats whatsoever in any form as an organization to anybody.

Senator DOUGLAS. Who is Mr. Watt?

Mr. BULL. Mr. Watt is with the Waterman Steamship Co., a member of our group.

Senator DOUGLAS. Is Mr. Watt the man who negotiates with the Military Sea Transport Service?

Mr. BULL. He sits on the committee, yes.

Senator DOUGLAS. He negotiates with Military Sea Transport Service?

Mr. BULL. Not directly, but as a member of the group.

Senator DOUGLAS. But he is on the negotiating committee?

Mr. BULL. Not always.

Senator DOUGLAS. He recently has been on the negotiating committee?

Mr. BULL. Yes, sir. Our AGAFBO group is headed by Mr. Richard Hanson, our secretary, the keyman, who unfortunately is in the hospital at this time.

Senator DOUGLAS. But Mr. Watt is a member?

Mr. BULL. He is simply a member, and we cannot accept any responsibility for comments made conversationally by any individual member. As I said, when I stood up before, Mr. Chairman, we are going to demand an immediate investigation by the Maritime Commission with respect to the allegations made by Mr. Safir. I might say in passing that we have on file already a petition with the Maritime Commission to investigate the rates and shipping conditions that have been published by his company.

Senator DOUGLAS. Did you lower the rate from 58½ cents to 23 cents?

Mr. BULL. Yes, sir.

Senator DOUGLAS. Why did you lower that rate?

Mr. BULL. It takes a little explanation. When we reduced the rate on the through bill of lading movement to 45½ cents, there is a companion method of shipment which requires that when the through bill of lading rate is at a certain level, the rate to apply to that movement which the Government, itself, handles, which the military, itself, handles, and does not move through through bill of lading, there is a fixed differential between those rates so that they are comparable in the final result.

Senator DOUGLAS. If you decrease one, you have to decrease the other, then. Had you previously been asking for an increase in the 58½-percent rate?

Mr. BULL. No, sir.

Senator DOUGLAS. You had been asking for an increase in general?

Mr. BULL. In general; yes, sir.

Senator DOUGLAS. Ten percent?

Mr. BULL. We never get anything as much as a 10-percent increase in rates.

Senator DOUGLAS. You have been asking for an increase in general rates.

Mr. BULL. Yes, sir; but let me explain.

Senator DOUGLAS. And on this particular rate, after Sapphire made its lower bid, you came down to 23 cents. Isn't that true?

Mr. BULL. On the household goods.

Senator DOUGLAS. And only for 30 days.

Mr. BULL. That is not an unusual way of filing a rate, Senator. You file a rate and it either expires on a stated date or you make the reservation that it is subject to extension or cancellation, as the case may be. The reason we did that, the reason we reduced the rate on the through bill and on the nonthrough bill was, as any prudent businessman would do, to meet competition. We were faced with an organization that has never been in the steamship business. They quoted rates which we believe are just ridiculous. They had no experience in this trade. They do not know the hazards. For our own protection we had to meet their competition.

Senator DOUGLAS. Do your reduced rates cover your costs?

Mr. BULL. I doubt that they will.

Senator DOUGLAS. Are they below cost rates?

Mr. BULL. We have said to the Maritime Commission that these rates are unrealistic and noncompensatory.

Senator DOUGLAS. Why did you reduce your rates if they are below cost?

Mr. BULL. To meet competition.

Senator DOUGLAS. You mean to drive competition out.

Mr. BULL. No, sir. Don't forget, if you please, Senator, that there are some 100 household goods van line carriers in this country, and we had to protect the interest of those who are not necessarily associated with Mr. Safir and his organization, to put them on equal terms for their shipments.

Senator DOUGLAS. You did this to help Safir?

Mr. BULL. Not to help Safir; no, sir, but to put his competitors on an equal footing.

Senator DOUGLAS. How many ships do you operate in AGAFBO?

Mr. BULL. I could not give you the exact number. Roughly 300.

Senator DOUGLAS. How many ships does Safir operate?

Mr. BULL. He does not operate any. He had one sailing of a chartered ship and he has three more ships committed under charter. I don't know the charter rates he is paying.

Senator DOUGLAS. Do you regard him as a serious competitor?

Mr. BULL. We regard anybody who quotes a ridiculous rate as a competitor.

Senator DOUGLAS. A ridiculous rate is one that is lower than your rate?

Mr. BULL. A ridiculous rate is one that we regard as noncompensatory.

Senator DOUGLAS. I would like to ask the representative of the Maritime Commission if it is legal to quote rates below cost.

Mr. MAZURE. There is nothing unlawful in and of itself, but it is one of the factors which might lead the Commission to find that a rate was actually being used in connection with a fighting ship or it might be a factor in finding it was an unreasonably low rate under section 18(b)(5).

Senator DOUGLAS. Isn't there a legal representative of the Commission here?

Would you identify yourself?

Mr. Howard A. Levy.

Mr. LEVY. I am Howard A. Levy, a hearing counsel with the Federal Maritime Administration. I believe the Commission cases will show that rates which do not meet out-of-pocket expenses will be disapproved by the Commission. Moreover, since the 1961 amendments to the Shipping Act, section 18B–5 has been added, which states that rates that are so unreasonably low as to be detrimental to the commerce of the United States would be disapproved by the Commission. It would be, in my opinion, a fair statement to say that a rate which does not meet out-of-pocket expenses is so unreasonably low as to be detrimental to the commerce of the United States, per se.

Senator DOUGLAS. Mr. Bull, I understood you to say that the new rate which you quoted was below cost.

Mr. BULL. I said it was noncompensatory.

Senator DOUGLAS. Therefore, it would seem to be an illegal rate.

Mr. BULL. That is the reason why we have instituted a petition with the Maritime Commission, to have them investigate Sapphire's rate because we realize it is too low, and it is their rate that we are attacking.

Senator DOUGLAS. In other words, you would file an illegal rate?

Mr. BULL. No, sir. We consider this rate to be noncompensatory.

Senator DOUGLAS. And illegal?

Mr. BULL. Well, it is illegal to the extent that the Maritime Commission finds it is detrimental. But we have to protect the interests of other forwarders, other household goods carriers.

Senator DOUGLAS. In what way?

Mr. BULL. To give them the benefit. They are not all going to ship with Sapphire. To give them the benefit of the same terms and conditions that Sapphire extends.

I might say in passing, Mr. Chairman, that the Liberty-Pac Organization which Mr. Safir also control, is indebted to the AGAFBO lines for a very considerable sum of money right now. He referred to the credit conditions. The reason we had to change our credit conditions was because of the failure of one of the van lines who was indebted to the AGAFBO lines to the extent of a quarter million dollars.

Senator DOUGLAS. Which one was that?

Mr. BULL. It was the Dean Van Lines. It did not seem to us reasonable that we should continue extending this long period of credit, it did not seem to us fair to the other van lines who were paying their bills within a reasonable time to keep this extensive period of time available to all hands. If a van line's credit is good, they can obtain loans from banks to finance themselves. In other words, we went out of the banking business. We were literally in it. That is why we had to change it.

Senator DOUGLAS. You went out of it after Sapphire quoted lower rates?

Mr. BULL. No, sir; this was long before that. We changed our credit arrangements last December, I believe it was.

Senator DOUGLAS. Applying to all van lines?

Mr. BULL. Sir?

Senator DOUGLAS. Demanding cash on the barrelhead from all van lines?

Mr. BULL. No; not necessarily. There are different periods. If they pay within a certain time, we have a period of time for them, the business runs right along. If they become behind—well, for instance, we have had some accounts that fell back to last November that we have not collected yet, and we appeal to them to settle up. Our routine on that is if they do not settle up, then by agreement with the military we report them to MSTS who, in turn, reports them to MTMTS, and their tenders are either canceled or they are told that they will have to pay for each shipment at the time of delivery.

Mr. Safir refers to our enormous profits.

Senator DOUGLAS. I can understand your desire to reply to Mr. Safir. That is why we wanted to have both the testimony and your reply at the same hearing, so that it would be more or less simultaneous. We are of necessity limited in time. I wonder if we can print your statement and other matters in the record, and if you would be willing to summarize it.

Mr. BULL. Yes, sir.

I would like to say that except for a period of military duty in World War I, I have been engaged in both our domestic and foreign shipping since 1909. In 1950 I became commercial shipping adviser to the commander, Military Sea Transportation Service (MSTS), serving in that capacity under the first and the three succeeding commanders until December 1959.

Senator DOUGLAS. And then you joined American Export Lines?

Mr. BULL. In 1959.

Senator DOUGLAS. Did any other officials of the Military Sea Transportation join at that time?

Mr. BULL. One became president of the American Export Lines.

Senator DOUGLAS. He had been commander of MSTS?

Mr. BULL. Yes; he had been.

Senator DOUGLAS. He resigned and became president of American Export Lines and you moved over with him?

Mr. BULL. Yes, sir.

While with MSTS my duties required extensive participation in the negotiation of rates with the berth line carriers and in the administration of their shipping contracts. On this account, Mr. Chairman, I believe I am reasonably qualified to testify in regard to the matters your committee has under examination insofar as they concern military cargo movements.

We understand that the purpose of these hearings is to ascertain (1) whether the U.S. Government pays fair and reasonable rates for ocean shipping, (2) the effects of Government shipping rates on the commercial rate structure, and (3) the effects of Government cargoes on the availability of space on U.S.-flag vessels for the commercial exports of the United States.

In his appearance before your committee, Vice Admiral Donaho, the present commander of MSTS, outlined in some detail the various arrangements under which military cargoes are shipped. At some length he described the shipping contracts in effect with the several American-flag berth lines. With regard to the application of rates, he explained some of the marked differences between these contracts and the tariffs under which commercial ocean shipments move.

MSTS itself does not generate any cargo. Its function is similar to that of a freight forwarder acting on behalf of a number of shipper customers. The customers of the MSTS are the Army, Navy, and the Air Force, collectively referred to as the shipper services. They provide MSTS periodically with programs of their estimated shipping requirements for forward time periods, usually 45 days. These programs cover outbound cargo only, giving a breakdown of the requirements by five or six broad commodity categories with their estimated tonnage, and by areas of origin and destination. As these estimated requirements materialize into actual shipments the shipper service area or port command advises the corresponding MSTS command of the availability of the cargo for movement, and MSTS handles the details of booking with the berth lines.

At the end of World War II, and until 1949 when MSTS came into existence as the single manager for ocean transportation, the responsibility for the ocean movement of military cargo, including terminal operations as well as the procurement of ocean transportation, was vested in the Army Transportation Service (for the Army and Air Force) and the Bureau of Supplies and Accounts for the Navy. During this period, the services negotiated so-called space contracts with the several berth lines. These contracts required the berth lines to reserve on each of their sailings, for military cargo, so many thousand cubic feet of space at so much per cubic foot, depending on the route. This contract was undoubtedly advantageous to the services, since documentation and other administrative problems were greatly minimized. Since the cargo, in most instances, was loaded and discharged by contract stevedores employed by the Army or Navy, the principal problem was the proper utilization of the space contracted for. This became important inasmuch as the carriers were paid for the number of cubic feet reserved, whether or not the space was fully or efficiently used.

Because of what appeared to be obvious weaknesses in this system, MSTS in 1950 scrapped the "space contract." In its stead, it evolved the presently used shipping contract to provide that the Government would pay for the cargo actually carried. One of the principal objectives in devising this contract was to provide for a minimum number of commodity categories and a relatively simple schedule of rates for the purpose of facilitating booking and minimizing documentation requirements.

The number of cargo categories provided for in the shipping contract varies according to different destination areas, but they all have in common a "general cargo" classification. Generally, they cover from 4 to 15 items. As a typical example, the contract applying between U.S. east and gulf coast ports and the Bordeaux/Hamburg range in Europe contains the following:

General cargo.
Household goods.
Unboxed vehicles up to and including 8,960 pounds.
Unboxed vehicles exceeding 8,960 pounds.
Unusual size cargo.
Unboxed cargo.
Bagged cargo.
Weight cargo (measuring less than 20 cubic feet per long ton).

Freeze cargo.
Chill cargo.
Explosives.
Hazardous cargo.
Empty conex containers (inbound only).
Bulk cargo.

It should be noted that this contract, to which seven different American-flag berth lines are party, covers the entire range of ports between Bordeaux and Hamburg on both outbound and inbound cargo. Commercial shipping breaks this range into three distinct areas, with separate tariffs applying to each area outbound and others applying from each area inbound.

To arrive at a proper level of rates in the shipping contracts, the prevailing commercial rates were used as a base. In some instances, because of some items being peculiar to the military, there were no existing commercial rates and these items had to be dealt with separately. Next, because except in isolated cases, the loading and discharging was to be performed at military installations by Government-contract stevedores, deductions from the commercial rates had to be calculated for these services. There was much discussion yesterday between loading charges and port charges. I detected some confusion in the discussion which was had with Mrs. Griffiths.

Finally, a further arbitrary deduction was made in consideration of the volume of the military movement. Additionally, it was provided that for cargo in excess of 3,500 tons but not more than 5,000 tons loaded on a single ship, the contract rates would be reduced by 20 percent on the excess and, when exceeding 5,000 tons, there would be a reduction of 30 percent on such excess. These, I think, Senator, are the discounts you were thinking about yesterday.

Mr. Chairman, the formula as outlined may sound quite simple, but allow me to assure you that the finalization of the contract rates was accomplished only after many long and tedious negotiating meetings between MSTS and industry representatives, covering an extended period of time.

It will be apparent from the foregoing that the structure of MSTS shipping contract rates bears little or no relationship to commercial shipping ratemaking procedures. Nor can it successfully be claimed that the military shipping rates have had any influence or effect upon the commercial rate structure. In fact, neither has been influenced by the other. As pointed out by Admiral Donaho, commercial rates between U.S. east coast ports and northern Europe have increased 120 percent since 1950, when the MSTS shipping contracts came into being.

Senator DOUGLAS. Sir, you have heard the testimony that the average cost of military cargo was somewhere between $75 and $77 per ton.

Mr. BULL. Which is ridiculous. It is not so, Senator.

Senator DOUGLAS. Can you prove it isn't so?

Mr. BULL. Easily prove it; yes, sir.

Mr. WESTER. If I may interject, the current rate on general cargo from the west coast to the Far East is $25.40 per measurement ton. There are no rates in the tariff.

Senator DOUGLAS. We have just heard testimony that the payments by the Department of Defense amounted to $97 million. Is that approximately correct?

Mr. BULL. I don't have those figures at hand.

Senator DOUGLAS. And 1.3 million tons were moved. That is about $75 a ton.

Mr. BULL. I think there needs to be some clarification of those figures. Obviously, if we are only being paid $25.40 a measurement ton——

Senator DOUGLAS. That is the Far East rate.

Mr. BULL. That is correct. And, as a mater of fact, those rates are reduced when they go over 3,500 tons. They get a reduction. When they go over 5,000 tons they get a further reduction. So it is hard to conceive where the $77 figure comes in.

Mr. BULL. The corresponding rate from the east coast to Europe is $21.60 a measurement ton. I have here the figures, Senator, that MSTS paid to each of the contract lines.

Senator DOUGLAS. Do you want to put those into the record?

Mr. BULL. I will put them in the record, if you wish, but I will have to send them in later.

(The supplemental information later furnished appears at end of testimony, beginning on p. 138.)

Senator DOUGLAS. What is the total figure of your revenues?

Mr. BULL. That is a question I was hoping you would not ask because nobody has totaled it.

Mr. BOGGS. Could you quickly guess the total?

Mr. BULL. It is well over $90 million.

Senator DOUGLAS. Mr. Boggs' statement was that it was around $97 million. We are drawing close.

Mr. BULL. But not to the subsidized lines alone. These figures are to subsidized and nonsubsidized lines. Remember, shipping contracts apply across the board to American-flag ships, not necessarily to subsidized lines.

Senator DOUGLAS. What is the amount to the subsidized lines?

Mr. BULL. About $84 million, my colleague tells me.

Senator DOUGLAS. Divide that by 1.3 and it is about $61.

Mr. BULL. It won't average that, Senator. We would all be rich if it would.

Senator DOUGLAS. On your own figures, $84 million—take a pencil and find out what it is. Mr. Boggs gets $64.50, about, without stevedoring charges.

Mr. BULL. I don't have the tonnage figures.

Mr. BOGGS. 1.3 million.

Mr. BULL. I don't know where that came from.

Mr. BOGGS. It is from the Maritime Administrator. If he is still here, he can clarify it.

Mr. BULL. Let me give you a complete statement, if I may, Senator, and I will figure out the average rate per ton.

Senator DOUGLAS. It certainly seems to be at least $64 a ton as compared to an average rate, overall, of $45 a ton, which, I believe, includes Government shipping.

Mr. BULL. On the other hand, within the 15-year period, the rates paid by MSTS under the shipping contract have been increased by

only 25 to 48 percent, depending upon the categories concerned, notwithstanding an increase of approximately 77 percent in ship-operating costs.

This next is important, Senator, and I think it will help you.

When the "General cargo" rates in the various shipping contracts were determined, it was fully realized by both MSTS and the berth lines that in view of the thousands of commodities that might be shipped, there undoubtedly would be some on which the commercial rates, adjusted on a free in and out basis, would be lower than the shipping contract rates on such commodities. It was realized, too, that the transportation of these shipments at the shipping contract rates would technically be in violation of the provisions of the act of April 28, 1904, as amended August 10, 1956 (ch. 1041, 70A Stat. 146), requiring that charges made for the transportation of military supplies by sea be no higher than charges made for transporting like goods for private persons. It was considered, however, that the preponderance of the military movement comprised identifiable commodities for which substantially less than commercial rates had been provided. Further, that the attempt to identify and cull out the general cargo items on which the commercial rates might be lower would involve a disproportionate amount of time and expense. In these circumstances it was reasoned that, by applying the shipping contract rates across the board, the overall savings accruing to the Government would justify the deviations on the few general cargo items that might be concerned.

To substantiate this reasoning, tests have been made at intervals over the past 15 years by analyzing actual manifests, setting down the lowest prevailing commercial rates against the shipping contract rates. Invariably, these tests have shown benefits to the Government of 20 percent or more. A recent test on 12 west coast sailings which eliminated all items unidentifiable in the commercial tariffs and which would otherwise have been billed at the high NOS (not otherwise specified) commercial rates, thereby inflating the result, showed the advantage to the Government to be over 40 percent.

I might add to that that MSTS, itself, analyzed 13 different ships, separate and apart from the 12 analyzed by the west coast group, and they came up with identical or a little higher percentage of benefit to the Government.

Mr. BOGGS. On the North Atlantic run, what factor did they use for stevedoring to figure the discount?

Mr. BULL. They used the same rate that the Army allows us when we handle the cargo on their account.

Mr. BOGGS. What rate is that for general cargo?

Mr. BULL. I think it is something like $8.99 or something like that.

Mr. BOGGS. And what, in fact, would your average stevedoring costs be at the port of New York to load or unload?

Mr. BULL. Are we talking of just the stevedoring costs?

Mr. BOGGS. No, we are talking about the whole cost of the loading and unloading of the vessel which the Army incurs when they load and unload the vessel.

Mr. Bull. We on our own cargo?

Mr. BOGGS. Yes.

Mr. BULL. That will vary as between companies to some degree because of different contracts in existence.

Mr. BOGGS. In the Meyer case, they submitted a figure of $20 per payable ton. Would you consider that accurate?

Mr. BULL. No, sir. Yesterday there was mentioned in connection with a pool agreement, I think, a cost of $20 a ton. That isn't all stevedoring or terminal expenses. That is your port charges and everything that goes with it, your pilotage, your wharfage.

Mr. BOGGS. Who pays the port charges at a Defense installation?

Mr. BULL. We do. They do—no, we pay the port charges.

Mr. BOGGS. Who pays the wharfage?

Mr. BULL. We pay the wharfage at the terminals.

Mr. BOGGS. The Defense terminals?

Mr. BULL. Yes, sir; we pay for those expenses.

Mr. BOGGS. Who pays for the heavy lifts and that type of thing?

Mr. BULL. They pay for the heavy lifts. That is why I asked you to differentiate when you are speaking of charging, whether you are speaking of stevedoring or what.

Mr. BOGGS. Are there any agency fees in connection with Defense Department cargo?

Mr. BULL. No, or commissions.

Mr. BOGGS. What would be included in that $20 figure?

Mr. BULL. I think it would be light dues in the port.

Mr. BOGGS. Who pays for that?

Mr. BULL. The ship. Pilotage, tugs, wharfage, line handling.

Mr. BOGGS. Who pays for that?

Mr. BULL. The ship. Clerk hire. All of those things, Mr. Boggs, are separate and apart from stevedoring.

Mr. BOGGS. Let me read down what a company would pay as cargo and terminal expense. It has agency fees and commissions, is that accurate?

Mr. BULL. Yes.

Mr. BOGGS. There is none of that expense incurred when it is Defense Department cargo. There is wharfage.

Mr. BULL. The company pays that.

Mr. BOGGS. In both cases?

Mr. BULL. Yes.

Mr. BOGGS. The company pays port charges for a defense port, is that right?

Mr. BULL. Yes. When you enter a port for defense purposes, to pick up defense cargo, if we go to Philadelphia or Baltimore, we have port charges to pay when we get there.

Mr. BOGGS. Are they the same whether it is commercial or defense?

Mr. BULL. Yes.

Mr. BOGGS. Stevedoring?

Mr. BULL. There are two methods.

Mr. BOGGS. In most cases?

Mr. BULL. In most cases it is military on the MSTS business.

Senator DOUGLAS. They provide the working crews to load and unload the vessels?

Mr. BULL. Yes.

Mr. BOGGS. Miscellaneous cargo expenses.

Mr. BULL. That could be a variety of things, too. If the overtime is at our request and our account on the stevedoring, we pay for it. We have to pay for the clearing and cleaning of the holds and all those sorts of things that would be miscellaneous general expense.

Mr. BOGGS. Brokerage?

Mr. BULL. We pay for it if there is any, but there isn't any.

Mr. BOGGS. And other.

Mr. BULL. Other can be most anything.

Mr. BOGGS. Total cargo and terminal expenses, is that the total?

Mr. BULL. That is about it.

Mr. BOGGS. Would you say that somewhere between $8.99 and $20 would be a more accurate figure?

Mr. BULL. It might be, and it would vary between ports, too.

Mr. BOGGS. I am talking about the port of New York, where about 90 percent of the defense cargoes are shipped.

Mr. BULL. The military bears only the cost of stevedoring and terminal.

Mr. BOGGS. That is right. There are no agency fees, et cetera, for military cargoes.

Mr. WESTER. If I may interject, they do not bear any of these other costs that go to make up this $20.

Mr. BOGGS. But if you are comparing the commercial with the MSTS you ought to add to the MSTS the other normal costs to the military besides stevedoring?

Mr. WEBSTER. Only to the extent if you are comparing the rates to the berth terms, in which event you do that on the basis of adding the terminal charges to the military rates.

Mr. BOGGS. Do you consider the figure of $8.99 for general cargo in the port of New York an accurate figure?

Mr. BULL. I think so, yes.

In order to assist the committee, Mr. Chairman, you might better understand what is involved when I refer to these items in the general cargo category that might take the higher or lower conference rate or commercial rate.

Senator DOUGLAS. Mr. Bull, we are operating under great time pressure.

Mr. BULL. This will only take 2 minutes, if you don't mind, sir. I am going to give an example.

MSTS has always claimed the privilege of shipping under Government bills of lading (GBL) at berth term rates when using an ocean carrier not party to a shipping contract. Or, for a specific commodity for which the shipping contract does not provide a rate and the commercial tariff rate is more advantageous to the Government. On the other hand, the berth lines holding shipping contracts consider these contracts to be bilateral agreements between them and the Government. This concept generally prevailed until 1957. At that time, it was found that the Westbound United Kingdom Conference had instituted an exceptionally low rate on automobiles, apparently adopted to promote the sale of British compact cars in this country. This rate was much lower than that in the shipping contract after allowance for stevedoring costs. Because there was a substantial westbound movement of cars belonging to returning military personnel, MSTS unilaterally ordered all future shipments to move under

GBL at berth term rates. Considering this to be a violation of their contract, the berth line concerned instituted court action. In December 1963, the Court of Appeals upheld the MSTS position, basing this upon the provisions of the 1904 act, as amended.

As a result of the court decision, both MSTS and the berth operators have met repeatedly over the past 2 years in an attempt to devise some workable plan to comply fully with the requirements of the 1904 act. The most effective solution, of course, would be to have everything move under berth term conditions at prevailing commercial rates. This, however, would not only be infinitely more costly to the Government in freight charges alone, but it would impose a tremendous and expensive burden upon the shipper services for administration and documentation. Recall, please, that in some commercial tariffs there are in excess of 2,500 items. An alternative means we have suggested to MSTS would be to select those commodities in the "general cargo" category which are identifiable through MILSTAMP's electronic data process. These would be set apart for shipment at commercial tariff rates, under berth terms, leaving the balance of the shipping contract intact. This, too, would burden the shipper services, requiring their terminal people to spot and segregate those packages containing the identified commodities and would likewise greatly increase their documentation process.

It may assist your committee to better understand what is involved, Mr. Chairman, were I to present an example: Under the present method of shipping, the Army or Navy might offer a pallet load of PX supplies (a pallet is a wooden platform measuring about 6 by 4 feet on which cartons and boxes are stacked and strapped five or six high). It would be described in the shipping order and billed simply as "One pallet PX supplies" on which the shipping contract general cargo rate would be applied. That pallet load would probably be made up of a variety of commodities; such as, pharmaceuticals, razor blades, cigarettes, tissues, candy, shaving cream, writing paper, soap, clothing, books, and bakery goods. To comply literally with the 1904 act, any of these commodities on which the commercial tariff rate was lower than the shipping contract rate would have to be shipped separately under berth terms. In time, perhaps, the terminal people making up the pallet loads might learn what could or could not be shipped together but they would have to become rate experts to do this.

The third alternative would be to revert to the space contract which can be quite simply administered but has the drawback of possible inefficient utilization of ship space. Nor would it entirely eliminate the possibility of violating the 1904 act.

We wish to assure you, Mr. Chairman, that the berth lines are entirely disposed to adapt themselves to any method of rate application that the MSTS finds to be legal and of benefit to the Government. From our experience during the past 15 years, however, and in our considered judgment, we believe that the shipping contract in its present form, applied across the board, affords maximum advantage to the Government while lending itself to manageable administration. The present impediment posed by the 1904 act to proceeding in this manner could, we believe, be removed by the enactment of a relatively simple further amendment to this act. Briefly, this would provide that where the Government negotiates blanket contracts for

the ocean transportation of heterogeneous commodities at rates which, in the aggregate, produce lower overall costs than attainable by the application of prevailing commercial tariff rates, such contracts would be authorized. We understand the MSTS would support our position in this regard.

Admiral Donaho explained to your committee the wide difference between the shipping contracts and commercial tariffs in the matter of rates. There are other differences between the shipping contracts and commercial shipping practices that are also deserving of mention:

(*a*) Berth line contract holders are required to call at military terminals to load or discharge a minimum of 250 measurement tons;

(*b*) No handling of commercial cargo is permitted while at the military terminal. Frequently the military cargo is worked at only one or two hatches. This results in additional vessel time since, at its own terminal, four or five hatches would be worked simultaneously;

(*c*) Spaces for military cargo must be reserved well in advance and before the details of cargo to be loaded are known. This often results in loss of space because of vehicle heights, etc.;

(*d*) As a general rule, vessels are required to call at least at two or three installations within the same port, involving expense of shifting and lost vessel time;

(*e*) Frequent delays are encountered awaiting berth at military terminals;

(*f*) The berth line operator has no control over the delivery of military cargo as booked. This often results in cargo failing to materialize;

(*g*) There are frequently rigid date requirements for loading cargo or for delivery at destination which necessitate changes in normal itineraries and restrict the operator's flexibility in adjusting for other cargo requirements;

(*h*) There are added expenses and details involved in the advance preparation of stowage plans and the requirement to send special personnel to the terminal for stowage consultation.

Over the years, the berth line operators have learned to live with these conditions which are obviously far removed from those obtaining in normal commercial operations. We are not finding fault because we value the military business. On the other hand, we feel it is well for the committee to know of the special requirements that the berth line operators are obliged to observe.

We are not aware that our handling of military cargo has had any adverse effect on the availability of space for the commercial exports or imports of the United States. All of our member lines advertise extensively and maintain large solicitation staffs throughout this country and abroad for the development of commercial cargo. It seems fair to say that we would hardly incur the expense of these activities were we unable to accommodate the shippers when they offered cargo, and we have had no complaints on this score.

In closing, Mr. Chairman, may we express our appreciation to you and your committee members for the opportunity to appear before you. We stand ready to endeavor to answer such questions as the committee may wish to ask.

Thank you, Mr. Chairman.

Mr. BOGGS. Have stevedoring costs increased considerably from 1950 to 1964?

Mr. BULL. Yes, sir.

Mr. BOGGS. Particularly in the port of New York?

Mr. BULL. Up and down the coast. You have seen the settlements with the ILA as a result of the strikes we have had.

Mr. BOGGS. Could you supply for the record, if you don't know, the original figure used for stevedoring by MSTS in 1950 and the current figure?

Mr. BULL. I will try to do that, yes.

At the same time, would you like me to give you the changes in longshore rates?

Mr. BOGGS. That would be very helpful, yes. You would not know what that rate of $8.99 was in 1950, would you?

Mr. BULL. No.

Mr. BOGGS. Or how many times you requested an increase?

Mr. BULL. No.

Senator DOUGLAS. At the top of page 9, you say it was found that the westbound United Kingdom conference had instituted an exceptionally low rate on automobiles, apparently adopted to promote the sale of British compact cars in this country.

This is corroboratory evidence to bear out what we have been saying all along that the inbound rates have been lower to put exports from foreign countries to the United States at an advantage compared with exports from our country. You seem to support this position.

Mr. BULL. I don't think there was any question at that particular time, Mr. Chairman. At the time that was done, remember, if you will, that was just the introduction of the compacts. Our manufacturers had not begun to introduce them.

Senator DOUGLAS. Those still prevail, do they not—those rates?

Mr. BULL. They are still very low.

Senator DOUGLAS. Is American Export Lines a member of the westbound United Kingdom Conference?

Mr. BULL. No, sir.

Senator DOUGLAS. Is there any shipping line here that is a member of the westbound United Kingdom Conference? Is there a representative of the United States Lines here?

Mr. BULL. I am advised he is not familiar with that.

Senator DOUGLAS. Do you know whether the United States Lines as a member of that conference protested this lower rate?

Mr. BULL. I am advised that I cannot get that information right now, but we will get it later.

Senator DOUGLAS. Yesterday at the hearings, Admiral Donaho indicated that the same American ship will charge the Department of Defense $14 a measurement ton to ship foreign cars to the United States, whereas it charges the Department $26 per measurement ton to ship American cars from the United States to the same foreign ports.

I would like to ask you, Mr. Bull, whether you think this practice should be changed.

Mr. BULL. May I divide my answer between military and commercial?

Senator DOUGLAS. This is just the military.

Mr. BULL. In the case of the military, we have offered—probably you won't like this—to increase the westbound rate.

Senator DOUGLAS. I am sure you would want that uniformity.

Mr. BULL. And that was not acceptable to MSTS.

Senator DOUGLAS. What about lowering the eastbound rates to the level of the west?

Mr. BULL. Our next proposal was to to get a composite rate, east and westbound, to apply in both directions, and MSTS did not want that.

Senator DOUGLAS. They did not want it?

Mr. BULL. No.

Senator DOUGLAS. What rate was set?

Mr. BULL. I don't recall what it was. I don't recall what the rate was, but it was a rate to be applied in both directions.

Senator DOUGLAS. Why not take the $14 in both directions? It is the same ship, the same cost, the same vehicle.

Mr. BULL. But, you see, the MSTS rates are related to the commercial rates.

Senator DOUGLAS. Does not this indicate that the commercial rates are wrong?

Mr. BULL. That has been your claim all the way through.

Senator DOUGLAS. Don't you agree with it?

Mr. BULL. In that particular instance I am compelled to.

Senator DOUGLAS. You are compelled to do so?

Mr. BULL. Yes, sir.

Mr. WESTER. Mr. Chairman, may I interject?

Senator DOUGLAS. I am glad to have this statement which was obtained from you with some difficulty.

Mr. WESTER. Mr. Chairman, just for a point of clarification, even though there might be a disparity in the inbound and outbound rates, in the overall I think we can demonstrate the military is getting, because of their volume movement and the special nature of their cargo, anywhere from 20 to 40 percent reduction in the overall, so it isn't fair to pick out just the one commodity like automobiles from the broad range of categories.

Senator DOUGLAS. I don't think that is appropriate. Mr. Boggs reminds me automobiles represent 12 percent of the shipments.

Mr. WESTER. True, but in the overall, when you take into account all the other cargo that does move on the same ship and they are getting 20 to 40 percent reduction as opposed to commercial——

Senator DOUGLAS. We have problems on household goods and general goods, too.

Congressman Widnall has come in.

Have you questions to ask, Congressman?

Representative WIDNALL. Thank you, Mr. Chairman.

It is not clear to me how the practice originated to have the lower inbound rates as against the outbound. As I understand it, the law with respect to the military is such that they have to use American ships 100 percent. How did you ever start out with a lower rate?

Mr. BULL. You are speaking now from the standpoint of military cargo only?

Representative WIDNALL. That is right.

Mr. BULL. Before 1957, which I mentioned in my statement, the westbound rate, from the United Kingdom, was about on a par with

the outbound rate, but by virtue of the action of the westbound conference in reducing the rate on automobiles, when it was discovered MSTS grasped upon it and said, "We will have to ship cars under that rate under berth terms." We protested, the group did, that philosophy or that concept of our shipping contract. We regard our shipping contract as a bilateral agreement with the conditions applicable to both side. MSTS on the other hand construes it to be a contract which is open end, as they call it, which gives them the privilege of either using that contract or not using it, and to avail themselves of any rate that is obtainable, that is lower than the shipping contract rates provide. I don't know whether I have very satisfactorily answered your question.

Representative WIDNALL. As I understand it, then, when you first started this arrangement with the military, the westbound rate was based on what was your normal commercial rate?

Mr. BULL. That is right.

Representative WIDNALL. The westbound conference.

Mr. BULL. Yes, sir.

Representative WIDNALL. Don't conferences in general result in a restriction of competition?

Mr. BULL. No, sir. I don't think there is any more competitive industry in the world than the shipping business, Mr. Widnall.

Representative WIDNALL. Don't the conferences fix charges?

Mr. BULL. Fix charges?

Representative WIDNALL. Fix charges.

Mr. BULL. They come to agreements as to charges which they file with the Federal Maritime Commission.

Representative WIDNALL. Does not that in the end mean the restriction of competition, through the agreement that takes place?

Mr. BULL. As between the conference members and an independent operator, it does. I mean the independent has to come in to afford some measure of competition. But what the effect of the conference, Mr. Widnall, as has been reviewed by the Congress many times, is the determination that it is the only means of maintaining a level of rates on which manufacturers or shippers can predicate long-term agreements, long-term commitments. You would have chaos without conferences.

Representative WIDNALL. What qualifications does the steamship operator have to have in order to become a member of the conference?

Mr. BULL. No particular qualifications, other than to be a good steamship operator under the agreements. I might parenthetically add, that Mr. Safir's organization can join AGAFBO because we have filed a section 15 agreement and under the terms of that agreement any company qualified can become members.

Senator DOUGLAS. And once in he has to abide by the rates.

Mr. BULL. Yes, sir.

Senator DOUGLAS. Even though he considers these rates unreasonably high.

Mr. BULL. That is his view.

Senator DOUGLAS. You will let him in if he plays ball with you.

Representative WIDNALL. From what I have heard in previous testimony, I don't see how there can be such a vast difference in rates between Sapphire and the conference and have Sapphire stay in business.

Mr. BULL. Neither do we, Mr. Widnall. We say and maintain that Mr. Safir's rates are going to drive him to the wall.

Senator DOUGLAS. He said the opposite.

Representative WIDNALL. He was rather sanguine about the results.

Mr. BULL. They all are. This isn't the first instance we have had of people entering the steamship business with very little knowledge. The merchant marine has suffered and the Government has suffered. We have the instance of the Kulukundis fleet, the instance of the Georgelis fleet. What happened? They get into a foreign port and they don't pay their crews, they don't pay the port charges, and, boom, there is a lien on the ship. We had a case in American export, itself, of having to take over a ship which was loaded partially with MSTS cargo and partially with Department of Agriculture cargo. It took us a year and a half to clear that ship in the course of a year and a half at Port Said. She had a fire. She had no crew. We had to train Egyptians to keep the steam up when we went to get the cargo out of it. It cost the Government hundreds of thousands of dollars, to say nothing about the delay in the delivery of the cargo at the destinations to which it was consigned. So we know whereof we speak because we are experienced steamship operators. We know that in the light of today's labor conditions and what have you, you just can't operate ships on the route that Mr. Safir has selected and come out with any hope of a profit at the rates he has filed.

(See appendix, p. 201, for Federal Maritime Commission report of Apr. 14, 1965.)

Senator DOUGLAS. Mr. Widnall, I wonder if you would conduct the hearing from this point on for the witnesses who have not testified, as I must leave.

I will make two comments. Apparently Mr. Bull feels he is protecting Mr. Safir from making a mistake which would ruin him, and, therefore, he thinks he is really doing a public service. Of course, as I understood the theory of free competitive enterprise, men are entitled to make mistakes in open competition. I simply say I hope the Federal Maritime Commission will deal with the *Safir* case very soon and not delay in this matter.

Representative WIDNALL. We have the medicare bill on the House floor, Mr. Chairman, and I may have to leave for that.

Senator DOUGLAS. Thank you.

Mr. BULL. Thank you, Mr. Chairman.

Representative WIDNALL (presiding). I just have one other question I would like to ask: Don't the fixed rates that are set by the conference have a tendency to impede our U.S. export business by raising export prices?

Mr. BULL. No, sir, I would not say so.

Representative WIDNALL. What is your real answer to that?

Mr. BULL. I answered that rather quickly, but it depends upon whether you are comparing our exports abroad, we will say, to South America, with exports from Rotterdam or Liverpool to South America. It is quite possible that the rates applicable on those routes, the third country routes, would be lower than ours. But whether they impede our exports is something that I don't know, but I don't believe they do. When all is said and done, the transportation charges are a small part of the total bill. I think our productive methods are such that we can compete on a pretty good basis with them.

Representative WIDNALL. I want to personally see our merchant marine built up again, and I know many Members of the Congress do. Certainly there is room for growth and replacement of ships in many areas, to make it a more efficient operation. Have you any recommendations along that line? If so, I wish you would submit them.

Mr. BULL. I would be happy to, Mr. Widnall, but I am appearing here today primarily just for MSTS business. There will be other witnesses who will deal with a question such as you are propounding now.

Representative WIDNALL. That is all.

Thank you.

Mr. BULL. Thank you.

PREPARED STATEMENT OF W. LYLE BULL ON BEHALF OF ATLANTIC AND GULF AMERICAN-FLAG BERTH OPERATORS

Except for a period of military duty in World War I, I have been engaged in both our domestic and oversea shipping since 1909. In 1950, I became commercial shipping adviser to the commander, Military Sea Transportation Service (MSTS), serving in that capacity under the first and the three succeeding commanders until December 1959.

While with MSTS my duties required extensive participation in the negotiation of rates with the berth line carriers and in the administration of their shipping contracts. On this account, Mr. Chairman, I believe I am reasonably qualified to testify in regard to the matters your committee has under examination insofar as they concern military cargo movements.

We understand that the purpose of these hearings is to ascertain (1) whether the U.S. Government pays fair and reasonable rates for ocean shipping, (2) the effects of Government shipping rates on the commercial rate structure, and (3) the effects of Government cargoes on the availability of space on U.S.-flag vessels for the commercial exports of the United States.

In his appearance before your committee, Vice Admiral Donaho, the present commander of MSTS, outlined in some detail the various arrangements under which military cargoes are shipped. At some length he described the shipping contracts in effect with the several American-flag berth lines. With regard to the application of rates, he explained some of the marked differences between these contracts and the tariffs under which commercial ocean shipments move.

MSTS itself does not generate any cargo. Its function is similar to that of a freight forwarder acting on behalf of a number of shipper customers. The customers of the MSTS are the Army, Navy, and Air Force, collectively referred to as the shipper services. They provide MSTS periodically with programs of their estimated shipping requirements for forward time periods, usually 45 days. These programs cover outbound cargo only, giving a breakdown of the requirements by five or six broad commodity categories with their estimated tonnage, and by areas of origin and destination. As these estimated requirements materialize into actual shipments, the shipper service area or port command advises the corresponding MSTS command of the availability of the cargo for movement, and MSTS handles the details of booking with the berth lines.

At the end of World War II, and until 1949 when MSTS came into existence as the single manager for ocean transportation, the responsibility for the ocean movement of military cargo, including terminal operations as well as the procurement of ocean transportation, was vested in the Army Transportation Service (for the Army and Air Force) and the Bureau of Supplies and Accounts for the Navy. During this period, the services negotiated so-called space contracts with the several berth lines. These contracts required the berth lines to reserve on each of their sailings, for military cargo, so many thousand cubic feet of space at so much per cubic foot, depending on the route. This contract was undoubtedly advantageous to the services, since documentation and other administrative problems were greatly minimized. Since the cargo, in most instances, was loaded and discharged by contract stevedores employed by the Army or Navy, the principal problem was the proper utilization of the space contracted for. This became important inasmuch as the carriers were paid for the number of cubic feet reserved, whether or not the space was fully and efficiently used.

Because of what appeared to be obvious weaknesses in this system, MSTS in 1950 scrapped the "space contract." In its stead, it evolved the presently used shipping contract to provide that the Government would pay for the cargo actually carried. One of the principal objectives in devising this contract was to provide for a minimum number of commodity categories and a relatively simple schedule of rates for the purpose of facilitating booking and minimizing documentation requirements.

The number of cargo categories provided for in the shipping contract varies according to different destination areas, but they all have in common a "general cargo" classification. Generally, they cover from 4 to 15 items. As a typical example, the contract applying betwen U.S. east and gulf coast ports and the Bordeaux/Hamburg range in Europe contains the following:

General cargo.
Household goods.
Unboxed vehicles up to and including 8,960 pounds.
Unboxed vehicles exceeding 8,960 pounds.
Unusual size cargo.
Unboxed cargo.
Bagged cargo.
Weight cargo (measuring less than 20 cubic feet per long ton).
Freeze cargo.
Chill cargo.
Explosives.
Hazardous cargo.
Empty conex containers (inbound only).
Bulk cargo.

It should be noted that this contract, to which seven different American-flag berth lines are party, covers the entire range of ports between Bordeaux and Hamburg on both outbound and inbound cargo. Commercial shipping breaks this range into three distinct areas, with separate tariffs applying to each area outbound and others applying from each area inbound.

To arrive at a proper level of rates in the shipping contracts, the prevailing commercial rates were used as a base. In some instances, because of some items being peculiar to the military, there were no existing commercial rates and these tems had to be dealt with separately. Next, because except in isolated cases, the loading and dischraging was to be performed at miltiary installations by Government-contract stevedores, deductions from the commercial rates had to be calculated for these services. Finally, a further arbitrary deduction was made in consideration of the volume of the military movement. Additionally, it was provided that for cargo in excess of 3,500 tons but not more than 5,000 tons loaded on a single ship, the contract rates would be reduced by 20 percent on the excess and, when exceeding 5,000 tons, there would be a reduction of 30 percent on such excess.

Mr. Chairman, the formula as outlined may sound quite simple, but allow me to assure you that the finalization of the contract rates was accomplished only after many long and tedious negotiating meetings between MSTS and industry representatives, covering an extended period of time.

It will be apparent from the foregoing that the structure of MSTS shipping contract rates bears little or no relationship to commercial shipping ratemaking procedures. Nor can it successfully be claimed that the military shipping rates have had any influence or effect upon the commercial rate structure. In fact, neither has been influenced by the other. As pointed out by Admiral Donaho, commercial rates between U.S. east coast ports and northern Europe have increased 120 percent since 1950, when the MSTS shipping contracts came into being. On the other hand, within that 15-year period, the rates paid by MSTS under the shipping contract have been increased by only 25 to 48 percent, depending upon the categories concerned, notwithstanding an increase of approximately 77 percent in ship operating costs.

When the "general cargo" rates in the various shipping contracts were determined, it was fully realized by both MSTS and the berth lines that in view of the thousands of commodities that might be shipped, there undoubtedly would be some on which the commercial rates, adjusted on an FIO basis, would be lower than the shipping contract rates on such commodities. It was realized, too, that the transportation of these shipments at the shipping contract rates would technically be in violation of the provisions of the act of April 28, 1904, as amended August 10, 1956 (c. 1041, 70A Stat. 146), requiring that charges made for the transportation of military supplies by sea, be no higher than charges made for transportating like goods for private persons. It was considered, however, that the preponderance of the military movement comprised identifiable commodities for which substantially less than commercial rates had been provided. Further, that the attempt to identify and cull out the general cargo items on which the commercial rates might be

lower, would involve a disproportionate amount of time and expense. In these circumstances it was reasoned that by applying the shipping contract rates across the board, the overall savings accruing to the Government would justify the deviations on the few general cargo items that might be concerned.

To substantiate this reasoning, tests have been made at intervals over the past 15 years by analyzing actual manifests, setting down the lowest prevailing commercial rates against the shipping contract rates. Invariably, these tests have shown benefits to the Government of 20 percent or more. A recent test on 12 west coast sailings which eliminated all items unidentifiable in the commercial tariffs and which would otherwise have been billed at the high NOS (not otherwise specified) commercial rates, thereby inflating the result, showed the advantage to the Government to be over 40 percent.

MSTS has always claimed the privilege of shipping under Government bills of Lading (GBL) at berth term rates when using an ocean carrier not party to a shipping contract. Or, for a specific commodity for which the shipping contract does not provide a rate and the commercial tariff rate is more advantageous to the Government. On the other hand, the berth lines holding shipping contracts consider these contracts to be bilateral agreements between them and the Government. This concept generally prevailed until 1957. At that time, it was found that the Westbound United Kingdom Conference had instituted an exceptionally low rate on automobiles, apparently adopted to promote the sale of British compact cars in this country. This rate was much lower than that in the shipping contract after allowance for stevedoring costs. Because there was a substantial westbound movement of cars belonging to returning military personnel, MSTS unilaterally ordered all future shipments to move under GBL at berth term rates. Considering this to be a violation of their contract, the berth line concerned instituted court action. In December 1963, the court of appeals upheld the MSTS position, basing this upon the provisions of the 1904 act, as amended.

As a result of the court decision, both MSTS and the berth operators have met repeatedly over the past 2 years in an attempt to devise some workable plan to comply fully with the requirements of the 1904 act. The most effective solution, of course, would be to have everything move under berth term conditions at prevailing commercial rates. This, however, would not only be infinitely more costly to the Government in freight charges alone, but it would impose a tremendous and expensive burden upon the shipper services for administration and documentation. Recall, please, that in some commercial tariffs there are in excess of 2,500 items. An alternative means we have suggested to MSTS would be to select those commodities in the "general cargo" category which are identifiable through Milstamp's electronic data process. These would be set apart for shipment at commercial tariff rates, under berth terms, leaving the balance of the shipping contract intact. This, too, would burden the shipper services, requiring their terminal people to spot and segregate those packages containing the identified commodities and would likewise greatly increase their documentation process.

It may assist your committee to better understand what is involved, Mr. Chairman, were I to present an example: Under the present method of shipping, the Army or Navy might offer a pallet load of "PX supplies" (a pallet is a wooden platform measuring about 6 by 4 feet on which cartons and boxes are stacked and strapped five or six high). It would be described in the shipping order and billed simply as "One pallet PX supplies" on which the shipping contract "general cargo" rate would be applied. That pallet load would probably be made up of a variety of commodities such as pharmaceuticals, razor blades, cigarettes, tissues, candy, shaving cream, writing paper, soap, clothing, books, and bakery goods. To comply literally with the 1904 act, any of these commodities on which the commercial tariff rate was lower than the shipping contract rate would have to be shipped separately under berth terms. In time, perhaps, the terminal people making up the pallet loads might learn what could or could not be shipped together but they would have to become rate experts to do this.

The third alternative would be to revert to the "space contract" which can be quite simply administered but has the drawback of possible inefficient utilization of ship space. Nor would it entirely eliminate the possibility of violating the 1904 act.

We wish to assure you, Mr. Chairman that the berth lines are entirely disposed to adapt themselves to any method of rate application that the MSTS finds to be legal and of benefit to the Government. From our experience during the past 15 years, however, and in our considered judgment, we believe that

the shipping contract in its present form, applied across the board, affords maximum advantage to the Government while lending itself to manageable administration. The present impediment posed by the 1904 act to proceeding in this manner could, we believe, be removed by the enactment of a relatively simple further amendment to this act. Briefly, this would provide that where the Government negotiates blanket contracts for the ocean transportation of heterogeneous commodities at rates which, in the aggregate, produce lower overall costs than attainable by the application of prevailing commercial tariff rates, such contracts would be authorized. We understand the MSTS would support our position in this regard.

Admiral Donaho explained to your committee the wide difference between the shipping contracts and commercial tariffs in the matter of rates. There are other differences between the shipping contracts and commercial shipping practices that are also deserving of mention:

(*a*) Berth line contract holders are required to call at military terminals to load or discharge a minimum of 250 measurement tons;

(*b*) No handling of commercial cargo is permitted while at the military terminal. Frequently the military cargo is worked at only one or two hatches. This results in additional vessel time since at its own terminal, four or five hatches would be worked simultaneously;

(*c*) Spaces for military cargo must be reserved well in advance and before the details of cargo to be loaded are known. This often results in loss of space because of vehicle heights, etc.;

(*d*) As a general rule, vessels are required to call at least at two or three installations within the same port, involving expense of shifting and lost vessel time;

(*e*) Frequent delays are encountered awaiting berth at military terminals;

(*f*) The berth line operator has no control over the delivery of military cargo as booked. This often results in cargo failing to materialize;

(*g*) There are frequently rigid date requirements for loading cargo or for delivery at destination which necessitate changes in normal itineraries and restrict the operator's flexibility in adjusting for other cargo requirements:

(*h*) There are added expenses and details involved in the advance preparation of stowage plans and the requirement to send special personnel to the terminal for stowage consultation.

Over the years, the berth line operators have learned to live with these conditions which are obviously far removed from those obtaining in normal commercial operations. We are not finding fault, because we value the military business. On the other hand, we feel it is well for the committee to know of the special requirements that the berth operators are obliged to observe.

We are not aware that our handling of military cargo has had any adverse effect on the availability of space for the commercial exports or imports of the United States. All of our member lines advertise extensively and maintain large solicitation staffs throughout this country and abroad for the development of commercial cargo. It seems fair to say that we would hardly incur the expense of these activities were we unable to accommodate the shippers when they offered cargo, and we have had no complaints on this score.

In closing, Mr. Chairman, may we express our appreciation to you and your committee members for the opportunity to appear before you. We stand ready to endeavor to answer such questions as the committee may wish to ask.

SUPPLEMENTAL INFORMATION

ATLANTIC & GULF,
AMERICAN-FLAG BERTH OPERATORS,
New York, N.Y., May 4, 1965.

Hon. PAUL H. DOUGLAS,
Chairman, Subcommittee on Federal Procurement and Regulation of the Joint Economic Committee, Congress of the United States, Washington, D.C.

DEAR SENATOR DOUGLAS: There is submitted herewith the additional data requested in amplification of our testimony when we appeared at the hearing of your committee on April 8, 1965.

With respect to the average rate per ton charged by the AGAFBO lines on military cargo (p. 185–187) of transcript) there is attached hereto a statement showing the MSTS shipping contract cargo costs for fiscal year 1964, prepared

and provided to us by the Military Sea Transportation Service. This statement covers the movements from the U.S. east and gulf coasts to the Bordeaux/Hamburg range and to the Mediterranean, shown separately, which are the principal areas served by the AGAFBO lines. It also presents figures covering the movement of military cargo worldwide. In summary, the results are as follows:

Area	Total measurement ton	Cost	Average per measurement ton
Bordeaux-Hamburg range	1,548,401	$35,619,886	$23.00
Mediterranean	629,025	17,133,174	27.24
Worldwide	6,539,537	162,893,366	24.91

The statement makes reference to reduced rates A and B. These are the rates resulting from the discounts described in our testimony at page 184 of the transcript. Of the total tons carried, more than 16 percent moved under these discount rates on the Bordeaux-Hamburg route, 7.6 percent on the Mediterranean route, and nearly 10 percent worldwide.

Footnote 3 on the statement indicates that the cost figures given were computed on 95.1 percent of the total MSTS movement. It was explained to us that the small balance of the cargo volume was omitted from the computation because certain units of measure (pounds, board feet, etc.) under which some shipments were made, were not readily convertible to a measurement ton basis.

We were asked by Mr. Boggs (p. 200 of the transcript) to supply for the record the original figure used by MSTS for stevedoring in 1950 when the shipping contracts were first adopted. Unfortunately, we have been unable to develop this either from our own or the MSTS records. It is certain that this figure was considerably less in 1950 than the present $8.99 per measurement ton that, by agreement, is paid by the Army to the AGAFBO operators in New York for their handling of military cargo over commercial piers. This will be obvious from review of the attached schedules of hourly longshore wage rates at New York in effect for each of the year from 1950 to 1965. Since 1950 the basic straight-time rate has been increased by 68 percent. As a result of the latest increase granted to longshoremen, negotiations between the AGAFBO lines and the Army are now in process which will raise the $8.99 rate by 25 to 40 cents per ton.

Stevedoring costs at New York are generally conceded to be the highest of any of the ports on the U.S. east and gulf coasts. Were we to arbitrarily assume an average cost of $10 per ton at New York, plus an average of approximately $2 per ton abroad, or a total of $12 per ton, the shipping contract FIO rates would become—

	Per measurement ton
Bordeaux-Hamburg range	$35.00
Mediterranean	39.34
Worldwide	36.91

From other east coast and gulf ports, these parts would be somewhat lower. When compared with the overall average rate of $45 per ton (including Government shipments), mentioned by the chairman at page 188 of the transcript, it becomes apparent that the shipping contract rates on military cargo give the Government a marked advantage in contrast with prevailing commercial rates.

While on the subject of ocean freight rates, the following will be of interest. About 3 weeks ago, MSTS had an urgent requirement to lift 7,000-plus tons (a full shipload) of vehicles, etc., from Davisville, R.I., to Saigon. They sought lift capacity from AGAFBO but, unfortunately, because of the late notice, all AGAFBO space for this quantity was otherwise committed. MSTS than advertised for U.S.- or foreign-flag charter tonnage. It developed that no U.S.-flag tramp shipping was available, so MSTS had no alternative but to accept a foreign-flag offer. This was the Greek SS *Eurygenes*, fixed at a lump-sum cost of $345,000, f.i.o. For the quantity of cargo involved, the price paid averaged about $50 per measurement ton, f.i.o. This compares with the present AGAFBO shipping contract rate of $40 per measurement ton, f.i.o., which, with the application of the A and B discounts, would have grossed approximately $100,000 less. The foregoing is cited as in no way critical of MSTS, but to point up the in-

sufficiency of American-flag shipping and to indicate the readiness of foreign-flag owners to impose high rates when opportunities offer.

At pages 201 and 202 of the transcript, the chairman inquired as to AGAFBO membership in the Westbound United Kingdom Conference in 1957. The United States Lines as now, was a member of that conference in 1957 and participated in the deliberations which resulted in the reduced rate on compact automobiles.

It is believed the foregoing embraces all of the additional information requested in the course of the hearing, but should any further questions arise we stand ready to give them our careful and prompt attention.

Respectfully submitted.

W. LYLE BULL
(On behalf of Atlantic and Gulf American-Flag Berth Operators).

Hourly longshore wage rates, New York, 1950 to 1965

Oct. 1 to Sept. 30—	General cargo		Reefer Cargo		Explosive	
	Straight	Overtime	Straight	Overtime	Straight	Overtime
1950–51	$2.00	$3.00	$2.20	$3.30	$3.90	$5.85
1951–52	2.10	3.15	2.40	3.60	4.20	6.30
1952–53	2.27	3.40½	2.47	3.70½	4.44	6.66
1953–54	2.35	3.52½	2.55	3.82½	4.60	6.90
1954–55	2.42	3.63	2.62	2.93	4.74	7.11
1955–56	2.48	3.72	2.68	4.02	4.86	7.29
1956–57	2.66	3.99	2.86	4.29	5.32	7.98
1957–58	2.73	4.09½	2.93	4.39½	5.46	8.19
1958–59	2.80	4.20	3.00	4.50	5.60	8.40
1959–60	2.92	4.38	3.12	4.68	5.84	8.76
1960–61	2.97	4.45½	3.17	4.75½	5.94	8.91
1961–62	3.02	4.53	3.22	4.83	6.04	9.06
1962–63	3.17	4.75½	3.37	5.05½	6.34	9.51
1963–64	3.26	4.89	3.46	5.19	6.52	9.78
1964–65	3.36	5.04	3.56	5.34	6.72	10.08

There are additional special hourly rates for such things as cement in bags, wet hides, bulk cargo, kerosene, etc., rubber in talc, and damaged cargo, all of which rates are above the basic general cargo rates.

In addition to wage increases during the period covered, there have been significant increases in vacation and welfare benefits, improved hiring practices, more restricted working conditions and, more recently, guaranteed annual wages.

Shipping contract cargo costs, to Military Sea Transportation Service, fiscal year 1964

	At basic rate		At reduced rate A		At reduced rate B		At on deck rates		At minimum charge		At negotiated rates		Total	
	Measurement tons	Cost	Measurement tons	Cost	Measurement tons	Cost	Measurement tons	Cost	Measurement tons	Cost	Measurement tons	Cost	Measurement tons	Cost
U.S. east and gulf coast to Bordeaux-Hamburg range [1]	1,276,901	$30,095,436.00	179,398	$3,190,549.00	70,049	$1,037,257.00	22,055	$436,644.00					1,548,401	$35,619,886.00
Cost per measurement ton		24.24		17.38		14.81		19.80						23.00
U.S. east and gulf coast to Mediterranean [2]	567,961	15,862,001.00	37,018	742,806.00	10,890	189,084.00	13,154	338,433.00			2	$850.00	629,025	17,133,174.00
Cost per measurement ton		27.93		20.07		17.36		25.73				425.00		27.24
Worldwide	5,756,508	147,067,373.00	443,266	8,677,082.00	183,563	3,205,329.00	152,006	3,724,339.00	85	$6,860.00	4,109	212,383.00	6,539,537	[3] 162,893,366.00
Cost per measurement ton		25.55		19.58		17.46		24.50		80.71		51.69		24.91

[1] Bordeaux-Hamburg range includes: France—Bay of Biscay, France—Channel ports, Belgium, Netherlands, and Germany.

[2] Mediterranean includes: Portugal, Morocco, Algeria, France-Mediterranean, Spain-Mediterranean, Tunisia, Sicily, Italy, Yugoslavia, Greece, Libya, Cyprus, Lebanon, Israel, Egypt, and Turkey.

[3] 95.1 percent of total shipping contract costs for the period.

Source: Military Sea Transportation Service.

48-063 O—65—pt. 1——10

APRIL 30, 1965.

Mr. W. LYLE BULL,
Atlantic & Gulf American-Flag Berth Operators,
Office of the Secretary, New York, N.Y.

DEAR MR. BULL: I have received your letter of April 22 in which you reply to the allegations made by Mr. Marshall P. Safir during the course of this committee's recent hearings on discriminatory ocean freight rates. As you requested, your letter will be made a part of the record. Copies of the hearings will be forwarded you as soon as they are in print.

Faithfully yours,

PAUL H. DOUGLAS,
Chairman, Subcommittee on Federal Procurement and Regulation.

ATLANTIC & GULF,
AMERICAN-FLAG BERTH OPERATORS,
New York, N.Y., April 22, 1965.

Hon. PAUL H. DOUGLAS,
Chairman, Subcommittee on Federal Procurement and Regulation of the Joint Economic Committee, Congress of the United States, Washington, D.C.

DEAR SENATOR DOUGLAS: In view of the limited time I had available before your committee on April 8, 1965, to answer the allegations made by Mr. Marshall P. Safir and after having some time to further reflect upon Mr. Safir's testimony, I thought it advisable to write you and supplement my testimony in this regard. I request that this letter be made a part of the record.

Mr. Safir's basic contention appears to be that he should be allowed to cut the rates being charged by AGAFBO carriers to MSTS, without the AGAFBO Lines being able to meet such rate cuts. We submit, however, that there is no legal impediment to the AGAFBO Lines meeting the competition being offered by Sapphire Steamship Co. Mr. Safir complains about the rate being charged by the AGAFBO Lines of 23 cents per cubic foot on household goods calling it a "fighting rate," although this rate is merely equal with the rate Sapphire Steamship Co. has quoted.

Originally, after many meetings between the Department of Defense, the moving industry, MSTS and DTMS and AGAFBO the rate of 81 cents per cubic foot was agreed upon. At the same time AGAFBO negotiated with MSTS the household goods shipping contract rate of 58½ cents per cubic foot and thus a spread of 22½ cents per cubic foot between the through Government bill of lading (TGBL) rate and the FIO shipping contract rate was agreed upon to compensate for the actual cost differential.

Sapphire Steamship has filed rates for MSTS general cargo, freeze cargo, chill chargo, POV's (privately owned vehicles) and explosives but did not file a rate for MSTS household goods, and in fact has filed commercial tariff rates for very few commodities. Had Sapphire Steamship Co. filed a 45½-cent rate per cubic foot for MSTS household goods on the TGBL basis, MSTS could request a 23 cent FIO rate from Sapphire. In any event, since Liberty-Pac has offered TGBL shippers a $7 per 100 pound rate (which Mr. Safir states equates to 45½ cents per cubic foot, at p. 162 of the transcript) MSTS could request an FIO shipping contract rate on household goods which would have to be the same or near the AGAFBO rate of 23 cents per cubic foot, since Sapphire's $7 rate includes terminal costs. The 1904 act is equally applicable to Sapphire Steamship Co.

With respect to Mr. Safir's allegation that moving companies were unable to obtain "realistic transatlantic ocean rates for household goods from the member lines of AGAFBO" the fact is that after the establishment of the 81-cent rate for the movement of household goods, AGAFBO never received a request for reduction in the rate from MSTS nor did Liberty-Pac ever submit anything along these lines to AGAFBO. We also wish to emphatically state that AGAFBO had made no proposal to MSTS for an increase in either the 81-cent or 58½-cent rate for household goods.

We believe that the rate for the movement of household goods quoted by Sapphire Steamship Lines, when judged from the point of view of Sapphire Steamship Co. competing with other lines for the carriage of such cargo, is so unreasonably low as to be detrimental to the foreign commerce of the United States. In line with this view, the AGAFBO Lines, when they first learned of the filing of such a rate by the Sapphire Steamship Co. with the Federal Maritime Commission, filed a petition requesting the Federal Maritime Commission

to investigate this rate on the ground that it violated section 18 of the Shipping Act, 1916. A copy of this petition is enclosed with this letter. The petition was served and filed on February 24, 1965. When no action with respect to this petition was forthcoming, the AGAFBO Lines had no alternative but to file a rate competitive to that offered by Sapphire for the movement of military household goods. The other household goods movers urged that AGAFBO keep them competitive with Liberty-Pac. Obviously Liberty-Pac, when it made the offer of the reduced rate to DOD, hoped to obtain a major part of the TGBL household goods movement at the expense of other inland carriers. The AGAFBO Lines reduced its household goods rate at the request of other household goods movers in order that the approximately 100 other DOD approved trender holders be kept in a competitive position.

As indicated to your committee, we do not believe that this is a proper rate, however, it would appear to us that if it is a proper rate for Sapphire to quote, it is an equally proper rate for the AGAFBO lines to quote, at least until the Federal Maritime Commission finds otherwise.

Mr. Safir, apparently speaking on behalf of Liberty-Pac and Pioneer Overseas rather than Sapphire Steamship Co., complained about AGAFBO reducing to 15 days the period of time within which freight charges were to be paid "when the intention of Liberty-Pac became known that they wanted a lower rate for the new container mode" (p. 156 of the transcript). The facts, however, are that AGAFBO adopted a tariff rule limiting the amount of credit as a result of the AGAFBO lines' difficulty in collecting freight moneys from the Dean Van Lines. The chronology of these events are that beginning on December 20, 1963, the secretary of AGAFBO began conversations and correspondence with Dean Van Lines concerning the amounts of money owed to AGAFBO lines. As of November 13, 1963, the amount of Dean Van Lines' indebtedness to AGAFBO lines amounted to $542,537.41. Additionally, very substantial sums were owed by other van lines. On March 10, 1964, there was a meeting with Dean Van Lines concerning these unpaid amounts.

Because it became apparent that AGAFBO had almost literally become bankers for much of the household moving industry, and to provide means of dealing with this situation a section 15 agreement was signed by the AGAFBO lines on April 21, 1964, providing: "terms of payment, the furnishing of bonds or other arrangements to insure the payment of freight, and other matters relating to the payment and collection of freight for cargoes of military household goods, personal effects, and unaccompanied baggage originating with the U.S. Department of Defense and moving under Department of Defense through Government bills of lading executed by such truck lines. household goods movers, railroads and/or regulated or nonregulated freight forwarder operating under rate and service tenders approved by the U.S. Department of Defense."

This agreement was filed on May 24, 1964, with the Federal Maritime Commission and approved by the Commission on November 16, 1964.

On December 20, 1963, AGAFBO issued an amendment to its freight tariff No. 2 covering rates on military household goods and personal effects and military unaccompanied baggage which became effective January 1, 1964, providing as follows:

"7. Freight payment and credit terms:

"(a) Ocean freight is payable in U.S. dollars in the United States.

"(b) Outbound freights are payable within 15 business days (Saturdays, Sundays, and holidays excluded) from date of ocean bill of lading.

"(c) Inbound collect freights are payable within 15 business days (Saturdays, Sundays, and holidays excluded) from date of arrival at vessel's port of discharge.

"(d) Ocean carriers will report delinquent van lines and amounts delinquent to the secretary at the end of each calendar month, the secretary to take appropriate action to enable prompt collection."

Thus it will be seen that all of these steps took place prior to AGAFBO having any knowledge of the Liberty-Pac proposal to DOD and should serve to demolish Mr. Safir's claim that the actions of AGAFBO with respect to the extension of credit were undertaken for the purpose of harassing his company. After approval of agreement No. 9355 by the Commission the AGAFBO lines adopted a tariff rule effective November 16, 1964, providing that "shippers of military household goods who furnish an indemnity bond in the amount of $100,000 issued by an approved surety company posted with the secretary for the lines named herein will be allowed an additional 30 calendar days credit for payment

of ocean carrier invoices * * *." This is a liberalization of the earlier 15-day limit on credit previously adopted.

Mr. Safir complained that 5 out of 7 of Pioneer Overseas' clients terminated their relationship because of the action of AGAFBO. According to our information, the principal cause for these defections was failure on the part of Pioneer Overseas to fulfill their obligations with respect to the service required by the DOD in the meeting of delivery dates. This resulted in the loss of business to some of Pioneer Overseas' clients. But in any event, AGAFBO absolutely made no effort to have Pioneer Overseas' customers stop doing business with them.

As a matter of information we wish to point out that AGAFBO as a group takes action in accordance with its agreement and no one member line can speak for AGAFBO since all matters must be determined by a 75-percent majority vote. Any action taken by AGAFBO is then recorded in the minutes and the minutes of all such meetings are filed with the Federal Maritime Commission.

In our view, Mr. Safir is a very poor judge of what are proper rates for the movement of military household goods and MSTS cargo since he admitted he has had no experience in the steamship business, whereas the members of AGAFBO have had long experience carrying these cargoes. At pages 198 and 199 of the transcript we outlined some of the differences between carrying military cargo and commercial cargo. We do not believe Sapphire has taken due account of these factors in arriving at its rates. In addition, this so-called new container mode is a reversion to the original steel van concept which proved to be economically unable to compete with the door-to-door plywood container concept.

The AGAFBO lines offer service to MSTS on a worldwide basis and not merely to the high cargo density area of north Europe which Sapphire proposes to serve primarily as a carrier of military cargo. The AGAFBO lines holding shipping contracts are obligated to perform and carry MSTS cargo at the rates in their tariff. Liberty-Pac however has only made a tender which is not binding until after a shipment is accepted. Further, Sapphire's rates are to be utilized on a Government bill of lading basis and not under a shipping contract and therefore Sapphire has no obligation to perform as do the AGAFBO lines.

We submit that the committee ought not to prejudge this matter but that it urge the Federal Maritime Commission to initiate a formal investigation of all the facts where the truth can be developed. With respect to Mr. Safir's and Mr. Robinson's loose charges alleging violation of the Shipping Act, 1916, as indicated to your committee AGAFBO is seeking an investigation thereof. With this letter I am enclosing a copy of a telegram sent by AGAFBO to Admiral Harllee on April 13, 1965, requesting just such an investigation.

Respectfully submitted.

W. LYLE BULL
(On behalf of Atlantic & Gulf American-Flag Berth Operators).

Representative WIDNALL. The next witness will be Mr. Gorman. Mr. Gorman, you are recognized.

STATEMENT OF JOHN C. GORMAN, VICE PRESIDENT, FARRELL LINES, INC., APPEARING ON BEHALF OF THE AMERICAN STEAMSHIP TRAFFIC EXECUTIVE COMMITTEE

Mr. GORMAN. This morning Mr. Nicholas Johnson made mention of the fact that there were many men from the steamship business here. I belong to the Propeller Club, port of New York, and I have no intention of staying down here in Washington. Mr. Boggs will appreciate what I mean.

Mr. Boggs, I have a very lengthy statement. If it would help the committee, I will just read a portion of it and then if you have any questions I will be glad to come back with any of our people to speed up the proceeding.

Mr. BOGGS. The hearing record is going to be open approximately 2 weeks. Could we submit some questions on your statement in writing?

Mr. GORMAN. Very good, sir.

Representative WIDNALL. Would you care to submit your statement in full now for the record and summarize briefly what you think are the highlights?

Mr. GORMAN. Yes.

My name is John C. Gorman, and I am vice president in charge of freight traffic of Farrell Lines, Inc. I am appearing here today as a witness on behalf of the American Steamship Traffic Executive Committee. That embraces the following 21 liner companies:

Alcoa Steamship Co., Inc.
American Export Isbrandtsen Lines, Inc.
American Mail Line, Ltd.
American President Lines, Ltd.
Bloomfield Steamship Co.
Central Gulf Steamship Corp.
Delta Steamship Lines, Inc.
Farrell Lines, Inc.
Grace Line, Inc.
Gulf & South American Steamship Co., Inc.
Isthmian Lines, Inc.
Lykes Bros. Steamship Co., Inc.
The Oceanic Steamship Co.
Moore-McCormack Lines, Inc.
Pacific Far East Line, Inc.
Prudential Lines, Inc.
States Marine Lines, Inc.
States Steamship Co.
United Fruit Co.
United States Lines Co.
Waterman Steamship Co., Inc.

I appreciate the opportunity which the committee has given me as a spokesman for the American Steamship Traffic Committee to appear before it and testify. I wish to assure this committee that we stand ready to cooperate with it and President Johnson's war on waste to insure that the rates charged the Government on the movement of its cargo are fair and reasonable.

The U.S.-flag liner berth operators on whose behalf I am testifying stand ready and willing to make certain that any requests of the U.S. Government for rate reductions are promptly and fairly handled, just as they stood ready at the time of Korea, Suez, Lebanon, and Cuba, to meet the requests of the United States.

I wish to point out that as to U.S. Government sponsored cargo, there already exists private and governmental machinery in appropriate cases to assure that fair and reasonable freight rates are charged. No law has to be amended for their safeguards which exist for the Government as well as the commercial shipper.

We agree with the statement made by Clarence D. Martin, Jr., Under Secretary of Commerce for Transportation, that:

> The Government should pay transportation charges subject to the same standards as those governing private shippers.

We realize the complexities confronting many of our Government departments in fulfilling their geopolitical functions. Our committee of 21 lines will make themselves either individually or collectively available to your committee or to any Government department where a question may possibly arise as to fair and reasonable rates. A recent example of this cooperation is the reduction of rates on beef and beef products moving to Western Europe in an endeavor to expand the market for U.S. beef there. See the remarks of Senator Sparkman, chairman of the Small Business Committee in the Congressional Record for March 15, 1965, commenting favorably on the cooperation offered by these lines.

Thank you.

(Mr. Gorman's full statement follows:)

STATEMENT OF JOHN C. GORMAN

Specifically, my testimony will deal with the carriage of cargoes by U.S. liner berth operators under the cargo preference laws. This will include the carriage of cargoes for AID, the Department of Agriculture, and other cargoes moving pursuant to the cargo preference laws aside from military cargo.

In view of the fact that this statement was prepared prior to hearing the testimony of representatives of the Department of Agriculture, the Military Sea Transportation Service, the Agency for Internanational Development, and Mr. Nicholas Johnson, the Maritime Administrator, we accept Senator Douglas' offer to allow us 2 weeks within which to supplement this statement.

At the outset let me point out that I am testifying on behalf of a group of 21 U.S.-flag operators which operate regular liner berth services and are not engaged in the carriage of full cargoes on a tramp basis. As a matter of principle, the parties on whose behalf I am here testifying believe that the liner rates charged the U.S. Government should be no higher, all conditions to be considered, than those rates charged to similar commodities of commercial shippers.

All segments of the American merchant marine—liners, tramps, and tankers—need Government-generated cargoes to maintain the shipping services that are so essential to the export and import commerce of the Nation. However, in my testimony I will generally confine myself to the carriage of such cargoes by liner berth operators.

By the passage of Public Resolution No. 17 in 1934, and by the enactment of many "cargo preference" laws over a 20-year period, Congress recognized the need for American-flag ships to participate in the worldwide movement of U.S. Government-generated cargoes to "at least 50 percent" of the movement.

The passage of Public Law 664 on August 26, 1954, translated this congressional mandate into permanent legislation.

While vessels of approximately 40 different nations carry cargoes from the United States, in 1962 U.S.-liner ships carried 37 percent by value of all our liner-type cargoes moving in the export and import trades of the United States. Overall, U.S.-flag ships carry a relatively small percentage of the Nation's total foreign commerce. This points up the need to maintain and strengthen the cargo preference laws, so that our merchant marine establishment can strive toward the goal set by Congress of carrying a substantial portion of our foreign commerce.

Foreign maritime nations traditionally carry over 50 percent of their foreign trade in their own flag ships. They are attracted to U.S. trades since we are the greatest trading nation of the world, and their ships are strong competitors of our American merchant marine. These foreign-flag ships enjoy the privilege of carrying large quantities of cargoes generated by U.S. Government assistance programs.

After careful study, the U.S. Government in an International Shipping Conference held in Washington, D.C., June 9, 1959, issued a strongly worded statement in support of this country's cargo preference laws relating to U.S.-generated cargoes. The position taken at that time is still sound and should not be changed.

This Nation has never exercised routing control over commercial cargoes. Unfortunately, the same cannot be said for many of the

countries with which we trade. They are free to compete with us for all our commercial traffic which amounts to about 93 percent of our total trade; but directly or indirectly, many foreign governments exercise routing control over cargoes which are considered to be commercial in nature.

In the absence of U.S. cargo preference laws, the control over the routing of U.S. Government-generated cargoes would rest almost exclusively with foreign interests and governments, and the American merchant marine would be in a disadvantageous position. Even under present laws and implementing governmental procedures a considerable measure of control over aid cargo movements is exercised by recipient nations and their appointed agents.

Many nations now have cargo preference for the routing of their own cargoes as well as commercial cargoes in one form or another. The U.S. cargo preference statutes are essential to the maintenance of U.S.-flag operators in order to maintain their position in the fierce international competitors they face.

It is essential to distinguished clearly between "cargo preference" and "rate preference." In the main, liner ships lift "cargo preference" general cargo at no premium in rates over the foreign-flag liner ships. American-flag tramp ships do receive a "rate preference" as compared to the foreign-flag tramp ships when carrying U.S. Government-financed cargoes.

The only area of "rate preference" to U.S. liners on Government generated cargoes is in some, but not all, movements of bulk cargo used as bottom cargo. Usually, international shipping conferences declare rates "open" on bulk cargoes; and all shipping lines, American and foreign, are free to quote their own rates. These are the so-called "parcel lot" movements. Competition keeps these rates in a very marginal area. Bulk rates in some conferences are open, but a minimum rate is set and is observed by all conference members, American and foreign alike. Experience shows that the great majority of movements are held by competition to the set minimum. When this practice prevails, there is no "rate preference" between American and foreign liners.

It can be authoritatively stated that the parcel lot movement of bulk via liner carriers is minimal in most trades.

ANALYSIS OF U.S. LINER CARGO PREFERENCE MOVEMENT UNDER PUBLIC LAW 480, TITLE I AND TITLE IV FOR YEAR 1962

I would like to make reference to the Maritime Administration study of April 1964 entitled "Contribution of Federal-Aid Programs to Ocean-borne Foreign Trade of the United States, 1959–62" because this document has many important oversimplifications and omissions on which false and misleading conclusions regarding the operations of the subsidized lines have been premised.

The erroneous conclusions of the MARAD report are based upon statistical tables which

Give trade data on a worldwide basis only and lump together subsidized and unsubsidized liner carryings.

Ignore the fact that the principal amount of U.S. foreign aid goes to 12 nations which are strategically important to the United States.

To draw general conclusions regarding all U.S.-liner operators from statistics without segregating the figures for those 12 countries. is grossly misleading.

The MARAD report fails to point out that many foreign countries have cargo preference laws and regulations, or they are trading nations which by custom give first preference to the vessels of their own registry—a situation not prevalent in the United States. Therefore, the impression that all cargo in the foreign trade of the United States not covered by U.S.-cargo preference is commercial cargo and freely available to U.S. vessels is fallacious.

The MARAD report also alleges that the cargoes covered by United States cargo preference usually command higher freight rates. It fails to mention that in the liner operations of the American-flag companies, freight rates on liner-type cargo are identical between U.S.-flag and foreign-flag liners, whether the cargo be commercial, or under U.S. cargo preference. The exception to this rule would be on those commodities (primarily bulk cargoes) on which conferences have opened the rates, leaving each conference member free to quote his own rate, and in the trades where rates are governed by individual company tariffs rather than conference tariffs. Bulk cargo, loaded without "mark or count", for the most part falls into this category.

1. The strategic 12, i.e., the nations strategically important to the United States, receive the bulk of U.S. aid—81 percent in 1962. The entire rest of the world gets only 19 percent of such aid.

2. These 12 nations are heavily reliant on U.S. exports, with government-aid programs comprising the vast majority of liner cargo movements to these nations—77 percent in 1962.

3. Government AID cargo carried by all liners to the rest of the world (other than the "strategic 12") is insignificant, aggregating only 4 percent of the total liner export tonnage and even less of the total movement.

On the other hand, commercial cargo to these other nations represents a substantial majority (more than 85 percent) of the foreign commerce of the United States carried by liners.

4. In the case of exports to the strategic 12 the U.S.-flag liners carried—

Sixty-eight percent of all Government AID liner cargo and
Forty-six percent of all nonaid liner cargoes.

5. In the rest of the world, Government AID cargo carried by U.S. liners only amounted to about 10 percent of their total carryings to these areas.

6. Insofar as the coveted liner-type (nonbulk) cargo is concerned, the performance of the U.S. liners far surpassed that of any other maritime nation (32 percent by tonnage and about 37 percent by revenue) and aggregated as much as the four next largest national flags combined.

THE PATTERN OF LINER MOVEMENTS OF GOVERNMENT AID CARGO

When examining the nature and the pattern of movement of Government AID cargoes, it is important to keep in mind the intent of Congress and the results achieved by cargo-preference legislation. Public Law 664 has succeeded in—

1. Providing badly needed cargoes necessary to achieve our national maritime policy;
2. Earning foreign exchange and conserving dollars, thus reducing our national balance-of-payments deficit;
3. Providing additional employment for American labor and additional business for U.S. maritime industry; and
4. Maintaining U.S. liner companies in trades where the purely commercial business could not have sustained them in service.

The United States exported 29,883,000 long tons of liner cargo during 1962.[1] These cargoes moved to over 120 nations and territories across the face of the earth.

Government AID cargoes

In 1962, Public Law 480 cargoes moved to 26 countries and varied in size from over 300,000 long tons to Korea down to approximately 1,000 tons to both El Salvador and Ethiopia. AID cargoes moved approximately to the same number of countries and also varied greatly in size to individual destinations.

While 26 or more countries received U.S. Government Public Law 480 and AID cargoes in 1962 the vast preponderance of these cargoes moved to 12 countries strategically important to the national interests of the United States.

There follows table 1 showing these 12 countries and the Government-sponsored cargoes moving to each.

TABLE 1.—*Total of all Public Law 480 and AID exports moving on U.S. and foreign-flag liner vessels to 12 nations receiving preponderance of such Government cargoes in 3962* [1]

[Thousands of long tons]

Country of destination, selected countries [2]	Total Public Law 480 Agriculture [3]	Total, Agency for International Development (AID) [4]	Total Public Law 480 and AID (col. 2 + col. 3)
1. Korea	329	815	1,144
2. India	261	404	665
3. Pakistan	161	495	656
4. Republic of China (Taiwan)	252	213	465
5. Vietnam	92	305	397
6. Turkey	41	227	268
7. Indonesia	212	12	224
8. Republic of Congo	69	30	99
9. Poland	87		87
10. Bolivia (landlocked)	58	22	80
11. Yugoslavia	78		78
12. Algeria		28	28
Total	1,640	2,551	[5] 4,191
All other countries	359	599	[6] 958
Grand total	1,999	3,150	[7] 5,149

[1] Excludes U.S.-liner carryings for 1962 exports of: Bureau of Public Roads, 497 long tons; Inter-American Development Bank, 3,488 long tons; and 544,000 long tons under development loan funds financed by AID
[2] Selected countries were those important under Public Law 480 or AID programs in 1962.
[3] Source: Department of Agriculture. Title I and title IV only.
[4] Source: Agency for International Development.
[5] 81 percent.
[6] 19 percent.
[7] 100 percent.

[1] 1962 figures are used to provide a basis for comparison with the Government report "Contribution of Federal Aid Programs * * *" supra, which uses statistics for that year.

In 1962 the 12 nations mentioned above, of the over 120 nations with which the United States trades, received 81 percent of all U.S. foreign aid. All other nations received only 19 percent or 958,000 long tons of U.S. aid cargo. This 958,000 tons represented only 4 percent of the 24,399,000 long tons of total U.S. exports which moved to all these countries.

The major Government aid cargoes were concentrated in a limited geographical area. With three exceptions, Poland, Yugoslavia, and Bolivia, all of the 12 major Government-generated cargo recipients are located in Africa, the Middle East, or the Far East.[2] Except for the 12 less developed countries, Government cargoes under these programs are not an important factor in U.S. liner export trades.

TABLE 2.—*Comparison of all Public Law 480 and AID liner vessel exports moving to the 12 selected nations and the rest of the world with total U.S. exports*

[Thousands of long tons]

Countries of destination	All liners		Percent	U.S. flag only		Percent
	Total export cargo	AID and Public Law 480 cargo		Total export cargo	AID and Public Law 480 cargo	
12 strategic nations	5,434	4,191	77	3,692	3,116	84
All other countries	24,399	1,082	4	9,513	919	10
Total	29,833	5,273		13,205	4,035	

Source: See table 1.

It is obviously inaccurate to reach the conclusion "that U.S. flag ships are concentrating to a greater extent on obtaining Government cargoes rather than commercial cargoes" and that "many lines of the subsidized lines were largely dependent upon Government-sponsored and Defense Department cargoes at the expense of fully commercial cargoes."[3]

To what extent are those conclusions applicable, then, to the liner movements in the trade with the 12 less-developed countries?

What is the size of the commercial movement to the 12 less-developed nations?

[2] Poland and Yugoslavia have since been phased out of assistance programs.
[3] "Contribution of Federal Aid Programs to the Oceanborne Foreign Trade of the United States: 1959–62," Maritime Administration, Department of Commerce, April 1964, p. 4.

TABLE 3.—*Total U.S. exports of commercial and Public Law 480 and AID cargoes exported on both U.S. and foreign-flag liner vessels to 12 less-developed nations in 1962*

Selected countries	All liner exports from MARAD		Government-sponsored cargoes from USDA and AID		Arithmetic difference [1]	
	Thousands of long tons	Percent	Thousands of long tons	Percent	Thousands of long tons	Percent
India	1,508		665		843	
Yugoslavia	248		78		170	
Indonesia	386		224		162	
Algeria	149		28		121	
Pakistan	713		656		57	
Congo	141		99		42	
Poland	123		87		36	
Bolivia	106		80		26	
Taiwan	468		465		3	
Turkey	260		268		−8	
Vietnam	342		397		−55	
Korea	990		1,144		−154	
Subtotal	5,434	100	4,191	77	1,243	23
All other countries	24,399	100	958	4	23,441	96
Grand total	29,833	100	5,149	17	24,684	83

[1] There is an obvious inconsistency in the above table for AID and Public Law 480 cargoes, as reported by USDA and AID, exceed the total of commercial and Government cargoes as reported by the Maritime Administration. The source for the figures in col. 1 "All liners * * *" is the Maritime Administration. Since these figures are based upon actual steamship company tonnage reports from bills of lading and other actual sources, it is believed that they are accepted as reliable. The source of the figures in col. 2 "Government-sponsored * * *" is the Department of Agriculture and the Agency for International Development. It appears that these figures are not reconcilable with Maritime Administration data due to errors, and lack of consistent control, differences in reporting documents, methods of reporting, and other statistical methodology including timelag, bills versus shipments, etc. Notwithstanding the fact of these inconsistencies, the 1,243,000 tons represent the best available estimate of the relative amount of commercial cargo moving to these countries.

Source: See table 1.

As noted above, U.S. exports of both commercial and foreign aid to the 12 nations totaled 5,434,000 tons. Of this, Government cargoes represented 4,191,000 long tons or some 77 percent. Thus, while Government cargoes make up only 4 percent of total U.S. exports to all nations except the "12," they make up more than 77 percent of U.S. exports to these 12 strategically important and less-developed nations. In the case of Korea, Taiwan, Vietnam, Turkey, and Pakistan, the U.S. Government-sponsored cargoes make up more than 90 percent of the total export movement from the United States to these countries. It is obvious that an adequate level of U.S. regular commercial service could not be maintained to these 12 less-developed nations without Government preference cargoes.

Within the area covered by these 12 nations, U.S.-flag vessels carry almost 50 percent of the commercial cargo that moves to these nations. This is shown below.

TABLE 4.—*Comparison of exports carried by U.S.- and foreign-flag liner vessels to 12 less-developed nations in 1962*

[Thousands of long tons]

	Total commercial Public Law 480 and AID to 12 nations	Total nonaid cargo to 12 nations	Total AID and Public Law 480 to 12 nations
U.S. flag	3,692	576	3,116
Foreign flag	1,742	667	1,075
Total all flags	5,434	1,243	4,191

Source: See table 1.

Of the total cargo moving to these 12 nations, both commercial and Government-generated, U.S.-flag liner ships carried 68-percent of the total and foreign-flag ships, 32 percent U.S.-flag ships operating in these trades carried more than 46 percent of all cargoes other than Public Law 480 and AID.

In view of these facts, which were also omitted from MARAD's report of April 1964, it is obviously wrong to conclude, with respect to the liner movements in the trades with the 12 less-developed countries, that U.S.-flag ships are—

concentrating to a greater extent on obtaining Government cargoes rather than purely commercial cargoes—

and that—

many of the subsidized lines were largely dependent upon Government-sponsored and Defense Department cargoes at the expense of purely commercial cargoes.[4]

Long-range importance to U.S. liner services

None of the less-developed countries, with the possible exceptions of Taiwan, Poland, and Yugoslavia, has a significant merchant marine. Each of these 12 lack adequate foreign exchange and therefore foreign exchange resources are closely husbanded.

Thus, it is probable that if U.S. shipping were displaced, the United States might be required (except possibly in the case of Taiwan, Poland, and Yugoslavia) to provide dollars for the carriage of such aid cargoes on third-flag vessels to the recipient nations involved. This would further worsen our balance-of-payments deficit and would require the use of U.S. dollars directly or indirectly to support foreign third-flag shipping companies.[5]

The repeal of cargo-preference requirements would very likely result in the cessation of U.S.-flag operations to these countries. Such action, of course, would be welcomed by third-flag carriers as they would continue to operate and thereby reap the benefits of carrying all cargoes paid for by the U.S. taxpayers and in addition enlarge their ability to handle commercial cargoes to these countries as they become economically independent. It must be remembered that the cargo in question here is not commercial cargo, but is aid cargo paid for by the tax-

[4] "Contribution of Federal Aid Programs to the Oceanborne Foreign Trade of the United States: 1959–62," Maritime Administration, Department of Commerce, April 1964.

[5] Insofar as we know, none of the governments of these 12 less-developed nations has questioned or complained about the cargo-preference statutes or policy of the United States. This is exceedingly interesting, since the great volume of cargo-preference cargoes go to these countries. Foreign governmental complaints have come from nations with large merchant fleets participating in the U.S. trades with other countries—i.e., third-flag carriers.

payers of the United States. National flag preference with respect to the routing of both Government and commercial cargo is everywhere becoming more evident. No other maritime nation in the world permits any substantial portion of its Government cargoes to be moved on other than its own flag ships. In addition, many governments actively, if unofficially, support the directed routing of commercial cargoes on their national-flag vessels. Even Russia, historically a "land power," is today devoting an enormous portion of its foreign exchange toward the purchase of a merchant fleet so as to attain maritime independence.

Many overt and covert pressures exist to direct the routing of commercial and even government cargoes toward foreign-flag vessels. To ignore that these factors exist would be gross naivete. The commercial cargo to the 12 less-developed nations, in their present economic or military state, would not, in any case, support a present level of liner service from the United States. Foreign-flag companies have been able to capture as much of the commercial business as they have because their service is based upon the nucleus of U.S. Government cargoes which they carry.

Lines sometimes do not know whether cargo is commercial or Government at the time it is booked. AID cargoes are usually booked through regular commercial channels and often the shipments are small. Emphasis on commercial cargo, where such is available, is only logical in view of the fact that the subsidized companies have long-term contracts with the Government which require them to construct new and expensive ships on a periodic basis. Most vessels sail with free space and the lines are constantly seeking to fill this space with commercial cargo. The new fleet of ships now being built at a total cost to the companies of over $2 billion will have an economic life of about 25 years per ship. Companies with vast capital expenditures in such long-term investments must concentrate upon commercial cargoes when that cargo is available in the recognition that Government cargoes may dwindle or indeed become completely unavailable in future years as foreign aid programs diminish or disappear entirely. The large number of offices and agents maintained by the lines throughout the United States and abroad are utilized with few exceptions for the solicitation of commercial cargo and the development of trade in their areas. A number of lines have trade-development divisions for the purpose of developing the foreign commerce of the United States. If only Government cargo were being relied upon, these offices and agents would be largely unnecessary. For example, lines serving the Atlantic coast and gulf coast even have west coast offices and agents and vice versa.

One of the principal purposes of U.S. economic aid programs has been to enable war-devastated or less-developed countries to rebuild or build their economies to a point of economic independence. These programs have been remarkably successful in many cases. Their pattern emphasizes the importance of having U.S.-flag shipping companies and business interests participate heavily in economic aid programs; these shipments are phased out and are replaced by normal commercial trade. American steamship companies and exporters who do not maintain a place in a foreign market during the American Government aid program would be at a serious disadvantage in participating in the commercial trade which generally follows the aid program.

In 1950, combined U.S. commercial exports and AID (or its predecessor agencies) to Europe (excluding Greece and Turkey) were slightly more than $6 billion. Aid to the same area in that year was about $3,189 million or slightly larger than the total commercial exports of just under $3 billion. By 1963, the AID programs to Europe had been almost completely phased out and totaled only $37 million. The total commercial exports to Europe in 1963 were just over $6 billion. Thus, as aid was phased out, it was replaced by commercial trade. American-flag steamship companies and exporters who participated in the early AID programs are today vigorously and successfully participating in commercial trade with European nations. While conditions are different in the 12 less-developed countries which currently receive the vast bulk of U.S. foreign aid, it is expected that U.S. aid to the 12 less-developed countries will gradually be phased out and be replaced by commercial trade. To exclude American steamship companies from the era of U.S. aid movements to these areas would almost certainly handicap them, to our Nation's detriment, in the commercial trade to follow. It would be just as illogical for the United States to waive the requirement that foreign borrowers under the U.S. aid programs buy their goods from the United States as it would be to phase out cargo preference and thereby allow these freight revenues to go to foreign nations.

THE IMPORTANCE OF LINER-TYPE CARGOES

Of the possible alternate methods of evaluating performance of liner companies, the extent of market participation based on liner revenues is the most realistic. Certainly this is true in evaluating performance in light of the balance of payments.

While foreign trade has grown vastly from prewar levels, manufactured or processed commodities (liner-type cargo) continue to be the predominant factor in the trade.

As in prewar years, liner-type cargoes currently approximate about 80 percent of the value of the entire foreign trade of the United States. The predominant value of these liner-type cargoes provided the underlying rationale for the development of the 1936 act as a liner act.

Cargo shipping statistics normally prepared in terms of weight tons are meaningless insofar as the liner trades are concerned—particularly when combined with bulk tonnage and used as an indicator of performance.

In the liner trade cargo revenues provide the best basis for measuring market penetration and here the American liners have done well—almost 37 percent for 1962.

Unfortunately, however, Government statistics are prepared only in weight tons, thereby failing to give due emphasis to the quality and the national importance of the cargo carried by liner vessels. It is a shipping fact of life that liners exist primarily to compete for the movements of nonbulk cargoes which consist largely of manufactured and semimanufactured goods and parcels of other commodities which are not susceptible of bulk carriage. While parcels of bulk cargo are carried by the liners, these generally represent such filler or bottom cargo which can be carried without impairment of the normal operations of common carrier vessels.

In assessing the comparative performance of the U.S. liner fleet against the rest of the maritime nations engaged in the U.S. foreign commerce it is meaningless to make this comparison without recognition of the foregoing facts. While the relative percentages of market penetration measured in terms of revenue provide the best basis for comparative evaluation of liner performance, these statistics are not available by national flags. Statistics are available however which indicate the relative performance of the liner fleets of the major nations participating in the U.S. foreign trade. These statistics, which exclude bulk cargo carried by liner vessels, are depicted in the attached graph. For the first half of 1964 (the latest period available) U.S.-flag liner vessels obtained more than 35 percent of the nonbulk cargo exported by the United States and almost 32 percent of the total import and export trade. See table attached. The next largest nation, Norway, participated to the extent of 12 percent, followed by Japan, the Netherlands and West Germany in the 6 to 7 percent range. The United Kingdom and other major maritime powers all carried less than 6 percent.

Even in the import trades where only relatively small quantities of cargo are subject to the cargo preference laws, the U.S. flag liners carried more than twice as much cargo as the next largest competing foreign nation. While these statistics do, of course, include cargo subject to the cargo preference laws, the overall performance of U.S. flag liners in this critical area should clearly demonstrate that they compete actively and successfully for the carriage of the most valuable commercial cargo in our foreign trades.

"CARGO PREFERENCE," AND THE U.S. BALANCE OF PAYMENTS

The contribution made through the use of U.S.-flag vessels, to a favorable balance of payments for our country, has been frequently discussed. In 1962, the operations of U.S.-flag ships accounted for $924 million net foreign trade revenues, in which it placed third in importance of industries exporting goods or services.

The current serious U.S. balance-of-payments deficit, highlights the need for a greater use of U.S.-flag vessels, which already earn or conserve about $1 billion annually to the plus side of the balance. Congressman William S. Mailliard of California emphasized this when he introduced House Concurrent Resolution No. 310 on February 18, 1965, which urges greater use of our merchant vessels—

> to the end that payments drain resulting from freight payments to ships of other countries be substantially reduced.

In commenting on his resolution, Congressman Mailliard pointed out that there is unused capacity in American ships which can be effectively utilized.

The President of the United States Lines submitted a memorandum dated February 1, 1965, to the President's Maritime Advisory Committee, of which he is a member, entitled "U.S.-Flag Ships Cut Payments Deficit $1 Billion Annually."

Further, the Secretary of Commerce, at the request of the President of the United States, on February 18, 1965, appointed nine prominent businessmen to a Balance of Payments Advisory Committee of the Department of Commerce. Among the techniques

Secretary Connor outlined in achieving additional contributions to the overall balance of payments, was "increased use of American-flag vessels * * *."

Therefore, an elimination or "phasing out" of cargo preference would be contrary to the best interest of the United States in the balance-of-payments deficit problem, and contrary to the national policy of making every effort to reduce the deficit.

SUMMARY

For these reasons and many others, we believe any objective view of our cargo preference laws will underscore the fact that foreign aid is an instrument of the foreign policy of the United States, that presently it moves in volume only to critically strategic nations and that the participation of U.S. liners in that strategic cargo is a logical extension of our national interest.

Aside from the strategically situated countries that receive the bulk of the U.S. foreign aid, the rest of the world receives only relatively small quantities of aid cargo. In these other areas which comprise the major trading areas of the United States the proportion of cargo subject to our preference laws is a relatively small portion of the total carriage of U.S.-flag liner companies and conversely commercial cargo represents the majority of the U.S. liner movements.

U.S.-flag participation in the nonbulk or liner-type cargo market clearly demonstrates the ability of the U.S. liner companies to obtain commercial cargo in the face of redoubtable foreign competition. Importantly, since practically all nonbulk or liner-type cargoes move at uniform rates whether the cargo moves by U.S.-flag or foreign-flag vessels, there is no rate preference enjoyed by U.S.-flag liners in the carriage of these important commodity movements—and the statutory direction of these cargoes to our national liner fleet does not increase shipping costs to the U.S. taxpayer.

When all of these facts are projected agains the realities of international shipping and recognition is given to the extent to which foreign-flag nations and their industrial interests directly or indirectly control the routing of liner-type cargoes, it becomes doubly plain that as a matter of enlightened self-interest the United States should continue the present cargo preference laws.

I appreciate the opportunity which the committee has given me, as a spokesman for the American Steamship Traffic Committee, to appear before it and testify. I wish to assure this committee that we stand ready to cooperate with it and President Johnson's "war on waste" to insure that the rates charged the Government on the movement of its cargo are fair and reasonable. The U.S.-flag liner berth operators on whose behalf I am testifying stand ready and willing to make certain that any requests of the U.S. Government for rate reductions are promptly and fairly handled, just as they stood ready at the time of Korea, Suez, Lebanon, and Cuba to meet the requests of the United States.

I wish to point out that as to U.S. Government-sponsored cargo there already exists private and governmental machinery in appropriate cases, to assure that fair and reasonable freight rates are charged. No law has to be amended for their safeguards which exist for the

Government as well as the commercial shipper. We agree with the statement made by Clarence D. Martin, Jr., Under Secretary of Commerce for Transportation, that:

The Government should pay transportation charges subject to the same standards as those governing private shippers.

We realize the complexities confronting many of our Government departments in fulfilling their geopolitical functions. Our committee of 21 lines will make themselves either individually or collectively available to your committee or to any Government department where a question may possibly arise as to fair and reasonable rates. A recent example of this cooperation is the reduction of rates on beef and beef products moving to Western Europe in an endeavor to expand the market for U.S. beef there. See the remarks of Senator Sparkman, chairman of the Small Business Committee in the Congressional Record for March 15, 1965, at pp. 4783, 4784 commenting favorably on the cooperation offered by these lines.

Division of liner exports and imports by flag in long tons, 1st half year, 1964

	Exports		Imports		Total, exports and imports	
	Nonbulk	Percent to total	Nonbulk	Percent to total	Nonbulk	Percent to total
United States	3,940,270	35.20	2,144,420	27.07	6,084,690	31.83
Norway	1,228,094	10.97	1,068,022	13.48	2,296,116	12.01
Netherlands	783,196	7.00	491,311	6.20	1,274,507	6.67
Germany (West)	702,073	6.27	463,357	5.85	1,165,430	6.10
United Kingdom	628,103	5.61	490,721	6.20	1,118,824	5.85
Japan	615,911	5.50	755,730	9.54	1,371,641	7.18
Sweden	364,832	3.26	441,034	5.57	805,866	4.22
Denmark	266,340	2.38	237,167	2.99	503,507	2.63
Italy	256,536	2.29	94,877	1.20	351,413	1.84
Yugoslavia	213,154	1.90	86,087	1.09	299,241	1.57
Belgium	126,225	1.14	181,209	2.29	307,434	1.61
Colombia	174,047	1.56	166,144	2.10	340,191	1.78
Subtotal	9,298,781	83.08	6,620,079	83.58	15,718,860	83.29
All other	1,894,278	16.92	1,300,151	16.42	3,194,429	16.71
Grand total	11,193,059	100.00	7,920,230	100.00	19,113,289	100.00

Representative WIDNALL. Thank you, Mr. Gorman.

Mr. Boggs?

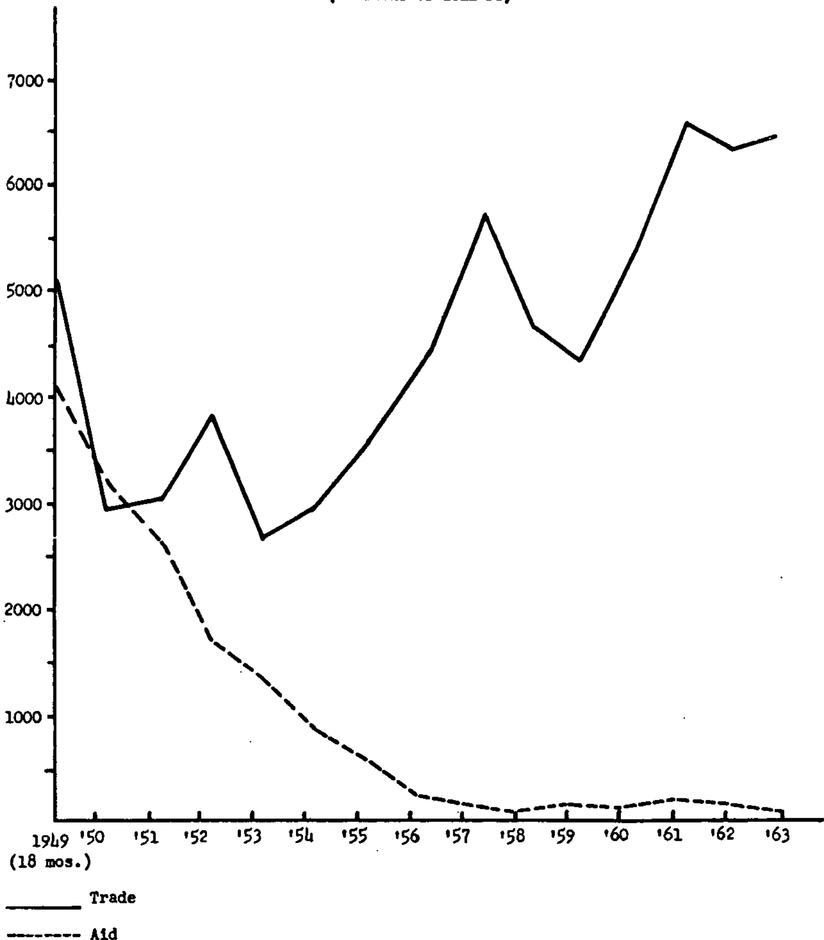
Mr. BOGGS. Let me say on behalf of the staff and the chairman your cooperation in these hearings has been very helpful, and we appreciate it very much.

I have one question for the record.

The chairman has suggested to the Maritime Administrator that he draft a proposal which would transfer the functions of the Department of Agriculture, the AID, and various other Government agencies involved with shipping into his agency so that his agency would have complete jurisdiction over the shipment of Government cargo except for defense.

Would you go along with that recommendation of this subcommittee, if it is made, or would you have some other suggestions to make?

48-063 O—65—pt. 1——11



Mr. GORMAN. I would say on behalf of the 21 lines that we would have no objection whatsoever. This is a very complex thing, as Mr. Johnson pointed out, but I think on all the departments, and Mr. Johnson prepares it, and the Congress thinks this is the way to do it, we wouldn't have any obligation.

Mr. BOGGS. Do you think it would be beneficial?

Mr. GORMAN. In some ways it would be, and in others it would tie into the financial appropriations. I think you would have to enlarge Mr. Johnson's Marad (Maritime Administration). Some of these administrative agencies are just overburdened right now. I think it takes a deep and searching inquiry into this, but we have no objection.

Mr. BOGGS. Thank you.

Mr. WIDNALL. Thank you very much.

Mr. GORMAN. Thank you.

Representative WIDNALL. The next witnesses will be Mr. Michael Klebanoff and Mr. Richard Kurrus.

STATEMENT OF RICHARD W. KURRUS, GENERAL COUNSEL, AMERICAN TRAMP SHIPOWNERS ASSOCIATION, INC.

Mr. KURRUS. Mr. Klebanoff is not here, Mr. Chairman; unfortunately he has influenza.

I feel somewhat like the trained flea following the dancing girls. I do not have much to say, and almost everybody has left. I do not have a prepared statement, but I do have a few comments that I would like to make.

First of all, I believe it should be pointed out that there are approximately 130 vessels in the so-called American-flag tramp fleet. Contrary to what seems to be a popular impression, there are very few Liberties in this fleet. For example, out of the 130 vessels, there are only 11 standard Liberties, which comprise approximately 8 percent of the fleet.

There are, in addition to that, 12 so-called elongated Liberties that have a capacity of approximately 13,000 deadweight tons. So the standard Liberties and the elongated Liberties together comprise only approximately 17 percent of the American-flag tramp fleet.

Of course, the American-flag tramp fleet is completely dependent upon preference cargo. There is not any mystery about this whatsoever. Approximately 95 percent of the cargo that they carry is Public Law 480 grain. On occasion, they do charter their vessels to MSTS, and on occasion they charter vessels to other berth operators. In fact, the four vessels that Mr. Safir has chartered are vessels that are technically within the so-called tramp fleet. If the American-flag tramp fleet is inadequate, and perhaps it is, it is certainly the lack of any positive program to promote this segment of the American merchant marine, rather than the fault of the operators.

The fleet, by all reasonable standards, is really not too bad. If there is an inadequacy existing in it, it is largely the result of the inconsistent and apathetic administration that has taken place in the Department of Agriculture. It is rather odd that the Department of Agriculture does not want to administer the Cargo Preference Act. The Agency for International Development does not want to administer it, and we heard this morning that the Maritime Administration does not desire that function. Nobody wants to administer this act.

This is basically the trouble with the American-flag tramp fleet. There has been no program to make their ships competitive; nor has there been any program to develop a better fleet. With a better fleet and slightly more competitive vessels, American-flag tramp vessels could carry inbound cargo. At the present time, American-flag tramp vessels cannot carry inbound cargo because it would be economically unfeasible and impossible for them to do so.

We fully support any action that would place the Administration of the cargo preference laws under the Department of Commerce and under the Maritime Administration. As a matter of fact, we have been urging this very step for the last decade. In 1955, the House Merchant Marine and Fisheries Committee, I might note, conducted extentive hearings on the subject of the cargo preference laws. They found there was a fantastic lack of coordination, and that

there was confusion existing concerning the administration of the Cargo Preference Act. Among other things, they recommended—

> that the Maritime Administrator should exercise general surveillance over the administration and operation of the Cargo Preference Act and report to the Congress periodically with respect thereto.

No action has ever been taken of that kind. I am not saying that this is the fault of the Maritime Administrator. Apparently it is difficult to carry out that kind of surveillance. But we certainly think that the administration of the act should be in one agency.

Obviously, the Cargo Preference Act is intended to promote the American merchant marine. Unless you have an agency that has that purpose in mind, it is not going to be done. The attitude of the Department of Agriculture to get the lowest rates possible does not necessarily help the Government, and paradoxically enough it doesn't even achieve the purpose of getting the lowest possible transportation cost, because they have prevented people from going ahead with programs to develop better vessels.

With respect to the level of rates that have prevailed insofar as the tramp operators are concerned, they certainly are not exorbitant rates as far as profit to the American tramp operator is concerned. Indeed, several companies have gone bankrupt carrying these preference cargoes which, under the act, are designed to achieve "fair and reasonable rates" for primarily the unsubsidized operator.

Since 1957—Suez Canal was closed in October 1956—when the Maritime Administration proclaimed these so-called fair and reasonable rates that would apply to the Cargo Preference Act movements, primarily to Public Law 480 movements, for only a few short months have the rates been at those levels. Most of the time the rates have been at very low and depressed levels. There has never been any attempt by the Department of Agriculture to develop any program whereby it would enter into a long-term charter so that the American tramp operator would have some assurances as to how much cargo he was going to carry and at what rate, which would allow him to have a program developed for building new, faster, and more efficient vessels.

It is our intention to cooperate with the committee in any way we can. I think the problem of the tramp operator is somewhat different than the apparent basic issue and purposes of the committee's investigation.

If there should be any information that you may want us to supply, we will certainly endeavor to do so promptly.

I would like to ask if I could place in the record a letter that the American Tramp Shipowners Association addressed to Mr. Nicholas Johnson, the Maritime Administrator, on February 18, 1965, which is somewhat relevant to the questions that Secretary Murphy discussed and also to some of the statements that were made by Mr. Johnson in his testimony this morning. May I hand this to the reporter?

Representative WIDNALL. It may be included in the record.

(The letter referred to follows:)

AMERICAN TRAMP SHIPOWNERS ASSOCIATION, INC.,
February 18, 1965.

Hon. NICHOLAS JOHNSON,
Maritime Administrator,
Maritime Administration,
Washington, D.C.

DEAR MR. JOHNSON: The members of our association have devoted considerable study to the statement which you recently circulated throughout the industry and to the press, which statement was intended for delivery in New Orleans on February 9. It is our understanding that the ideas expressed therein and the proposed program that you have outlined are tentative, and we are pleased to submit our initial comments which you have invited.

Certainly we are gratified that you are now considering the problems of the American-flag tramp industry, after a consistent attitude of indifference and apathy by your predecessors. We are convinced that you intend to evolve a positive program for promoting and maintaining all segments of the American merchant marine, but we sincerely believe that some of the basic premises upon which you have proceeded are erroneous. Since we are the owners and operators of American-flag dry-cargo tramp and bulk-carrier vessels (representing more than 50 percent of the vessels in this segment of the American merchant marine), our comments are limited to that part of your statement which directly concerns us.

Maintenance requirements for American-flag tramp vessels

At the outset, we wish to express our dismay and disappointment concerning your characterization of the American tramp fleet, as set forth in paragraph 4, page 3 of your statement. We understand that these comments were omitted from the statement as it was finally delivered. The image of the American tramp fleet as portrayed in those comments is we believe inaccurate and unfair and largely without foundation in fact. It is unfortunate that the Maritime Administration would even consider making such sweeping, derogatory, and damaging remarks about vessels in the American tramp fleet, based obviously on hearsay information.

All of the vessels in the tramp segment of the American merchant marine are maintained in the highest class of the American Bureau of Shipping and under the regulations of the U.S. Coast Guard, exactly as are subsidized and unsubsidized American-flag liner vessels. We believe that American-flag tramp vessels, for the most part, are just as well maintained and just as seaworthy as American-flag liner vessels. Neither the American Bureau of Shipping nor the U.S. Coast Guard has a double standard—all vessels must meet the same requirements, without variations. Furthermore, our American-flag tramp vessels compare favorably with tramp vessels flying under any flag. Indeed, we believe that they are superior because, in addition to the ordinary classification society requirements, they are also subject to annual and biennial Coast Guard inspections, plus requirements of the U.S. Public Health Service and those of American maritime unions.

The comment in your statement as originally released concerning the American tramp vessel which "simply sunk" is we believe somewhat improper, and it creates an unfair, prejudicial, and incorrect impression of the American tramp fleet. Unfortunately, sinkings are not limited to American tramp vessels—subsidized American-flag liner vessels have also sunk.

Composition of American tramp fleet

We also wish to take issue with the last sentence in the aforesaid paragraph of your statement as it was released. Our companies have continually attempted to upgrade our vessels, despite the lack of any positive governmental program for our segment of the maritime industry. It is true that most of the vessels which we operate were originally war-built ships, but many of them have been reconverted or reconstructed, and they may well have useful lives of from 10 to 20 years, without resorting to uneconomical repairs. Certainly, it must be noted that most of the American-flag vessels in liner service are also war-built ships and very f·w of those have been reconverted or reconstructed.

We consider it appropriate to point out the composition of the full-time American-flag tramp fleet:

Type	Deadweight tons	Speed (knots)	Number in operation
Standard Libertys	10,800	10	11
Postwar elongated Libertys	12,900	10	12
AP-2 Victorys	10,750	15	6
Postwar lengthened AP-2 Victorys	14,000	15	2
AP-3 Victorys	10,750	16½	24
C-2's	10,500 to 11,200	15	38
C-3's	12,500	16	10
C-4's	15,000	17	3
Bulk carriers (all postwar built or converted)	15,000 to 25,000	14	24
Total			130

In our opinion, the aforementioned breakdown clearly indicates a rather well balanced fleet of American-flag tramp or all-purpose-type vessels, which fleet has been maintained in spite of indifferent support from the various governmental agencies, including your predecessors. We also feel that we have advanced considerably beyond the original postwar makeup of the tramp fleet, which consisted almost entirely of standard Libertys. Nevertheless, although our present tramp fleet includes only 23 Libertys—standard as well as converted (less than 18 percent of the total fleet), several hundred Libertys are now engaged in worldwide tramping under various foreign flags including that of the U.S.S.R. It should also be noted that since the Cargo Preference Act was promulgated, only 10 years ago, the American tramp fleet has been greatly improved under any reasonable analysis.

The Cargo Preference Act is basically sound and, as a practical and realistic matter, there is no wholly adequate substitute for it. We believe that your cost estimate for sustaining the American-flag tramp fleet is inflated in that it includes payments made to tankers and possibly liner vessels as well. The cost of maintaining the tramp fleet has been relatively modest in terms of the results that have been achieved. If it were not for the Cargo Preference Act, there would now be no American tramp fleet at all.

We believe that virtually all national-flag ships (excluding those under the so-called flags of convenience) depend upon some form or measure of subsidy and/or cargo preference. Needless to say, if our cargo preference laws were administered by the Maritime Administration rather than by various governmental agencies that have been consistently antagonistic and opposed to the program, the composition of the American tramp fleet would undoubtedly be much more advanced. Given a viable climate and profit incentives, our industry, which is no different from any other free American industry, would use sufficient imagination and ingenuity to create a fleet which would compare favorably with any fleet in the world.

Distinction between tramp or all-purpose fleet and a fleet of specially designed bulk carriers

We believe that the basic fallacy in your approach is that the functions now performed by the American-flag tramp all-purpose fleet can be completely taken over by a fleet of specially designed bulk carriers. The assumption underlying your suggested program is that everything can be solved by the size of the vessel. We submit that this approach is basically unsound and, furthermore, that it is dissonant with the specific purpose of the Merchant Marine Act of 1936 which is to promote and maintain an adequate and well-balanced American merchant marine composed of all types of vessels.

It is absolutely essential to recognize that there is a fundamental difference between a fleet of all-purpose tramp vessels and a fleet of specially designed bulk carriers. Obviously, tramp vessels are bulk carriers, but their function is to service all types of commodities and to operate into most of the ports of the world. Since the great majority of the ports cannot accommodate large bulk carriers, American-flag tramp vessels of the all-purpose type are essential to the foreign commerce of the United States.

In this respect, we should like to point out:

1. American-flag all-purpose tramp vessels supplement liner vessels which, as you undoubtedly have observed, are becoming more specialized in their designs;
2. Such all-purpose tramp vessels are relied upon particularly by the Military Sea Transportation Service for the movement of military cargoes in times of emergency and, in fact, they provide the most readily available source of tonnage for military cargoes, since liner vessels are usually obligated to serve their berths, whereas all-purpose tramp vessels are relatively free for prompt requirements.
3. All-purpose tramp vessels can operate into most ports in the United States and in foreign countries, where length, clearance restrictions, and draft requirements would, in most cases, preclude the operation of large bulk carriers.
4. In cases of national emergency, the all-purpose tramp fleet actually has more utility and flexibility than any other segment of the merchant marine.
5. We know of no case where the Military Sea Transportation Service has ever requested a bulk carrier to carry military general cargoes and we cannot envisage such a circumstance arising.
6. Large bulk carriers are usually restricted in the type of cargo they can carry and their operations are confined to the movement of bulk cargoes to and from highly automated ports. (It should be noted that the movements of virtually all of our military and aid cargoes are to and from countries which do not have such ports.)
7. Specially designed bulk carriers are usually constructed and operated in response to a specific cargo movement and are operated under relatively long-term contracts of carriage which guarantee the amortization of their mortgages.

We recognize that approximately 85 percent of the foreign commerce of the United States constitutes the movement of bulk cargoes. Certainly, there should be a program, as you have recognized, for promoting a bulk carrier segment of the American merchant marine, but this program should not be considered as a replacement for the all-purpose American-flag tramp fleet which is absolutely essential not only to our economy but to our national defense. It is manifestly no answer to the need for maintaining such all-purpose tramp vessels for anyone to offer the improvident and unrealistic suggestion that such a fleet of vessels could be maintained in ready status in the reserve fleet.

In the first place, vessels in the reserve fleet are not in ready status and require several months and the expenditure of hundreds of thousands of dollars in repair costs before they can be put in operating condition.

Secondly, such vessels, being concentrated in specific layup areas, are subject to wholesale destruction by enemy action.

Thirdly, whereas American-flag operators of all-purpose tramp vessels are constantly striving to upgrade their vessels, vessels in the reserve fleet rather than being upgraded would, at best, remain in an "as is" condition.

Fourthly, and most importantly, ships cannot operate without crews, no matter how automated they may be. The American-flag all-purpose tramp fleet provides a source of continual training and employment for American officers, engineers, and seamen which could not possibly be achieved if the national defense needs of the country for all-purpose tramp fleet were to be met by vessels in the reserve fleet.

Suggestions for a positive program to promote and maintain the tramp segment of the American merchant marine as well as a fleet of specially designed bulk carriers

We do not believe that a wholesale scrapping of existing statutes or programs in warranted. These statutes have not worked better largely because of the indifference of the administrators thereof—not because of the unsoundness of the legislation. A review and thorough analysis of relevant statutory provisions and programs is certainly a necessary and intelligent approach, but a preconceived notion that all that exists is wrong is an attitude that we believe could only be reached by a failure to understand the real problems that confront our industry. We must build upon and improve existing programs, not more backward into the chaos of an untested, and perhaps unworkable, totally new approach. Some form of cargo preference is absolutely essential if the American merchant marine is to be promoted and maintained. Every other major maritime nation has managed to achieve this result, which has not been accomplished by the United States because the directives in the Merchant Ma-

rine Act have been consistently ignored. The outline of the program which we suggest is as follows:

1. Continuation of and extension of the cargo preference laws.

2. The adoption of a positive program by the Maritime Administrator and the Secretary of Commerce, under section 212 of the Merchant Marine Act, which section directs the Secretary to study, and to cooperate with vessel owners in devising means by which "the importers and exporters of the United States can be induced to give preference to vessels under U.S. registry."

3. The adoption of a positive program by the Maritime Administrator and the Secretary of Commerce, under section 212 of the Merchant Marine Act, which section also directs the Secretary—

"To establish and maintain liaison with such other boards, commissions, independent establishments, and departments of the U.S. Government, and with such representatives of trade organizations throughout the United States as may be concerned, directly or indirectly, with any movement of commodities in the waterborne export and import foreign commerce of the United States, for the purpose of securing preference to vessels of U.S. registry in the shipment of such commodities."

4. If efforts under section 212 of the act should not be productive in securing preference for American-flag vessels in the carriage of the substantial portion of the bulk commodities moving in our foreign oceanborne commerce, the adoption of sensible and realistic quota programs assuring that a substantial portion of such cargoes shall move in American-flag bulk carriers.

5. Enforcement of the cargo preference laws by the Maritime Administration, and not by hostile governmental agencies or departments, whose own programs or budgetary considerations result in their being disinterested in the promotion and maintenance of the American merchant marine.

6. Imediate stoppage of subsidized liner companies from carrying cargo preference cargoes wherever such cargoes can be shipped in full cargo loads. The American-flag liner fleet is subsidized to compete with foreign-flag liner vessels for the carriage of commercial cargoes, and it is certainly not the intention of the U.S. Government to subsidize one segment of the American merchant marine to compete with another segment thereof.

7. The enforcement of a requirement that subsidized liner operators, seeking to dispose of their vessels on which operating subsidy has been paid, trade such vessels in to the reserve fleet, as now provided for in section 510 of the Merchant Marine Act, and that they not be allowed to frustrate the upgrading of the tramp segment of the American merchant marine by selling such vessels to private operators.

8. Continuation of the present Vessel Exchange Act, designed to promote the upgrading of unsubsidized vessels.

9. The adoption of broader and more realistic programs for trading in and exchanging ships presently in the reserve fleet for conversion.

10. The extension of the provisions of tax deferred capital and special reserve funds to unsubsidized tramp operators, which benefits are now enjoyed by subsidized liner operators but paradoxically are not available to unsubsidized operators.

11. The adoption of an independent program for establishing and maintaining a fleet of American-flag specially designed bulk carriers, which program would be distinct and apart from the program for maintaining the tramp or all-purpose fleet. These specially designed bulk carriers would be sustained by a program of operating differential subsidy, coupled with a program under section 212 of the act, or with a quota system designed to assure preference for American-flag vessels in the carriage of bulk commodities moving in our foreign oceanborne commerce. The bulk cargoes would be carried at competitive rates and subsidy would be paid under a simplified method. Such bulk cariers would only be subsidized where the proposed operator had demonstrated to the Administrator that he has sufficient business under a long-term commitment wth a shipper to render the operation of the bulk carriers economically feasible after subsidy, so as to avoid the unfortunate fiasco which developed under the title XI, trade-out-and-build program of the Maritime Administration for supertankers, which now exist predominantly on the carriage of cargo preference grain cargoes, not petroleum cargoes for which they were designed. These bulk carriers would not be permitted to cary Government financed bulk cargoes which would be restricted to the operators of unsubsidized tramp or all-purpose vessels.

Although we have attempted to comment upon the primary points in your

statement, insofar as they concern our segment of the American merchant marine, we have not included several other important matters which we would appreciate having the opportunity of discussing with you. Therefore, at your convenience, we request a meeting with you to be attended by representatives of our association, who will be most pleased to come to Washington for this purpose.

EARL J. SMITH, *Chairman.*

Sincerely yours,
Member companies:
Cargo Ships and Tankers, Inc.
Blidberg, Rothchild Co., Inc.
American Union Transport, Inc.
Victory Carriers, Inc.
Maritime Overseas Corp.
Oriental Exporters, Inc.
Halcyon Steamship Co.
Starboard Shipping Co., Inc.
James W. Elwell & Co., Inc.,
Earl J. Smith & Co.

Representative WIDNALL. You say that several of your companies have gone bankrupt as a result of the low rates. Did I understand you correctly?

Mr. KURRUS. Partly, I did not say "several of my companies." As a matter of fact, the companies that went bankrupt were not members of the American Tramp Shipowners Association. We are not particularly gloating over the fact; it just happens to be a fact. But several companies that were devoted to the carriage of preference cargoes and only carried Public Law 480 cargoes have gone bankrupt carrying these cargoes.

Representative WIDNALL. Do you have any facts or figures to show the reason for their bankruptcies? There could be other reasons in operation that could cause it.

Mr. KURRUS. I don't have any facts and figures on it. I do not, or did not, represent the particular companies. I do know that the rates that were prevailing at the time when they went bankrupt were rates that were in some instances unprofitable. They achieved unprofitable results for particular voyages. The result was that they did go bankrupt and their vessels were left, sometimes at foreign ports, and crews were left unpaid, and other creditors were left unpaid.

Representative WIDNALL. Do the existing rates provide sufficient funds for adequate maintenance of the tramp fleet?

Mr. KURRUS. The American-flag tramp fleet is very well maintained, the members feel. The vessels are really in as good condition as any vessels in the American merchant marine. The rates do not provide sufficient return for anybody to put away a fund that will allow him to replace these vessels.

Another thing, of course, is the unsubsidized American tramp operator does not have the benefit that is given to the subsidized operator of putting money away in capital reserve funds, where the moneys put in these funds are tax deferred. I believe that may be corrected soon, and we hope that legislation will be enacted to allow for such reserve funds for unsubsidized operators. In the final analysis, however, the rates are not sufficient to allow for any kind of a really viable operation that is going to progress and prosper.

Representative WIDNALL. What, in your opinion, is the overall condition of the U.S. merchant marine today?

Mr. KURRUS. I think the overall American merchant marine is inadequate. In my opinion, a number of steps have to be taken to increase the size of the American merchant marine in all different types of fields. I consider it is quite illustrative of the situation what the Japanese are doing. The Japanese are at the moment building a significant number of large tankers and bulk carriers.

The suggestion has been advanced in some quarters that we should abandon our cargo preference laws, and that if we drop our cargo preference laws other nations will follow suit in their cargo preference efforts. This suggestion, as far as I am concerned, is dangerous and retrogressive thinking. It is based upon brittle logic and a lack of understanding of the facts. The fact is that there is no major maritime or commercial nation in this world that does not have the major part of its commerce carried by vessels of its own registry.

The Japanese, in having these large tankers and specialized bulk carriers constructed, require that at least 75 percent of the bulk commodities moving into Japan be carried in Japanese vessels, and, with respect to the remaining 25 percent, the Japanese have the right to nominate the tonnage. They also require that in negotiating these contracts for bringing ore and oil into Japan, that the rates fixed for Japanese-flag vessels have to be somewhat higher than the going market rate so that the Japanese-flag operators will be assured of a profit.

This particular situation was written up in Fair Play magazine, a major shipping journal published in London, On January 14, 1965. I think it illustrates what other nations are doing and what we are not doing. We don't have a large enough American merchant marine, and we seem to be going about it the wrong way. The United States seems to have an ostrich-like approach and the unexplained and completely fallacious feeling that we can proceed differently than other nations such as Japan.

The idea that we can develop a merchant marine without some kind of cargo preference is completely unrealistic as far as I am concerned.

Representative WIDNALL. Do you wish to submit that for the record?

Mr. KURRUS. I will be glad to put this into the record. The copy I have was made on a photostat machine in my office and it is unfortunately not too clear. I can submit a second one.

Representative WIDNALL. Very well.

(The article referred to follows:)

JAPANESE PUZZLE

Strange things are happening in Japan. Some of the most interesting time-charter fixtures discussed in the market in recent months have concerned large Japanese-built and Japanese-owned bulk carriers in the 55,000- to 65,000-ton class chartered to Norwegian and American interests (Ditlev-Simonsen, San Juan Carriers, and others). This was obviously an extremely interesting development, marking the emergence of Japan as a nation offering ships for charter as well as one of the world's greatest chartering nations. While we were waiting for more precise information as to what was happening, however, there has been a further intriguing development. The ships concerned were fixed at rates varying between a "high" of $1.95 and a "low" of $1.70. Although the market understood these contracts to have been definitely concluded, it now appears that they were subject to license from the Japanese Government, and that in some cases these licenses have not been granted or the contracts have been returned by

the Development Bank of Japan "for further consideration." The reason is even more interesting. The Government is dissatisfied with the rates of hire and has asked for all contracts fixed at $1.80 or less for the hire of this type of tonnage to be reviewed, and we thus have a situation where the Japanese Government is intervening to maintain high freight rates on time-charters of Japanese tonnage. The background to all this is, of course, the numerous long-term contracts being negotiated for the supply of iron ore and other bulk commodities for Japanese industry over the next 10 to 15 years. When negotiating for the supply of these commodities Japan uses the whole strength of its buying power to secure, to the fullest extent possible, the employment of its own tonnage in their transport. As much as 75 percent of the commodity may be reserved for the Japanese flag and for even a proportion of the remainder Japan may have the right to nominate tonnage. Taking Japanese imports as a whole, however, a large volume must still be carried by foreign tonnage, and one assumes that the Japanese Government is not going to intervene to secure the payment of high freight rates for foreign tonnage. The balancing act necessary to secure high freight rates for Japanese tonnage, which would price it out of the market under normal circumstances, and low ones for foreign tonnage will be interesting to watch.

It will be appreciated that there is much which is uncertain at present. One puzzling aspect of the situation is the apparent setting of $1.80 as the minimum rate for both 55,000- and 65,000-ton vessels, something to which charterers are hardly likely to agree. Similar developments have been reported in the tanker market, with a report that one prominent Japanese line was forced to cancel two 50,000-ton tanker fixtures for 10- to 12-year time-charters to oil companies, again because the rates were too low. In their attempt to improve the standard of living without incurring an irremediable balance-of-payments crisis various Japanese interests pull in different directions. Government and industry tend to see the expansion of the merchant fleet as the simplest solution; hence the fantastic building program of 7,430,000 tons gross planned for the Japanese fleet by 1968 (described in our Tokyo correspondent's report of November 16 on p. 32 of Fairplay of November 26) which was approved in principle at a Cabinet meeting on December 17. The pressure is for Japanese owners to expand far more rapidly than they themselves deem wise or practicable. If Japan can build this colossal volume of new tonnage, maintain high rates for its own vessels, and not see overall freight rates on its imports and exports rise, then it will be the first country in history that has managed successfully to "run with the hare and hunt with the hounds." Being the greatest shipbuilder in the world and one of the greatest trading nations gives many advantages; it will also give rise to some pretty tangles of conflicting interests.

[From the Fairplay Shipping Journal, Jan. 14, 1925]

Annual Freight Market Review

GENERALLY SATISFACTORY YEAR FOR TRAMP SHIPPING

Most tramp shipowners will probably look back over 1964 with tempered satisfaction and incline to the view that the foundation of a more stable rate structure has been laid. Apart from the hangover of the Soviet grain boom at the beginning of the year, rates traced a fairly even course at or around break-even levels. That this occurred in a trading climate completely unaffected by any states of emergency or crisis tends to suggest that the long-awaited balance between supply and demand is near at hand.

Considerable significance, moreover, must be attached to the close approach of this coveted position in spite of the progressive shrinkage in idle dry-cargo tonnage to the lowest level since the Suez crisis. Of the 400,000 tons gross now laid up, it is doubtful whether 50 percent will ever again be brought back into service. Thus the fear of ships flooding onto the market as rates improve, which has haunted shipowners for the past 7 years, has now been removed.

War-built Liberty vessels, for whom the death knell has been sounded on countless occasions, have taken on yet another new lease of life, and are once more bustling energetically and profitably across the oceans. Not only are their services eagerly sought on a voyage basis, but also on period time charter at lucrative rates of hire. The renewed popularity of these old stalwarts has

stemmed from the shortage of conventional tramp ships which is likely to become more acute unless some fresh building of vessels in the 10,000- to 14,000-ton deadweight category is undertaken in the very near future. While large bulk carriers are obviously more economical to run on the major trade routes, there are numerous ports throughout the world unable to accommodate them.

In their ship, sale and purchase market report for the last quarter of 1964, Harley, Mullion & Co., Ltd., comment that the sharp falling off in the number of vessels sold for demolition during the year, combined with the formidable total of new building carriers due for 1965 delivery, challenges the basic strength of the freight market. Large numbers of bulk carriers were commissioned last year, but these had little or no effect on tramp shipping freights. A possible, indeed probable, explanation is that many of these vessels entered service under previously long-term charters. This may well be true in the case of numerous bulk carriers scheduled for delivery during the next 12 months.

The bigger shipowning groups have practically ceased the building of tramps on a purely speculative basis in favor ordering new ships only against guaranteed period contracts. It does not necessarily follow that smaller operators will be similarly disposed. Certainly, no such restraint can be expected from Greek shipowners, who still seem to prefer gambling on the vicissitudes of world freight markets, always in the hope that another Korea or Suez will crop up to boost rates to astronomically high levels.

At the same time, Greek shipowners have for some time been remarkably subdued so far as the placing of new building contracts is concerned and have appeared content for the most part to function with existing fleets. Certainly, their faith (or was it shrewdness?) in Liberty vessels has paid off with handsome dividends. Nevertheless, these old warriors cannot go on forever, and the building of replacement ships must surely become a pressing issue in the not so distant future.

Newly emergent nations will continue the buildup of their fleets to tonnages deemed necessary to sustain the growth of their economies. Lurking ominously in the background is the massive fleet-expansion program of the Soviet Union. Some consolation is to be drawn, however, from the fact that until the early 1970's this is geared principally to national requirements. Although considerable speculation has ensued on the subject, it is not yet known definitely whether Russia has ambitions to create a tonnage surplus for operations on a competitive basis in world trades.

More immediate importance attaches to the likelihood of Red China embarking on a mammoth buildup of her merchant fleet. Over the past 5 years China has relied on chartered tonnage to carry the bulk of her import and export trade. A feature of chartering has been the engagement of modern vessels, predominantly in the 12,000- to 14,000-ton deadweight category, for trading over varying periods up to 2 years or so. Although full details as regards the number of ships taken on time charter have been unobtainable, estimates received from sources close to Peiping indicate that between 80 and 100 ships have been booked on time charter every year. In addition, numerous vessels have fixed to the Chinese each year on a voyage-charter basis.

Any appreciable expansion in China's merchant fleet would ultimately, therefore, result in a heavy loss of employment to foreign shipowners. Until recently, China has brought tonnage of mostly war-built vintage to swell her merchantile marine, due presumably to the low price factor. Now she appears to be intent on buying and building modern ships.

The winning of an order by the Sunderland yard of William Doxford & Sons (shipbuilders), Ltd., to build two 15,000-ton deadweight cargo motor vessels for China is believed to be the forerunner of many more new building contracts. Both of these vessels, will be bought for cash, a factor which underlines the improvement that has taken place in China's economy during the past few years. Almost certainly, however, the availability of generous credit terms will come into account if, indeed, Peiping is determined to pursue a substantial new building program.

The turnover of business in the time-charter section constituted one of the highlights in world freight markets last year. In addition to the heavy bookings on Chinese account, an almost unprecedented demand flowed from liner companies to bear testimony to the continued expansion of world trade over the past year. There is good reason to believe that the volume of time-charter bookings during 1964 established a new record. The time-charter section is undoubtedly the key to the well-being of the tramp shipping industry, since it

reflects healthier trading conditions and confidence on the part of charterers in long-term prospects.

Grain remained the largest single source of employment for tramps, but larger movements were noted in coal, sugar, fertilizers, ore, and scrap cargoes. A good deal of the increase in the carriage of coal, ore, and, to a lesser extent, sugar is masked by the continually growing use of specialized vessels under long-term contracts.

Russia dominated the grain trades with the purchase of some 10,250,000 tons; at one stage it was thought that 12 million tons would be taken. There has since been a marked recovery in the Soviet Union's grain harvests and, according to the latest Canadian wheat review, the recent purchase of 280,000 tons of wheat from Canada might be the only Russian deal this year. Advices from New York, however, hint at the possibility of Russia making purchases for shipment to other Communist-bloc countries, including Cuba.

Wheat exports to China have continued steadily to expand over the past 4 years, and the 1964 total of about 5 million tons (which makes her the biggest wheat buyer in the world) is likely to be repeated for the next few years and will mainly embrace the Australian, Canadian, and Argentine markets. France also sold a large quantity of grains to China—some sources estimated it to be in the region of 1 million tons—and, following General de Gaulle's recent overtures to Peiping, increased trade is in prospect between the two countries.

The threat of famine in India touched off a sharp rise in shipments of U.S. aid grains over the last 3 months of 1964, and expectations are that these will continue throughout the coming year. India is estimated to have imported more than 4 million tons of wheat from all sources last year, but the 1965 total may well exceed 6,500,000 tons.

Since the end of the war all foreign-flag ship chartering against U.S. grain aid programs has been conducted in London by the Baltic Exchange Charting Committee, the last of a series of committees set up the the United Kingdom Government during the war to control shipping arrangements for the importation of foodstuffs and other essential commodities. In the latter part of 1964, the Indian Government decided to control all chartering from New Delhi and, accordingly, the Baltic Exchange Chartering Committee was dissolved.

The reduction in transatlantic grain traffic reflected the better harvests reaped by the traditional importing countries of Western Europe. Bulk carriers strengthened their monopoly of the Atlantic trades and, in doing so, scaled down the raids by tankers. Also contributory in the latter respect was the modicum of success achieved by the tanker recovery scheme.

The narrow margin within transatlantic grain rates fluctuated during the year exemplifies the better measure of stability generally witnessed in tramp-shipping freights. The tables of rate comparisons published at the end of this review show high and low figures of $7.40 and $3.75 per ton, respectively, on the U.S. gulf to north Europe run. Both of these figures relate to virtually isolated charters and certainly cannot be regarded as the representative range. The bulk of business was, in effect, concluded within the smaller bracket of between $4.25 and $5.50.

Only two or three ships obtained, for example, the peak rate of $7.40 per ton. This occurred in November, when the threat of a U.S. docks stoppage prevailed and ships able to load before the deadline date were in short supply. Grain charters generally, however, covered the best part of their early winter stocking-up programs during September and October. As a result, so-called prestrike activity was almost negligible.

King Coal launched a rescue operation for the large ships which might otherwise have been distressed by the resultant lull in grain chartering. Tonnage bookings from Hampton Roads to north Europe constituted the chief source of activity in the Atlantic trades during November. Substantial tonnages of U.S. coal are, of course, shipped to Europe every year, but open-market chartering never reaches any great proportions because shipments are mostly under long-term contracts.

Japan continues to be the biggest single employer of tramp tonnage, and the resultant heavy concentration of shipping on that country, with imports of grain, coal, ore, fertilizers, sugar, and scrap from almost all quarters of the globe, contributes to the buildup of vessels in the Far Eastern theater. Even so, shipowners seeking employment in the Far Eastern trades enjoyed reasonably satisfactory rates. This was due, in part, to the increased use of large, fast ships, the majority of which ballasted away to more lucrative sources of employment when the discharge of Far East-bound cargoes was completed.

Whereas bulk carriers dominated the Atlantic trades, Liberties and similar-sized vessels remained the popular choice of River Plate grain shippers. Last year witnessed a steady flow of business in Argentine grains to Italy, the Continent, China, and, to a lesser degree, Japan.

A serious drought in South Africa brought about an almost complete shutdown of maize exports after August.

Looking ahead and attempting to forecast freight rate trends has ever been a hazardous pastime. For 1965, however, the crystal ball does not seem to be quite so clouded as it has been in recent years. As remarked in the earlier part of this review, a better state of balance now appears to exist between trade and tonnage supply. Laid-up tonnage can be written off as a threat to the stability of freight rates and, though exceptionally heavy deliveries of large bulk carriers are scheduled for this year, these are not (for reasons already explained) likely to have any adverse effect of consequence.

The world's wheat trade in the current crop year, 1964–65, is likely to decline by about 10 million tons. However, at an estimated total of 45 million tons, it will still be above the 5-year average. The main reason for this is that the traditional importing countries of western Europe have increased their own production of wheat appreciably this season, and that the large Russian purchases of last year are unlikely to be repeated.

With grain chartering maintained at last year's level and the likely existence of an economic climate favorable for continued expansion of world trade, tramp-ship owners have good cause to feel quietly optimistic about prospects for 1965.

Representative WIDNALL. Why do you say it is uneconomic for the U.S.-flag tramp freighters to bring cargo in?

Mr. KURRUS. Because of the cost of operating an unsubsidized American-flag tramp vessel; namely, the wage cost and other costs would make it uneconomic for the vessel to carry inbound commercial cargoes. For example, when American-flag tramp vessels carry grain to India, to Bombay, let's say, it would be somewhat convenient to stop at the Malabar coast—theoretically it would be convenient—and perhaps pick up inbound ore. But the fact is that the deviation involved and the time spent in port loading that cargo would not pay it to do so. American-flag costs are too high. The rate for such inbound cargo is only something between $6.50 and $7 a ton, and it is not sufficiently high to pay the cost of the vessels.

Representative WIDNALL. You answered my previous question with respect to the overall condition of the merchant marine that we needed new ships. You didn't say anything about the condition of the merchant marine today.

Mr. KURRUS. As I said, I believe that the merchant marine is inadequate. In my opinion this inadequacy is especially acute with respect to tramp vessels, bulk carriers, and tankers.

There is, incidentally, a distinction between a bulk carrier and a tramp. A bulk carrier, I might say, is generally constructed in response to a specific bulk-commodity movement. It usually operates between fixed termini, fixed ports, and it operates usually under a long-term charter. A tramp vessel is somewhat different. When people talk about bulk carriers replacing tramps, the observation is not entirely valid. Most of the ports of the world cannot accommodate a large bulk carrier. We need a fleet of all-purpose tramp vessels in the approximately 15,000- to 20,000-deadweight-ton class, as well as bulk carriers. But, in any event we do not have large bulk carriers in the American merchant marine. We do not have an adequate tanker fleet. Perhaps even the liner vessels should be expanded.

I believe—and I am talking personally—that the approach that we take in this country with respect to developing an adequate American

merchant marine is basically wrong. In my opinion, the Government must take positive steps to see that more cargo is placed in American-flag ships.

Representative WIDNALL. Your emphasis, then, is on an inadequacy of ships in certain categories, say bulk as against others. Is it as to to the quality of the existing ships?

Mr. KURRUS. I think the quality of the existing ships is not bad. Of course, we do not have, as I have said, any large bulk carriers. In this area there is a clear inadequacy. The quality of the liner vessels is certainly excellent. They are the best vessels sailing on the high seas. We have a small and inadequate tanker fleet, but with respect to that fleet, it does not have any business. American-flag tanker rates are at an all-time low. There may be other financial disasters in this area very soon.

Mr. BOGGS. I believe the current Maritime Administrator does have a pretty active program in regards to the tramp and bulk carriers. I don't want to interpret his program, but I believe he has recommended that we use the $80 million which is used to pay the higher American rate, to directly subsidize and build new bulk carriers.

Would your association support that proposition?

Mr. KURRUS. In the first place, let me say I do not know exactly what his program is. He said he was only suggesting alternatives. Secondly, I am not aware where he gets this $80 million figure.

I am not trying to evade your question, and I am going to answer it. Where he gets this $80 million figure paid to tramp vessels has not been explained to me. I think a large part of that actually goes to tankers. Some of it may go to liner companies. I just do not know. In my opinion, the committee should request a more detailed explanation of the figure.

I have asked for a breakdown of the $80 million figure and have not received it. As I understand his feeling, it is that by paying a direct subsidy to American-flag bulk carriers, we can achieve the same purpose——

Mr. BOGGS. He mentioned 14 to 1.

Mr. KURRUS. I consider that those figures are elliptical and incorrect, and I would like to see somebody make such an analysis. The fact is that if you pay a direct operating subsidy to an American-flag bulk carrier, or to a tramp vessel, it is very unlikely that the operator is going to get commercial business without some kind of cargo preference to go along with it, as a concommitant part of the program.

Mr. BOGGS. Let me ask you——

Mr. KURRUS. We would support his program provided there are certain things added to it. I think it is a very unrealistic program just to say you can drop cargo preference and pay a direct operating subsidy because you could not sustain any ships under such a program.

Mr. BOGGS. Would you support the proposition to drop the differential payment in the cargo preference law and maintain the 50-percent requirement, if tramp operators received subsidies?

Mr. KURRUS. I believe that our association would support something along those lines. If you made the subsidy payment on an assured basis and tied it into a requirement for cargo preference, I do not see any reason why any reasonable person would not support it.

Mr. BOGGS. If something like this is not done, what would you predict for the future of the American tramp fleet?

Mr. KURRUS. I think the Cargo Preference Act, as such, could possibly be improved, and that we could achieve some improvements in the tramp fleet by upgrading the vessels, under the Vessel Exchange Act, without a new program of operating subsidy. However, I do not think that there is going to be any real progress made in that direction without some kind of a new program.

The tramp fleet can be operated with vessels that are traded in by liner companies, and by having those vessels converted. They make very good tramp vessels. Such vessels in the approximately 15,000-ton category are very flexible and convenient vessels for most ports of the world.

Without a new program, it is unlikely that large bulk carriers will be built.

Mr. BOGGS. I believe you indicated that 8 percent of the tramp fleet was made up of Liberty ships and that 17 percent was the total figure if you included the elongated Libertys, is that correct?

Mr. KURRUS. Yes, sir.

Mr. BOGGS. At the same time, I believe the guidelines of 1957 provided by the Maritime Administration concerning rates were based on the cost of operating Liberty ships, is that right?

Mr. KURRUS. Yes, that is true.

Mr. BOGGS. So these larger and different-type ships——

Mr. KURRUS. That is the thing that does not follow, Mr. Boggs. That is a non sequitur, if I may say so. The larger ships are not getting these rates. In fact, no American operator is getting these rates at the present time. No operator has carried cargo at those rates for most of this entire period since 1957. In fact, the rates have only been at those levels for a very few months, maybe 2 or 3 months out of the whole 8-year period.

But the fact is that the larger ships are getting lower rates. For example, there was recently a fixture made from the Pacific Northwest to Karachi at $16.50 a ton. I think the so-called NSA rate is something like $32. The foreign-flag rate is about $14.

Mr. BOGGS. Let me ask one more question in that regard. If a 100,000-ton ship was sailing from Baltimore to Bombay the same day that a 15,000-ton ship was sailing from Baltimore to Bombay, would they charge the same rates to the Department of Agriculture?

Mr. KURRUS. No, sir. Furthermore, a 15,000-ton ship would not be going from the gulf to Bombay. Agriculture would not charter it. They go to the smaller ports.

Representative WIDNALL. Just one more question. What in your mind determines the optimum need for the size of our fleet, the economic need or national defense?

Mr. KURRUS. In my opinion it is the economic need. Of course national defense is important. Incidentally, are you talking about the size of the fleet or the size of the ships? Were you directing the question to the size of the fleet?

Representative WIDNALL. The actual size of the fleet. We are talking about new ships.

Mr. KURRUS. I would think that the economic need, in my opinion, is the primary consideration. As I have said, I believe that national

defense is also important, but I think that the economic need should dictate. Certainly, it should govern the size of the fleet in the bulk carrier area.

Representative WIDNALL. Is there a worldwide shortage of shipping?

Mr. KURRUS. No, there is not, certainly not.

Representative WIDNALL. Isn't that really, then, justification for economic need?

Mr. KURRUS. No; I don't think so. I think if an American merchant marine will be an instrument of our foreign commerce, you have to have sufficient vessels to carry most of our commerce.

This makes sense, first of all, from the point of view of our international balance of payments; secondly, it makes sense from the point of view of an adequate work force of skilled seafaring people; and, thirdly, it also makes sense for the protection that these vessels can give to American exporters and importers concerning shipping space and reliable and assured service.

Representative WIDNALL. That is all. Thank you very much.

Mr. KURRUS. Thank you.

Representative WIDNALL. The final witness is Reginald Bourdon on behalf of the American Maritime Association.

STATEMENT OF REGINALD A. BOURDON, ASSISTANT LEGISLATIVE DIRECTOR OF THE AMERICAN MARITIME ASSOCIATION

Mr. BOURDON. I am Reginald A. Bourdon, assistant legislative director of the American Maritime Association. As Mr. Murdock was not present yesterday at the hearings, and since our remarks are of a retortable nature, he has asked me to present those. If the chairman will permit, I will do so.

The American Maritime Association, Mr. Chairman, is composed of approximately 150 companies, largely tramp and tanker, which rely very heavily upon Government-generated cargoes for their survival. Yesterday Mr. Murphy, Undersecretary of Agriculture, appeared before this committee and made remarks concerning cargo preference which he has uttered on previous occasions, perhaps the latest being before the Banking and Currency Committee of the Senate. Mr. Murphy charged that the Cargo Preference Act was preventing further sales to the Soviet bloc countries. He has noted in both testimonies that there is much evidence to support this.

However, Mr. Murphy has failed to date to supply any of that evidence. The Department of Agriculture's own publications and the public press have often reported that the Soviet Union has expanded its production this year, has reaped a much larger crop than it did in 1963; and that its purchases from abroad would certainly not be as large as they have been in the past.

Perhaps more important is the fact that the Soviet Union prior to 1963 had not purchased grain from the United States. At that time its purchases were made from Australia and Canada, the same countries from which it is purchasing today. One reason for this might be the Soviet Union's availability of sterling currency, which it is perhaps more willing to spend than dollars.

Also of great importance, Mr. Chairman, is the fact that there is a political consideration involved in such purchases. The Soviet Union, would probably not purchase from the United States in any case, even if its sales price was competitive.

We could also point to U.S. sales to other countries which never materialized, and where cargo preference was never a factor, as evidence that cargo preference is not responsible for a loss of sales.

Only recently sales were made from Argentina to Brazil. The United States was a competitor for that business. However, the contracts were awarded to Argentina.

Also in his testimony, Mr. Chairman, Mr. Murphy cited figures which reflect the cost of cargo preference to CCC. I think an important consideration in looking at these figures is the fact that the net cost to CCC does not necessarily represent the net cost to the Federal Government. For example, in testimony presented before the subcommittee of the Committee on Appropriations of the House considering the Department of Agriculture appropriations for 1965, the representative from the Department of Agriculture submitted figures to that committee which were quite different than the figures submitted to this committee yesterday by Mr. Murphy.

In citing title I costs for shipping between 1955 and 1963 before the Appropriations Committee, the Department of Agriculture noted that $640.7 million had been spent by Agriculture for the cost of U.S.-flag shipping.

Of that it noted, in a small footnote I might add, that the U.S. Government received from the recipient countries foreign currencies equivalent to $343.9 million over the same period.

This is not reflected in Mr. Murphy's analysis before this committee yesterday. In Mr. Murphy's analysis he reflects dollar recoveries of only $40.4 million over the same period of time.

Yet the fact that these currencies are not being spent by the United States or being not spent by the USDA in those countries does not mean that they have not received in payment.

The fact that they are not converted into dollars is beside the point. The fact is that they were paid back in local currencies to the extent of $343.4 million, which is approximately one-half of all the costs incurred under title I.

Mr. Murphy also claimed yesterday, Mr. Chairman, that cargo preference had an adverse effect on the U.S. balance of payments. I believe this reflects a—if I may use the term—microeconomic truth, and its extension and expansion into a conclusion which is unwarranted.

In making this statement, Mr. Murphy is intimating that the reverse would have resulted in a net dollar gain, thereby assisting our balance of payments. But this cannot be regarded as necessarily true unless we were to know exacting what economic action would result from such a change of policy.

If there were no U.S.-flag fleet competing for Government generated cargoes, what would the effect be on the entire commercial rate structure, as well as on the rate structure governing the shipment of Government cargoes?

The result could very well show that the United States would have suffered an even greater dollar drain in its balance of payments than it did by shipping the 50 percent on U.S.-flag vessels as called for by cargo preference.

Some comments, Mr. Chairman, have been made before the committee with respect to the fair and reasonable rates that are paid with respect to bulk shipments. First of all, the 1957 rates have not normally been paid to U.S.-flag operators, as Mr. Kurrus has told this committee.

In fact, in the last 7 years, calculations made have shown that these rates were paid approximately 4 percent of the time. We must note that the rates are ceiling rates and that they do not necessarily reflect a fair and reasonable concept.

These rates, in addition, are dramatically affected by charter party provisions and practices of recipient nations.

In this connection I would like to note a case which has come before our association in which a vessel called the *Pan Oceanic Faith* was chartered by a firm, a broker, which had a contract with the Department of Agriculture. The vessel was sent to Tunisia. The charterer knew beforehand that the vessel could not be unloaded in Tunisia, yet he sent the vessel.

The vessel arrived at the Tunisian port, was unable to discharge his cargo and was told that he would either have to pay storage charges on the dock or let his vessel lay at anchor. The result, Mr. Chairman, would have been catastrophic had he left his vessel at anchor. The rates that this vessel received for this shipment were in no sense compensatory for the damages that would have resulted had he chosen to lay at anchor.

This is just one example of how these "fair and reasonable" rates are misleading.

I don't believe, Mr. Chairman, it has been pointed out adequately that the 1957 rates were not applicable to large vessels in every instance.

During the Russian grain program these rates were revised by minus 20 percent with respect to payments for larger vessels. The Maritime Administration—the Administrator, in his testimony this morning I felt owed this committee and owed the entire merchant marine the obligation to make this fact known.

Mr. Chairman, this committee has as one of its purposes to determine whether or not the U.S. Government pays exorbitantly high freight charges. Aside from commercial vessels being the culprit, I believe that there is some concern in the entire industry with respect to the rates under which MSTS vessels carry Government cargo.

This should be also of concern to the committee because it reflects a high cost to the American taxpayer. We have prepared, Mr. Chairman—and I will not attempt to read the entire document into the record—a memorandum concerning MSTS transport operations, dealing basically with the rates and the freight costs of MSTS operated and contract tankers as compared to rates and costs of commercial tankers which MSTS has chartered.

During the period 1960 to 1964, we have found that the cost differential per 1,000 long ton miles between MSTS operated and contract operated tankers and commercial tankers is great. In 1960, the differential was 48 cents per 1,000 long ton miles. In 1964 that figure jumped to 95 cents per 1,000 long ton miles.

In those 5 years alone, Mr. Chairman, the cost of this differentials to the U.S. Government was approximately $41 million. It should also be noted that these MSTS costs do not reflect many costs which are normally borne by commercial charterers. For example, I would like

to list some of them—the military pay and allowances, vessel depreciation, Panama Canal tolls, use of U.S. Government owned port facilities, and services, et cetera.

I believe, Mr. Chairman, that might be an area in which the committee might interest itself in the future.

Representative WIDNALL. Mr. Bourdon, may I ask if you will submit the document to which you have referred for the records?

Mr. BOURDON. I will, Mr. Chairman.

(The document referred to follows:)

MILITARY SEA TRANSPORTATION SERVICE OPERATIONS

As of June 30, 1964, the Military Sea Transportation Service nucleus fleet totaled 126 vessels. This group included 57 cargo ships, 28 project ships, 16 transport ships, and 25 petroleum vessels.[1] The size of this fleet has been reduced substantially in recent years. This reduction of the nucleus fleet was effected after recommendations of the House Merchant Marine and Fisheries Committee to review MSTS operations and to utilize a maximum amount of commercial shipping were adopted by the executive branch. In hearings conducted into the operations of MSTS, the House Merchant Marine and Fisheries Committee in 1954 raised serious doubts about the need for a nucleus fleet.

For example, the Commander of MSTS during these hearings inserted for the record a statement issued by the Chief of Naval Operations regarding the scope and mission of MSTS. This statement concludes with the following paragraph:

"(6) The Government of the United States must protect itself by assuring that there is in ready operating status, under military control and under all conditions sufficient vessels available to lift the minimum essentials of vital supplies, equipment, and personnel to the Armed Forces of the United States and oversea areas. This is especially important under existing world conditions. This represents the best insurance against shortages or limitations of commercial shipping available on a voluntary basis and interruptions in movements which might result from labor-management disputes." [2]

In commenting on the above paragraph, the committee reported that unrefuted evidence was produced to show that no serious "shortages or limitations of commercial shipping" or "interruptions in movements (resulting) from labor-management disputes" occurred either in World War II or in the Korean war, and in no case was a privately operated vessel fully loaded with military cargo ever held up by reason of labor-management disputes involving seagoing personnel. Furthermore, the committee report noted that commercial shipping carried the greater portion of military cargoes and was at least as quickly available for military use as was the military nucleus fleet. Also noted was the fact that seagoing labor had maintained a consistent policy of refusing to allow disputes to interfere with the movement of military cargoes.[3]

In its study of the operations of the MSTS, the House Committee on Merchant Marine and Fisheries summed up the need for the nucleus fleet in the following manner:

"While it is clear that there must be available at all times for use in the national interest a certain minimum number of vessels of various types to meet the needs of commerce and the national defense, it is not at all clear that the nucleus fleet presently employed by MSTS is justified by the arguments inherent in the directives and military policy statements regarding it. Moreover, on the record before your committee, there are many inconsistencies which our further study should seek to clarify.

"For instance, although a nucleus fleet in operating status under military control is stated to be necessary because of the possible unavailability of commercial shipping or interruptions through labor-management disputes, it is noted that the stevedoring activities at both ends of the transportation chain are almost entirely handled through private contractors. The record does not support any conclusion that the vital loading and unloading activities of commercial stevedores would be any less susceptible to interference with the movement of supplies than would commercial ship operators and seagoing labor." [4]

[1] MSTS Financial and Statistical Report (1964), MSTS Report 7700–2, pt. I, p. 39.
[2] H. Rept. 2672, 83d Cong., 2d sess., p. 28.
[3] Ibid., p. 11.
[4] Id.

Since 1954 the MSTS has continued its operations. It is the belief of the American Maritime Association that many MSTS operations are inefficient and uneconomical and could be performed better by commercial vessels. The American Maritime Association will attempt in the remainder of this paper to demonstrate some of the inadequacies and deficiencies of MSTS operations.

Inadequacies in the MSTS financial reporting system

As part of its financial accounting system, MSTS publishes quarterly a report entitled "MSTS Financial and Statistical Report" (MSTS Report 7700-2). This report contains much statistical information on the various MSTS operations but falls short of giving a complete picture, on a cost basis, of MSTS operations. Some of the major deficiencies in this report are as follows:

(1) While the report gives a breakdown of measurement-ton-miles for cargo and long-ton-miles for tankers, it fails to give a passenger-mile breakdown for passenger traffic. Passenger traffic constitutes an important portion of MSTS operations and it is difficult to understand why this vital information has been omitted from the MSTS report. Without such data, it is impossible to make a comparative costs analysis between MSTS passenger operations and the similar service rendered by commercial carriers. The fact that such data is available for cargo and tanker operations would seem to indicate that this type of information is also recorded with respect to passenger operations. The inclusion of such information would facilitate and make possible a more comprehensive comparison of the costs incurred in moving passengers by MSTS nucleus vessels and commercial carriers.

(2) The MSTS report does not differentiate between cargoes that are carried on cargo vessels and cargoes that are carried on passenger vessels. Undoubtedly, MSTS transports some cargo on passenger ships. The omission of such data further complicates an objective comparison between MSTS operations and commercial operations.

(3) An examination of the MSTS report also indicates the lack of important data in its presentation of statistics on petroleum operations. While a breakdown of the tonnage carried by commercial carrier, MSTS contract carrier, and MSTS-operated vessels is given, the costs of MSTS contract-operated vessels and MSTS-operated vessels are combined into one category, thus preventing a specific cost analysis between those two operations. A comparison of such operations performed by the General Accounting Office for fiscal years 1952-53 and the first 9 months of fiscal year 1954 showed the cost per 1,000 long-ton-mile in moving petroleum on MSTS-operated tankers to be far greater than that of either MSTS contract-operated or commercial-operated tankers. (See table I.)

TABLE I [1]

Carrier	Fiscal year—		
	1952	1953	9 months ended Mar. 31, 1954
MSTS-operated tankers:			
Costs	$10,452,646	$10,263,628	$6,242,753
Long-ton-miles	2,730,633,000	2,082,236,000	1,424,948,000
Costs per 1,000 long-ton-mile	$3.83	$4.93	$4.38
MSTS contract-operated tankers:			
Costs	$49,452,258	$54,225,008	$42,853,960
Long-ton-miles	31,470,987,000	30,572,853,000	22,876,911,000
Costs per 1,000 long-ton-mile	$1.56	$1.77	$1.87
Commercial tankers:			
Costs	$40,128,989	$71,847,476	$32,417,008
Long-ton-miles	19,767,748,000	36,632,714,000	23,667,328,000
Costs per 1,000 long-ton-mile	$2.03	$1.96	$1.37

[1] Hearings before the Special Subcommittee To Consider Operations of Military Sea Transportation Service of the Committee on Merchant Marine and Fisheries, House of Representatives, 83d Cong., 2d sess., 1954, pt. 2, p. 680.

The data presented in the MSTS report allows only a comparison of the economic operations of the entire MSTS nucleus tanker fleet with the commercial tankers chartered by MSTS.

Uneconomic MSTS tanker operations

In reviewing the data presented in the MSTS financial and statistical reports, the American Maritime Association found that only statistics relating to MSTS-operated and contract-operated tankers were capable of comparison with their commercial counterparts. This type of comparison was decided upon not only because better statistics were available but also because it afforded an opportunity to compare operators which handled similar products.

Before comparing the cost of operating MSTS tankers and commercial tankers, it is necessary to note that many elements of cost are not reflected in MSTS statistics. There are many costs which MSTS operations incur that need not be reported by that organization. Yet these same costs are reflected in rates charged by commercial carriers. Some of these costs are the following:

(1) *Military pay and allowances.*—The actual cost is not known because the Navy Department does not maintain a separate accounting for MSTS pay and allowances. In addition there is the pro rata cost of retirement annuities, payable to military personnel.

(2) *Vessel depreciation.*—As of June 30, 1964, there were 123 ships in the nucleus fleet. MSTS has not had to account for the deprecciation of these vessels in the calculation of its costs.

(3) *Panama Canal tolls.*—U.S. Government owned or controlled vessels are not generally required to pay tolls for passage through the Panama Canal. Instead the Panama Canal Company is authorized to offset against the Company's obligations payable into the U.S. Treasury, an amount equivalent to what would be collectible on such ships if not exempted.

(4) *Use of U.S. Government-owned port facilities and services.*—A number of port facilities and services are furnished to MSTS without charge. These include dockage at military piers, use of military tugs, and line handling at military piers.

(5) *Government's contribution to the civil service retirement fund.*—The Retirement Act provides that the U.S. Government contribute to the retirement fund an amount which when added to the amount paid in by civil serviec employees will provide sufficient funds to pay retirement and disability benefits. This annual contribution for civil service employees likewise is not recorded in MSTS accounts.

(6) *Disability compensation paid to MSTS civilians by the Department of Labor.*—The Government Employees Compensation Act provides for the payment of a portion of his salary to any employee injured or taken ill in line of duty. Payments are handled by the Department of Labor from funds provided by Congress.

(7) *Legal services rendered by the Department of Justice.*—The Admiralty and Shipping Section, Department of Justice, represents MSTS in cases involving damage claims and disputes arising from charter party and tanker contract operations. The administrative and trial costs by the Department are not reimbursed by MSTS. In addition no fiscal account is taken in the case of damage done to shipper service cargo by MSTS nucleus vessels.

(8) *Other services.*—Other elements of unrecorded costs applicable to MSTS functions are:

(*a*) Use of Army and Navy communication facilities.

(*b*) Use of Navy passenger vehicles.

(*c*) Small harbor craft acquired from Army and Navy without cost.

(*d*) Technical assistance furnished by Navy and Maritime Administration.

(*e*) Rental value of certain office and warehouse space furnished by Army or Navy at ports, or by GSA.

(*f*) Pro rata share of cost of administrative services rendered by the Army and Navy, including accounting, budgeting, procuring, legal, medical, training, and supervisory services.

(*g*) Pro rata share of cost of administering civil service retirement fund and personnel actions by Civil Service Commission.

Also, for consideration in any comparison of net expense to the Federal Treasury as between the direct operation of Government-owned ships by MSTS and the utilization of commercial bottoms are the items of Federal taxes and, in the case of subsidized lines, profit recapture. In other words, some portion of the gross payments to commercial lines for the carriage of Government cargo may and probably will be returned to the Government at a future date in the form of taxes or recapturable profits.[5]

---

[5] H. Rept. No. 2672, 83d Cong., 2d sess., pp. 9–10.

As was pointed out earlier in this paper, the GAO has demonstrated that the cost per 1,000 long-ton-mile of moving petroleum was greater to the Government in MSTS operated tankers than it was in the utilization of commercial tankers. The American Maritime Association has found that this trend has not been reversed. Since 1960 the cost per ton-mile of using MSTS nucleus fleets vessels in tanker operations is far greater than the cost of using commercial vessels. On the basis of statistics extracted from MSTS financial and statistical reports (1961–64) the following comparison is submitted:

TABLE II

Carrier	Fiscal year—				
	1960	1961	1962	1963	1964
MSTS operated and contract-operated tankers:					
Costs [1]	$30, 435, 672	$27, 558, 052	$29, 481, 527	$30, 967, 890	$33, 932, 872
Long-ton-miles	13, 883, 097, 000	14, 177, 793, 000	13, 883, 097, 000	14, 013, 453, 000	13, 520, 603, 000
Cost per 1,000 long-ton-miles	$2. 20	$1. 94	$2. 12	$2. 20	$2. 50
Commercial tankers:					
Costs	$50, 297, 133	$56, 615, 317	$67, 324, 874	$66, 580, 220	$67, 584, 817
Long-ton-miles	29, 308, 771, 000	36, 679, 802, 000	41, 460, 970, 000	42, 616, 123, 000	43, 539, 943, 000
Cost per 1,000 long-ton-miles	$1. 72	$1. 54	$1. 62	$1. 56	$1. 55
Cost differential per 1,000 long-ton-miles	$0. 48	$0. 40	$0. 50	$0. 64	$0. 95

[1] Includes tanker overhead. Tanker overhead was calculated on the basis that it related to the total overhead in the same manner that tanker cost related to total costs. Tanker overhead for each year was as ollows:

	Amount	Percent of total overhead
1960	$2, 568, 597	23. 1
1961	2, 381, 199	21. 1
1962	2, 258, 183	19. 8
1963	2, 407, 184	19. 9
1964	2, 742, 658	21. 4

Examination of table II shows that the cost per 1,000 long-ton-miles for MSTS nucleus fleet tankers has increased steadily since 1961 while the cost per 1,000 long-ton-miles for commercial tankers chartered by MSTS has steadily declined. Between 1960 and 1964 such cost for MSTS operated and contract tankers rose 14.1 percent. At the same time this cost on commercial tankers declined 9.6 percent. Table III and table IV illustrate this change.

TABLE III

Cost per 1,000 long-ton-mile (1960-1964)

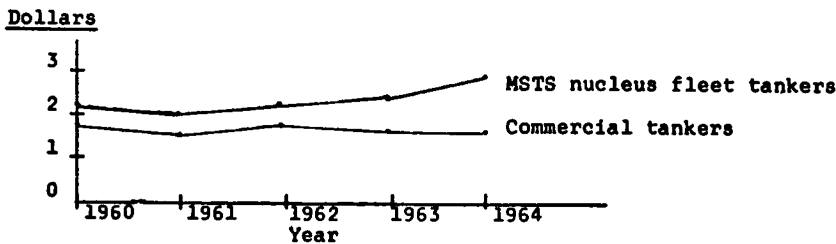
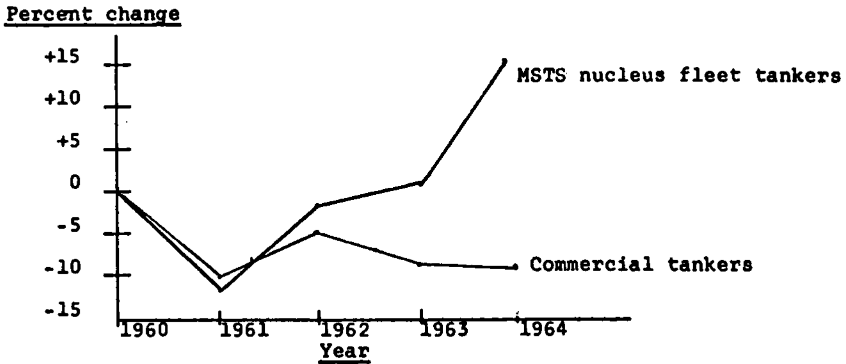


TABLE IV



Thus MSTS, by utilizing its own nucleus fleet tankers instead of commercial tankers in 1960 paid 28.2 percent more than the going commercial cost; 25.9 percent more in 1961; 30.8 percent more in 1962; 41.5 percent more in 1963; and 61.7 percent more in 1964. In terms of dollars we can conclude that the Federal Government would have saved the following amount in each of the fiscal years reported had utilization of tanker service been limited to commercial carriers:

TABLE V

Year:	*Amount*
1960	$6, 719, 847. 77
1961	5, 673, 952. 28
1962	6, 938, 771. 88
1963	9, 075, 112. 16
1964	12, 945, 977. 37
Total	41, 353, 661. 46

Summary

At present the MSTS nucleus tanker fleet is made up of 25 tankers. The data developed by the American Maritime Association casts grave doubt over the operational and economic efficiency of that fleet. From 1960 to 1964 commercial tankers have operated far more efficiently in the carriage of petroleum for MSTS than the vessels of the MSTS nucleus fleet. Unless MSTS is able to adequately explain the obvious inefficiency of its tanker fleet, there appear to be serious grounds for demanding its elimination.

The questions which were raised with respect to MSTS with respect to MSTS tanker operations must also be asked about other MSTS operations. The statistics presented in MSTS financial and statistical reports are inadequate to prove or disprove the economic efficiency of the other segments of MSTS operations. Hence, it is necessary that MSTS correct this situation. Failure to do so can only lead to similar doubt concerning the justification of all other MSTS activities.

Mr. BOURDON. Mr. Chairman, I believe that covers most of what I have to say. I would like to thank the committee for the opportunity to present that information to you.

Representative WIDNALL. Thank you.

Mr. BOGGS. I think you heard the questions addressed to Mr. Kurrus, concerning putting these duties under the Maritime Administration. Would your organization support that proposition?

Mr. BOURDON. I believe, Mr. Boggs, a lot more thought would have to be given to that proposition. The Maritime Administrator did make the point this morning that the function of administering rates would be regulatory in nature, while the Maritime Administration, itself, has a promotional function.

I think the decision as to whether or not that proposal can be adopted would greatly depend upon what accommodations can be made in those two areas.

Mr. BOGGS. Would your association undertake a study in this area and make recommendations?

Mr. BOURDON. We certainly would.

Mr. BOGGS. I would like to say, Mr. Chairman, that we asked the representatives of the labor unions to testify and they asked to submit statements for the record.

Representative WIDNALL. They will be accepted.

Mr. BOGGS. Finally I would like to say that some of the statements made yesterday in our opening remarks were obviously wrong, and have been corrected by the witnesses today.

I think that ought to be brought out for the record also.

Representative WIDNALL. At this time we will close the hearings.

Mr. RAY MURDOCK (American Maritime Association). I would like to ask leave to file a written statement, Mr. Chairman, after I have had an opportunity to study the previous witnesses. (See p. 210.)

Representative WIDNALL. That opportunity will be granted.

Is there anyone else?

At this time we are closing the ocean freight hearings. I would like to make this announcement in connection with that closing: There will be a 2-week period during which statements, corrections, and documentary evidence which has been asked for may be submitted.

I thank all of you for appearing and contributing to the record.

(Whereupon, at 1:24 p.m., the subcommittee adjourned, to reconvene at the call of the Chair.)

APPENDIX

AFL–CIO MARITIME COMMITTEE,
Washington, D.C., April 30, 1965.

Hon. PAUL H. DOUGLAS,
Chairman, Subcommittee on Federal Procurement and Regulation, Joint Economic Committee, U.S. Senate, Washington, D.C.

DEAR SENATOR DOUGLAS: Attached is our statement on ocean shipping and the U.S.-flag merchant marine in response to your request for same to Joseph Curran, president of the National Maritime Union of America, AFL–CIO, and chairman of the AFL–CIO Maritime Committee.

In addition to our statement, we ask that the following comments pertaining to the testimony of Charles S. Murphy, Under Secretary of the Department of Agriculture, be included in the record.

In his statement before the Joint Economic Committee of the Senate on April 7, 1965, Charles S. Murphy, Under Secretary of Agriculture, furnished certain information re U.S.-flag ocean shipping costs under Public Law 480 programs and their effect on balance of payments. This information was at least misleading in the first instance; and in the second, so confused as to leave an incorrect picture with the committee.

In describing the cost of applying the Cargo Preference Act to Public Law 480 programs Mr. Murphy presented data in a series of tables covering the period from the inception of the Public Law 480 program in 1954 through fiscal year 1964, together with estimated data for fiscal year 1965. The largest portion of these costs quite naturally shows up under the title I program, sales for foreign currencies. Here the data is shown in three columns headed "Total ocean freight financed," "Dollar recoveries," and "Net cost to CCC." The dollar recoveries are shown as a pro rata allocation of proceeds received from the sale of local currencies to other U.S. agencies.

This type of presentation is misleading in two respects.

1. It implies that the only benefit to U.S. balance of payments from U.S.-flag shipping under these programs is the portion shown as pro rata "dollar recoveries," and
2. It presents an inflated picture of shipping costs which is out of proportion to overall program costs (loss).

We should like first, to clarify the picture presented by Under Secretary Murphy. Second, we propose to show that, far from being a detriment, U.S.-flag ocean shipping has become a real balance-of-payments benefit under these Public Law 480 programs. Thirdly, we wish to suggest certain ways under which U.S.-flag shipping can be used to further enhance the present balance-of-payments benefits.

Under the title I programs the recipient country obtains surplus commodities for foreign currencies in lieu of dollars. Up to the present, except for the amount of shipping services financed (only 50 percent of the shipping), the purchasing country has also obtained U.S.-flag ocean shipping service on the same terms as that of the commodities furnished—both the commodity and shipping service being procured at the world rate with foreign currency. The shipping costs for which CCC receives no foreign currency reimbursement is the difference between the American-flag rate and the foreign-flag rate. Similarly, CCC receives no foreign currency reimbursement under these programs for the difference between the U.S. value and the world market price of the commodity itself.

The foreign currencies received have furnished some return to the United States in those cases where they have been able to be used by U.S. Government agencies in lieu of certain dollar expenditures abroad. It is the dollar proceeds from sale of these local currencies to other U.S. agencies that Under Secretary Murphy refers to as "dollar recoveries." The pro rata portion of such dollar recoveries attributed to U.S.-flag shipping is shown in his testimony.

However, this is not the full extent of the benefit from U.S.-flag shipping. Mr. Murphy has chosen to ignore the remainder of the foreign currencies earned which reflect the full world market rate of the shipping service furnished. This remainder is actually the largest portion by far. These other foreign currencies have been utilized by the United States in foreign assistance projects administered by the Agency for International Development. These also reflect a dollar saving to the U.S. Government, because lacking these foreign currency shipping revenues an equivalent AID program would have required that much additional in dollar appropriation. A full presentation of the return to the United States from ocean shipping through fiscal year 1964 would be $418.6 million rather than the $55.3 million recovery reported by Mr. Murphy.

Before going on, let us look at the program cost for which there is no foreign currency return. This is the difference between the CCC investment in and the world market value of the commodity, together with the ocean freight rate differential. The following table shows that this total unreimbursed CCC cost or program loss through fiscal year 1964 has been $4.6 billion (USDA estimated program totals). The portion of this attributable to unreimbursed ocean transportation costs is $363.8 million.

Public Law 480, title I—Agreements signed from beginning of program through June 30, 1964

[Data from USDA SDS-2-64]

	Thousands
Total estimated CCC cost including ocean transportation	$14, 193, 800
Ocean transportation	1, 079, 802
Total estimated CCC cost less ocean transportation	13, 113, 998
Market value (excluding ocean transportation) (reflects expected foreign currency payment for commodity)	8, 866, 578
Estimated CCC loss (excluding ocean transportation) (unrecovered cost)	4, 247, 420
Ocean transportation (actual):	
Total ocean transportation financed	782, 400
World market rate, shipping (foreign currency received)	418, 600
Unrecovered cost (differential)	363, 800
Total estimated CCC loss	4, 611, 220

This unrecovered cost figure from ocean shipping of $363.8 million is quite different from the figure of $727.2 million which USDA has presented as net cost to CCC from title I shipping operations for the same period. It also shows that the portion of these unrecovered program costs which are attributable to U.S.-flag ocean shipping are in line with other unrecovered program costs.

This brings us to the second and even more significant aspect of Under Secretary Murphy's testimony which is directly related to the benefits from U.S.-flag shipping to balance-of-payments earnings. He referred to certain amendments of Public Law 480 made by the last Congress which he stated will "* * * result in a shift in the effect of the Public Law 480 cargo preference requirements on the U.S. balance of payments from an adverse one to a favorable one. * * * Under the new system, the U.S. ships will actually earn dollars from the foreign countries at the level of the foreign-flag freight rates."

The amendment referred to is Public Law 88-638. This will require under title I agreements negotiated after December 31, 1964, that the recipient country must pay ocean freight in dollars up to the world freight rate on tonnage required to be shipped on U.S.-flag vessels. This will mean that U.S.-flag ocean shipping will henceforth make a definite contribution to the balance of payments under the title I program in the form of dollar earnings.

What Mr. Murphy did not make clear, however, is the fact that, first, a law was not needed for this to be accomplished. This step could have been taken administratively by the Department at any time since the first day of the Public Law 480 programs. Second, that the Department, as far as we have been able to ascertain, was not in sympathy with this proposal when it first came up for legislative consideration.

Actually, the proposal as originally reported by one of the committees of Congress would have resulted in the payment for U.S.-flag ocean freight with foreign currencies by recipient countries. This not only would have not reflected any improvement over the present system in balance-of-payments earnings, but it would have forced the shipowners to oppose that aspect of the proposed legislation. It was only after the shipping industry explained their inability to accept foreign currencies in payment of ocean freight services performed that the present dollar freight requirement was written into the law. It is this dollar freight requirement that promises to produce the balance-of-payments benefits for the country, and it is this dollar freight requirement which the Department of Agriculture is now complimenting and blessing, despite their having worked against it.

These dollar freight earnings can be substantial. If this procedure had been in effect during fiscal year 1964 alone, it would have resulted in a U.S.-flag shipping contribution to balance of payments of $74.6 million which was not realized. If this procedure had been in effect from the beginning of the title I program (as it could have been), the U.S. shipping contribution from this source could have been $418.6 million—and these would be actual dollar earnings. The U.S. shipping costs paid by CCC to which Mr. Murphy has referred adversely do not really have an adverse effect on our balance of payments. Since they have been paid directly to U.S. shipping, they do not reflect a balance-of-payments outflow. In contrast, the dollar freight earnings which we describe could be actual balance-of-payments dollar earnings.

Finally, this same new procedure could be used to advantage under Public Law 480 title IV (long-term credit sales). The effect of this would be a reduction in the Government's cost in administering this particular assistance program. In spite of this, we understand that the Department of Agriculture has considered but rejected any thought of applying these new procedures to title IV. We suggest it would be far more appropriate for USDA to seek a reduction in program costs by these methods, rather than in belittling the benefits from and sloughing off the legitimate contributions of American shipping under these programs.

Thank you.

Respectfully,

HOYT S. HADDOCK,
Executive Secretary.

STATEMENT OF THE AFL–CIO MARITIME COMMITTEE ON OCEAN TRANSPORTATION RATES

(Submitted by Hoyt S. Haddock, Executive Secretary, April 29, 1965)

We thank you for the opportunity to submit the following remarks for inclusion in the record of the Joint Economic Committee hearings.

We do not know whether or not the American-flag steamship companies are conspiring to restrict American commerce. We do, however, strongly doubt that this is the case. We believe that the disparity in rates exists because of the fact that the American-flag merchant marine is almost nonexistent rather than anything to do with its existence. A brief review of our nonexistent merchant marine will demonstrate this point.

DECLINING U.S.-FLAG MERCHANT MARINE

The real beginning of the decline of the American-flag merchant marine is difficult to pinpoint. In a real sense, we have never had, at least in modern times, a peacetime merchant marine. Because of this the country has gone through several severe setbacks that almost any other nation on its own could not have survived. For example, at the beginning of World War I our merchant marine was carrying only 9 percent of our foreign commerce. Our foreign commerce then, as now, moved at the convenience of foreign-flag shipping. With the outbreak of war, these foreign-flag ships deserted our trades to serve the inflated munitions trades of their's or other countries. Freight -rates soared. Ships to carry our cargo were not available in spite of the fact that freight rates increased approximately 1,500 percent between 1914 and 1918. During this period, perishable farm products spoiled on our docks by the thousands of tons. In spite of this experience, our overdependence on foreign ships continued through the 1920's. The 1926 general strike in Great Britain again shut off from America many foreign-flag ships upon which our commerce had come to depend.

In 1936 the Congress developed a new national policy for our merchant marine. Because of this, when World War II started this country had the beginning of a modern merchant marine which was adequate to carry about 30 percent of our foreign commerce. Nevertheless, a shortage again developed but rate increases were kept normal in terms of other price increases. This was due in major part to the availability of new ships under the 1936 Merchant Marine Act and about 800 coastwise ships. The Nation had begun to face up to the desperate need for a merchant marine. This time the war lasted longer and our rapidly expending shipping needs were met with a costly $12.5 billion shipbuilding program. This program provided approximately 5,000 ships for us and our allies, making it possible to win the war. However, an adequate merchant marine policy over the years would have produced more ships in readiness. This would have avoided much of the costly expenditure in time, money, and lives needed to win World War II.

Again during the Korean hostilities in 1950–53, the demand for shipping rose sharply. Our commerce moved and freight rates remained reasonable only because we still had a fairly large private fleet in operation and an adequate number of vessels available in the reserve fleet. After each one of these world events there was a rush to prevent us from ever being caught short of ships again. After World War I an effort in this direction was made through the Merchant Marine Act of 1920 which declared:

"That it is necessary for the national defense and for the proper growth of its foreign and domestic commerce that the United States shall have a merchant marine of the best equipped and most suitable types of vessels suffi-

cient to carry the greater portion of its commerce and serve as a naval or military auxiliary in time of war or national emergency, ultimately to be owned and operated privately by citizens of the United States; and it is hereby declared to be the policy of the United States to do whatever may be necessary to develop and encourage the maintenance of such a merchant marine, and, insofar as may not be inconsistent with the express provisions of this Act, the United States Shipping Board shall, in the disposition of vessels and shipping property as hereinafter provided, in the making of rules and regulations, and in the administration of the shipping laws keep always in view this purpose and object as the primary end to be obtained."

Today we are back to where we have been many times in the past. However, our merchant marine is in worse condition in terms of number of ships and amount of cargo carried than ever before.

PRIMARY PROBLEM—LACK OF CARGO

The contrast between citizens of our country and other maritime countries is striking in that the British, Japanese, Norwegians, and French, for example, route their cargo on their own flagships, while our cargo is routed on practically every other country's ships except our own. It is particularly significant that employees of the U.S. Government operate in complete disregard of our maritime policy except where they are forced to do so by specific law. This is a problem of cargo for our ships. This is the most basic problem which confronts the American merchant marine.

In 1963 there were ships flying 52 flags participating in the carriage of our commerce. The percent of their participation ranged from 0.001 to 26.5 percent. The following shows the flag and the percent of our commerce carried for the six top carriers of U.S. oceanborne foreign commerce (commercial and aid cargoes) for the years 1960, 1961, 1962, and 1963:

[In percent]

Flag	1960	1961	1962	1963
Liberia	29.3	27.8	28.4	26.5
Norway	15.0	16.1	16.0	17.3
United States	10.5	8.8	8.9	8.5
Panama	9.1	8.2	6.3	5.9
United Kingdom	6.2	6.5	7.3	7.1
Greece	4.9	6.3	6.8	6.7

A further breakdown for 1963 showing the percentages of carryings by flag for both imports and exports is as follows:

[In percent]

Flag	Imports	Exports	Total imports and exports
Liberia	35.9	11.9	26.5
Norway	17.7	16.7	17.3
United States	5.0	14.0	8.5
Panama	8.5	1.9	5.9
United Kingdom	7.9	6.0	7.1
Greece	4.7	9.8	6.7

It would not appear logical to say that the 14-percent participation in exports and the 5-percent participation in imports for a total of 8.5 percent by U.S.-flag ships is sufficient to sustain a charge that they are conspiring to hold up export rates to the detriment of our foreign commerce. Sixty-four percent of U.S.-flag carryings are exports. This would seem to further discredit the charge that U.S.-flag carriers are discriminating against exports.

Other countries' national fleets carry a much greater share of their total ocean-borne foreign commerce than the United States does. These percentages, as shown by the following, are sufficient to clearly indicate a control over the rates:

Country	Percent participation	Year	Country	Percent participation	Year
Denmark	23.0	1963	Norway	42.7	1962
Finland	54.2	1962	Poland	24.5	1959
France	58.7	1963	Portugal	44.5	1957
Germany (West)	31.9	1963	Spain	38.0	1959
Greece	46.6	1963	Sweden	33.4	1963
Israel	39.0	1961	United Kingdom	[1] 52.0	1962
Italy	32.6	1962	U.S.S.R.	[2] 60.0	1962
Japan	46.2	1962	Yugoslavia	55.0	1963
Netherlands	16.0	1963			

[1] Tonnage of ships entering and clearing with cargo.
[2] Approximate.

There were various ways or helps outlined in the 1920 act to back up the declared shipping policy. There were provisions in the act to aid ship construction and a provision for payment for carrying mail later expanded in the Merchant Marine Act of 1928. It is interesting to note that at this time U.S.-flag ships were carrying very close to 50 percent, actually 48.7 percent, of our imports and exports. The percent carried began to decline gradually until it reached 31.7 percent in 1926. In 1927 the percent went back up to 37.8 percent and reached a peak of 38.3 percent in 1929. From the year 1929 the gradual decline in percent and cargo carried continued downward to 29.7 percent in 1936, and 22.3 percent in 1939. During World War II the percent increased to a peak of 68.4 percent in 1945 and has continually declined since then to where we are now carrying less than 9 percent.

The problems of our merchant marine are many, but no matter how often or how critically the problems are analyzed, there is one underlying cause—the lack of cargo.

Total waterborne cargo to and from the United States continues to increase. When we compare the total amount of cargo in 1963 with 1925 we see a 287.9 increase. The problem then is not a shortage of available waterborne cargo but instead a shortage of available cargo for U.S.-flag ships.

The following shows the rise in our total waterborne foreign commerce to and from the United States and the percentage decline of cargo carried in U.S.-flag ships since 1925:

[In thousands of long tons]

Year	Total cargo	Cargo carried in U.S.-flag ships	Percent of total cargo carried in U.S.-flag ships	Percent increase (+) or decrease (−) of cargo carried in U.S.-flag ships since 1925	Percent increase (+) or decrease (−) in total cargo since 1925
1925	80,610	29,477	36.6		
1936	64,864	19,283	29.7	−34.6	−19.5
1941	82,980	(1)	(1)	(1)	+2.9
1946	102,868	67,167	65.3	+127.9	+27.6
1951	166,233	71,281	42.9	+141.8	+106.2
1956	251,736	51,551	20.5	+74.9	+212.3
1957	281,526	50,247	17.8	+70.5	+249.2
1958	249,993	29,148	11.7	−1.1	+210.1
1959	263,001	25,631	9.7	−13.1	+226.3
1960	272,601	28,612	10.5	−2.9	+238.2
1961	268,601	23,629	8.8	−19.8	+233.2
1962	291,736	26,046	8.9	−11.6	+261.9
1963	312,732	26,625	8.5	−9.7	+287.9

[1] Not available.

In 1928 the policy and the primary purpose, quoted above, of the 1920 Merchant Marine Act was reconfirmed in the Merchant Marine Act of 1928. There were also provisions to aid steamship companies in ship construction. The mail contract provision of the 1920 act was expanded to provide for an operating subsidy.

THE 1936 MERCHANT MARINE ACT

The U.S.-flag merchant marine, however, continued to decline. The statement has been made that the merchant marine's decline is attributed to the failure of the 1936 Merchant Marine Act. It is also said by those attempting to discredit the 1936 act that, "there was an assumption, underlying the act, that tramp shipping throughout the world was disappearing." This is the advanced reasoning as to why the 1936 act did not provide an operating subsidy to tramp shipping.

The 1936 Merchant Marine Act has not been a failure. The administration of the act, however, has been a failure. There was more than one reason on the part of the administration and Congress in creating the 1936 act. First of all, our merchant marine had declined to where it was not adequate "to carry the greater portion of its [our] commerce and serve as a naval or military auxiliary in time of war or national emergency * * *", as specified in the 1928 act. The indirect subsidies provided in the 1928 act had not done the job intended and their administration was associated with many abuses and malpractices.

The need for the 1936 Merchant Marine Act was outlined by President Roosevelt as follows:

"I present to the Congress the question of whether or not the United States should have an adequate merchant marine.

"To me there are three reasons for answering this question in the affirmative. The first is that in time of peace, subsidies granted by other nations, shipping combines, and other restrictive or rebating methods may well be used to the detriment of American shippers. The maintenance of fair competition alone calls for American-flag ships of sufficient tonnage to carry a reasonable portion of our foreign commerce.

"Second, in the event of a major war in which the United States is not involved, our commerce, in the absence of an adequate American merchant marine, might find itself seriously crippled because of its inability to secure bottoms for neutral peaceful foreign trade.

"Third, in the event of war in which the United States itself might be engaged, American-flag ships are obviously needed not only for naval auxiliaries but also for the maintenance of reasonable and necessary commercial intercourse with other nations. We should remember lessons learned in the last war."

This then is the reason for the 1936 Merchant Marine Act.

As specifically relating to tramp shipping, the Maritime Commission was directed to make studies of and then report to Congress as soon as practicable on "* * * tramp shipping services and the advisability of citizens of the United States participating in such service wth vessels under U.S. regstry * * *."

Much has been said about what percent of our foreign commerce falls within the "liner" category. To demonstrate how much the "liner" cargoes have declined, various percentages have been quoted such as "they constituted 80 percent of our trade in 1936 and now they only account for 15 percent."

In 1936, cargo listed as moving in the liner category made up approximately 67 percent of the total dry cargo moving in and out of the United States. In 1963, the percentage was approximately 25.

The value of the subsidy provided for in the 1936 act is amply demonstrated by the fact that in the trade in which they participate, the liner trade U.S.-flag ships carried 22.2 percent of the total commercial waterborne foreign trade in 1963. This is contrasted with the 2.1 percent carried on U.S.-flag ships in the dry cargo trade other than liner, and the 2.3 percent for U.S.-flag tankers. This certainly highlights the fact that the primary problem for U.S.-flag ships is cargo. Our goal must be to increase the amount of cargo carried on all U.S.-flag ships. The percent carried by the subsidized fleet must be matched by tramps, dry bulk and tankers, and then all of them increased to a substantial portion of our commerce.

The real value that the critics place on their criticism of the 1936 act is vividly demonstrated when they blame the subsidies of the act as being responsible for the downfall of the merchant marine, and at the same time ask that these same subsidies be extended to the nonsubsidized segment of the merchant marine.

48-063 O—65—pt. 1——13

It does not make sense to blame the positive contribution of subsidies for the decline in our merchant marine. It can be amply demonstrated that without these subsidies our merchant marine would be in an even worse condition. This is not to say, however, that the subsidies, as now administered, could or should not be extended to benefit more U.S.-flag ships. This does not mean to say that we should continue to maladminister the 1936 act. This does not mean that we can forget that cargo is the No. 1 problem.

In recommending this we would not advocate weakening or removing the requirements of competency before a steamship company can qualify for subsidy. This, like many of the other obligating requirements of the 1936 act, were brought about by the lessons learned during the mail contract days of the 1928 act. There are some companies that should never qualify to receive Government assistance because of foreign affiliations. Too, steamship companies should not be permitted to syphon subsidies from shipping to other endeavors. The Maritime Administration should have learned from past experiences that no steamship company should be permitted to operate any other company unless the steamship company is the parent company of such operation receiving all its earnings.

Basically, what we are saying is that there are ways of benefiting the so-called nonsubsidized operators without taking away the subsidy to the currently subsidized operators. To advocate otherwise is to ignore the experiences of our merchant marine and its primary need—cargo. The merchant marine, and in patricular its value and potential contribution to the United States, is much greater than the selfish interest of any particular group. It must be remembered that, without the operating and construction subsidies and the other aids extended to our merchant marine, we would not even have the present small fleet.

The real fight to establish a U.S.-flag merchant marine is not in pitting one U.S.-flag company or category against another U.S.-flag company but, instead, all U.S.-flag companies versus foreign. By simply being aware of facts it is glaringly apparent that this is where the cargo is. U.S.-flag ships carry less than 10 percent of our cargo (5 percent of commercial cargo) while foreign-flag ships carry over 90 percent. If all of the less than 10 percent carried on U.S.-flag ships were shifted to other U.S.-flag companies, the overall situation would still be deplorable. On the other hand, if the U.S.-flag fleet could change places with the foreign-flag companies so that we would carry over 90 percent of our cargo, and they less than 10 percent, the situation would be very close to ideal.

The real problem is lack of cargo for U.S.-flag ships. Correct this and all of our problems disappear.

The problems will not be corrected by making the subsidies a grab bag. What is necessary is that the U.S. Government, through its agencies and officials, give the American merchant marine the same degree of support and protections that every other maritime nation gives its fleet.

CARGO PREFERENCE

Apart from the operating and construction-differential subsidy programs established under the Merchant Marine Act of 1936, as amended, 46 U.S.C. 501 et seq., the various cargo-preference statutes constitute the most important ligesliation designed to protect and foster American-flag vessels operating in the foreign commerce of the United States. These Cargo Preference Acts have been made necessary by the maladministration of our maritime policy, plus its complete disregard by Government officials not specifically charged with its administration.

These statutes are premised on the fact that officials of the U.S. Government refuse to carry out the Nation's maritime policy; therefore, it is impossible for American-flag vessels to compete with such low-cost foreign-flag vessels without the specific force of law to require U.S. Government officials to carry out the Nation's maritime laws.

The maladministration of the cargo preference laws is a most serious and vital matter. These statutes are of tremendous importance to the entire merchant marine and they are the lifeblood of the unsubsidized segment of the American merchant marine. This is highlighted in the Maritime Administration report entitled "Contributions of Federal Aid Programs to the Oceanborne Foreign Trade of the United States: 1959–62."

The Government agencies, other than the Maritime Administration, have not followed the intended purposes of these acts. It has, therefore, been necessary to amend the laws from time to time. In spite of these congressional acts, the Federal agencies have not fulfilled their intended purposes as is evidenced by the results.

The record clearly indicated that, at best, Government agencies have come to regard 50 percent of cargoes as just about a maximum goal for U.S. ships rather than, as the law intended, a minimum. Further, it is clear that many Government officials resent being required by specific force of law to promote the Nation's maritime policy as required by law.

The purpose of the cargo preference legislation is to assure a proper participation by American-flag vessels in the carriage of Government controlled-and-sponsored cargoes. It is the intent of this legislation that such cargo shall be carried "at fair and reasonable rates for United States-flag vessels," which rates will allow for a fair and reasonable return to the operator.

This is not to say, however, that the steamship company can charge the Government more for moving the same cargo under the same conditions than it does a private shipper. Obviously, if American-flag vessels were only accorded the privilege of carrying their portion of these cargoes at losing rates, the cargo preference laws would be of no real benefit to American-flag vessels and these laws might as well be repealed. Nor would it serve the Nation if we endeavored to protect the merchant marine at the expense of American seamen, shipyard workers, and longshoremen by demanding that they compete with European, Asian, and other foreign workers.

SUGGESTED STUDIES TO DETERMINE DISCRIMINATIONS

We share your committee's concern over the apparent discriminations against our foreign commerce. Before it can be fully determined as to what is or is not detrimental to our foreign commerce, we recommend that your committee undertake the following:

A. Develop on an industry-by-industry basis the following:
1. Comparison of exports with imports for the past 10 years;
2. Flow of capital for production outside the States;
3. The effect U.S.-owned foreign production has on—
   (*a*) Exports;
   (*b*) Domestic production;
   (*c*) Size of work force;
   (*d*) Living standards of foreign workers; and,
4. The effect of U.S.-owned foreign production on our balance of payments.

B. A study on freight forwarders that would show the quantity of goods shipped and also the—
1. Shipping company;
2. Destination;
3. Flag of ship transporting the goods;
4. Reasons for assigning to particular ship; and,
5. Fees and other remunerations given freight forwarders.

C. A survey of the major importers and exporters that would show—
1. Description of goods imported and exported;
2. Method of booking transportation;
3. Amounts shipped by flag of ship; and,
4. Reason for using ship used.

D. We know that the merchant ships of several nations are used as tools for producing trade. A study of the movement of shipping rates (inbound and outbound) in relation to changes in tariffs and prices should be made. (It is suspected that the import freight rate to the United States has a direct relationship to the tariff; that is, the freight rate is manipulated in such a manner, up or down, depending upon the tariff or the cost of the commodity so as to make the commodity competitive, pricewise on the U.S. market.)

If we had under the American flag a merchant marine adequate to carry a substantial—at least 50 percent—portion of our foreign commerce, discrimination on the high seas against our commerce could be prevented. We say "could be" because the U.S. Government would have to use the merchant marine as an instrument for promoting our commerce and give adequate attention to the overall possibility of discriminations against our commerce. We have in the past emphasized the importance of continuing surveillance in this field. Hoping is not enough.

PROPOSALS TO INCREASE CARGO FOR U.S.-FLAG MERCHANT MARINE

The basic purpose of a merchant marine is its use in promoting our foreign commerce. It also provides jobs for American citizens, contributes to our national defense posture and to our balance of payments. Without an adequate merchant marine our commerce is at the mercy of foreign-flag shipping which will give preference to their country's commerce to the detriment of our commerce.

We are convinced that you and your committee are interested in an American-flag merchant marine. We are, therefore, setting forth below a number of proposals for increasing the volume of cargo carried by American-flag ships:

1. A vigorous program by the Government with industry (labor-management) cooperation in obtaining preference for U.S.-flag ships in carrying U.S. commercial cargoes.

(*a*) Substantial portion of the petroleum, ore, and sugar imports into the United States on U.S.-flag ships.

(*b*) Administrative action to encourage importers and exporters to use U.S.-flag ships.

At present time, U.S.-flag vessels carry only 2.3 percent of our oil imports. Similarly, an extremely small percentage of all our strategic ores and our sugar imports are carried on U.S.-flag ships. As a result the bulk carrier segment of our merchant marine has continued to decline without any signs of improvement. The Director of the Office of Emergency Planning, under the statutory authority vested in him by the Trade Expansion Act of 1962 (19 U.S.C.A. 1862 (b), 1963 Supplement) could direct that cargo preference requirements be instituted with respect to the importation of oils, ores, and sugar. In addition, section 212 of the 1936 Merchant Marine Act requires the Secretary of Commerce to cooperate with U.S. shipowners in securing cargo for U.S.-flag vessels. Since the Secretary of Commerce has the responsibility for promoting the American merchant marine he could take a more active part in the implementation of the above-mentioned provision. Such action on the part of the Administrator would demonstrate an interest in our merchant marine. The use of the Government's vast economic power is the simplest method of putting more cargo on U.S.-flag vessels. This will require that the Congress or the President take appropriate action to force U.S. Government officials to actively promote U.S. policy.

2. Simplify regulations requiring freight forwarders to report to the Federal Maritime Commission anything of value received from any shipper, exporting, importing, insurance company, steamship company, or their agents.

Freight forwarders exert great influence in selecting the method of transport for U.S. export and import cargoes and in determining the flag vessel to be utilized in such shipments. Legislation should be enacted which would require freight forwarders or brokers to report any under-the-table payments received from vessel operators or their agents. In the past such activity has been rampant, thus causing U.S. operators, who are prohibited from engaging in such activity, to suffer loss of cargo.

3. Simplify and stabilize ocean freight rates and assure that inbound rates carry their fair share of the load and are remunerative.

The Joint Economic Committee has recently found that the ocean freight rate structure is weighted against U.S. exports. Our exports bear most of the cost of vessel operation, even in trades where imports approximate exports in value and quantity. By having lower import rates, foreign-flag vessels have been able, to a degree, to prevent fair and equitable U.S.-flag competition on import cargoes, since rates are noncompensatory to U.S.-flag vessels having higher operating costs. Our proposal seeks to remedy this condition.

4. Strict enforcement requiring through export and import preferential rates to be allowed only when cargo transported on U.S.-flag vessels.

It is a practice to charge less freight on the inland transportation of cargo that is going into or has been in foreign commerce than is charged for the same haul in srtictly a domestic movement. This differential runs lower by a range of 10 to 50 percent. Section 28 of the Merchant Marine Act of 1920, goes into great detail to restrict the application of this lower import or export rate to traffic that has moved or is to move on an American-flag vessel.

Section 28 further provides that when the Maritime Administration is of the opinion that adequate American-flag vessels are not available to or from any U.S. port and a foreign country, they shall certify this to the Interstate Commerce Commission which may suspend this provision to the port in question.

Instead of being used to help build an American-flag merchant marine as it was intended, this section has been suspended since 1920. The very agency that has the responsibility to build the U.S. merchant marine (currently the Secretary of Commerce) is the agency which has consistently waived this provision. Such action is an admission by the Secretary that he has no intention of attempting to carry out a basic responsibility of law he has sworn to uphold.

5. Discard all programs designed to encourage the placing of U.S.-owned ships engaged in U.S. commerce under foreign flag, including the so-called effective control concept.

In 1963 Panlibhon vessels carried 33 percent of our waterborne foreign commerce, or approximately four times more than U.S.-flag vessels. These vessels are registered under the laws of Panama, Liberia, and Honduras for the purpose of escaping from U.S. taxation and decent working conditions for seamen on board these vessels. These companies should be encouraged to voluntarily use U.S.-flag ships. If they should not respond to such encouragement, appropriate administrative and legislative steps should be taken to see that U.S.-flag ships are used.

6. Stop all transfers of U.S.-flag ships to foreign flags unless there are basic and positive findings that such transfers would—

(*a*) Not harm our national security;

(*b*) Promote the U.S. foreign commerce;

(*c*) Promote the U.S.-flag merchant marine;

(*d*) Improve the U.S. foreign policy and the cause of peace in the world;

(*e*) Be essential to the economy of the nation to which transfer is to be made; and,

(*f*) Not result in the use of such ships in competition with U.S.-flag ships.

The easy method of ship transfer now prevailing has resulted in hundreds of ships being transferred to foreign flag only to compete with U.S. shipping. Perhaps one of the most striking examples of this is the recent transfer of the SS *America* to Greek registry. Apart from the loss of jobs involved for U.S. seamen, the transfer of the SS *America* will mean a loss of approximately $7 million in our international balance of payments each year.

It is astounding that in addition to allowing the SS *America* to be transferred to Greek flag, the Maritime Administration has given permission to that vessel to compete with U.S.-flag passenger vessels for the business of U.S. citizens.

This action clearly indicates an attempt to scuttle our passenger ship operations by those responsible for providing efficient and safe sea transportation for our citizens.

7. Strict enforcement of all cargo preference laws: Some of the most important pieces of legislation designed to protect and foster the U.S.-flag merchant marine are the various cargo preference laws. Among these are Public Law 664, the 1904 act, and Public Resolution 17. The 1904 act states that all military cargoes shall be carried exclusively on U.S.-flag ships. Public Resolution 17 states that any loans made by the Government to foster export of agricultural or other products shall be carried exclusively on U.S.-flag vessels. (Under certain circumstances this 100-percent requirement may be waived up to 50 percent by the Maritime Administration. Public Law 664 states that at least 50 percent of all Government-sponsored cargoes shall be transported on U.S.-flag ships.

There is a provision in these laws that can be waived if rates are excessive or unreasonable and in Public Resolution 17 and Public Law 664 there is a further provision that can be waived if sufficient ships are not available.

The agencies charged with administering the movement of cargoes under these laws have been reluctant to follow the intent of the law primarily because of their own budgetary considerations. The maladministration of these statutes is a most serious and vital matter. The repeated efforts of these agencies to interpret the at least 50-percent requirement of Public Law 664 as a maximum requirement should be remedied immediately by instructing all agencies that such requirement is a minimum requirement and by directing them to strictly enforce all the provisions of the cargo preference laws.

The original 50 percent law was proposed by U.S. maritime labor and management to provide U.S. allies with much-needed cargo to assist them in building their merchant marines and economies. Without our having taken this position, 100 percent would have had to go U.S. flag at a time when almost all the U.S. export-import commerce was Government generated. This, at a time when we were carrying well over the 50 percent of our cargo.

Maladministration of these provisions in recent years has caused maritime labor and management and the Congress to fight for a better usage of these provisions—to make cargo available to U.S. ships. This, at a time when the foreign-flag countries we went out of our way to help now want to take away the less than 10 percent of our commerce we now carry.

8. Administrative mandate to the Interstate Commerce Commission to administer national transportation policy as written.

(*a*) Prevent a carrier from charging a higher per ton mile rate on a like commodity between different destinations; and

(*b*) Require joint water-rail through rates.

The national transportation policy of Congress calls for fair and impartial regulation of all modes of transportation administered so as to promote safe, adequate, economical, and efficient service and foster sound economic conditions in transportation and among the several carriers and to encourage the establishment and maintenance of reasonable charges for transportation services, without unjust discrimination, undue preferences or advantages, or unfair or destructive competitive practices. Unfortunately, the ICC has failed to curb the selective ratecutting practices of railroads and has failed to carry out the congressional requirement that joint or proportional rates for through movement of traffic by rail and water be adopted. The failure of the ICC to curb these discriminatory practices has resulted in irreparable damage being done to the domestic fleet. Our proposal would seek to remedy this injustice to transportation. These simple remedies could increase the ships in this service manifold.

9. Strengthen and expand the trade route concept to declare all routes in which U.S. commerce moves as essential trade routes.

In addition to the provision in the 1936 Merchant Marine Act to benefit the merchant marine, there are provisions to aid our commerce. One such provision is the adoption of the essential trade route concept.

Basically, what this does is make shipping services available at all U.S. shipping ports to other parts of the world on a regular basis. Without this provision, the shipping lines would concentrate their services in the most lucrative ports such as New York and London, and abandon, except for the high paying cargoes, lesser ports here and abroad.

The overwhelming majority of our essential raw materials come into the States over trade routes that are not recognized by the Maritime Administration as essential. This proposal would remedy this situation and at the same time strengthen the presently declared trade route.

10. Administer our laws to provide adequate construction subsidy for the building of new American-flag bulk carriers in American shipyards.

The lack of bulk carrier construction in the United States has forced this country to rely upon the import of strategic ores by foreign-flag vessels. Approximately 86 percent of our bauxite from which aluminum is made is imported into the United States, 75 percent of our cobalt, 89 percent of our maganese, 100 percent of our rubber, 100 percent of our tin, and 68 percent of our tungsten are imported into this country by ship. In addition, about 12 percent of our oil is imported. Yet, the United States has not recognized the importance of having bulk ships capable of hauling these products. Over 97 percent of all these products are now carried on foreign-flag ships.

The proposal contained in this section would require the executive branch to administer the construction subsidy provisions of the 1936 Merchant Marine Act in such a manner as to assure construction of bulk carriers. Present statutory provisions are adequate to enable such construction, but maladministration of the act to date has prevented this.

11. Centralize the administration of our entire cargo preference program in the Maritime Administration.

In 1955 the House Merchant Marine and Fisheries Committee, in reviewing the administration of the Cargo Preference Act, noted that a lack of coordination and a great deal of confusion existed in the administration of the act. The committee recommended that the Maritime Administration should exercise general surveillance over the administration and operation of the Cargo Preference Act. Nothing has ever been done to implement this recommendation.

Our proposal would centralize the administration of our entire cargo preference program and would prevent discriminatory administration of the statutes by the various Government agencies as well as by the foreign missions.

12. Amend the existing law to require that only U.S.-flagships can carry cruise passengers originating at U.S. ports and returning to U.S. ports. (This is entirely the commerce of the United States and not that of any other country.)

The cruise business phase of passenger travel has increased substantially in recent years. For that reason many foreign-flag operators have focused on this trade. Many have been fly-by-night operators who were financially irresponsible, thus providing insecurity to hundreds of cruise passengers aboard unsafe ships.

Cruise passengers from the United States are not in reality making trips to any foreign port. These cruise passengers sign on for round-trip cruises which merely visit foreign ports usually for a maximum of 1 day. Therefore, the business is essentially the domestic commerce of the United States and should be limited entirely to U.S.-flag vessels.

It is proposed that our laws be amended to prohibit foreign vessels from carrying passengers from a U.S. port to the same port. Had this proposed amendment been in effect in 1963, it would have meant a saving of $155 million in our balance-of-payments account.

13. Prohibit any company that operates foreign-flag ships from receiving any form of Government assistance.

This proposal is self-explanatory. Obviously, companies who choose to conduct foreign-flag operations should not be permitted to reap the benefits of Government assistance. The withholding of such assistance can serve as a useful tool in forcing certain operators to return their vessels to U.S. registry.

14. Amend the law to provide uniform rate regulations for all forms of domestic transportation.

A lack of uniform rate regulations in our domestic transportation industries has long been a source of harassment for domestic water carriers. Uniform rate regulations would provide stability and correct the injustice now perpetrated against certain shippers and water carriers. Railroads have sought repeal of minimum rate regulations on certain agricultural and bulk commodities claiming they were seeking equality of regulations but, when the late President Kennedy proposed that ratemaking should again be brought back under antitrust laws, the railroads were vehement in their opposition. The fact is that railroads, instead of being overregulated generally as they claim, have won more exemptions from Federal laws designed to protect the public interest than any other industry. By having the ICC "jump to their whistle," the railroads have made a predatory weapon of the transportation laws.

DEPARTMENT OF TRANSPORTATION

We believe that the implementation of the proposals we have made above could be facilitated by the creation of a Cabinet-level Department of Transportation which would embrace the functions of the various agencies presently concerned with shipping—Maritime Administration, Federal Maritime Commission, Interstate Commerce Commission, and others.

The Seafarers International Union of North America, AFL–CIO,
Brooklyn, N.Y., April 19, 1965.

Hon. Paul H. Douglas,
Chairman, Subcommittee on Federal Procurement and Regulation,
Joint Economic Committee,
Senate Office Building, Washington, D.C.

Dear Senator Douglas: Pursuant to our letter to you of March 31, we are enclosing a statement by the Seafarers International Union of North America relative to ocean freight rates on Government-generated cargoes.

We trust that this statement will be incorporated into the record of the hearings which the subcommittee has been conducting on this matter.

We are also enclosing, for your consideration, a copy of our submission of February 8 to the President's Maritime Advisory Committee, to which we referred in our statement to the subcommittee. We would call your particular attention to pages 5–11 of this submission.

Sincerely,

Paul Hall, *President.*

Statement of Seafarers International Union of North America, AFL–CIO

It is our understanding that the Subcommittee on Federal Procurement and Regulation is concerned primarily, in the present hearings, with the rates charged for Government-generated cargoes.

Among other things, the subcommittee is concerned that the Government may be paying excessively high freight rates on Government-generated cargoes, and that these rates may have an inflationary effect upon commercial freight rates.

We believe that consideration of the rates paid by the Government for Government-generated cargoes cannot be separated from consideration of the many other factors which relate not only to cargo preference but to all aspects of the operation of the American-flag merchant marine and its relationship to the Government which contributes substantially to its maintenance.

We believe that any attempt to consider the rates paid for Government-generated cargoes without reference to the many other factors relevant to the operation of the American-flag merchant fleet poses the danger that the conclusions drawn may be inadequate to a full determination of the issues with which we are here concerned.

Certainly, in attempting to determine whether or not the rates paid by the Government for Government-generated cargoes are too high, we cannot use as a yardstick only the amount of dollars expended. We must also measure these expenditures against the benefits received. The real question, in our view, is not how much we are spending, but what we are getting in return for every dollar spent.

The statistics on the actual costs of shipping Government-generated cargoes on American vessels are sometimes conflicting and invariably confusing. The Department of Agriculture, which is responsible for the shipment of over 70 percent of all cargoes moving under the Cargo Preference Act, for instance recently reported that in 1963, the last year for which complete figures are available, the Commodity Credit Corporation spent a total of $147 million to finance the ocean transportation of agricultural commodities shipped under title I of the Public Law 480 program. The dollar recovery of these 1963 expenditures, Agriculture reported, amounted to $14.8 million, leaving a net cost to the CCC of $132.1 million for this year.

These figures would appear to indicate that it cost the Government—i.e., the American taxpayer—$132 million to ship title I cargoes under Public Law 480 during 1963. Yet figures reported by the Department of Agriculture during the hearings by a House subcommittee on the Department's appropriations for 1965 indicate that the U.S. Government has recaptured the equivalent of better than 50 percent of the moneys expended for title I shipments since Public Law 480

was enacted in 1954. Translating this into terms of the 1963 shipments under Public Law 480, it would appear that the cost to the Government of shipping title I cargoes was closer to $70 million, although the cost to Agriculture may have been $132 million.

We cite these figures not to take issue, at this point, with the cost statistics reported by any Government agency, but rather to indicate the deceptive nature of such figures, to point up the danger of reliance on cost figures alone as an index of a program's inherent worth, and to reemphasize our original contention that the amount of dollars expended is, in itself, no true criterion, but must be weighed against benefits derived.

In the cost of Public Law 480, for instance, money recaptured in the shipment of title I cargoes is in foreign currency which is not readily translatable back into dollars and which further complicates the true cost picture. Nevertheless, the American people, to this point at least, have determined that the benefits derivable from the Public Law 480 program justify the expenditures involved. And this is the test that must also be applied in any consideration of the ocean shipping costs of Government cargoes.

The basic question, as we have pointed out, is not how much we are paying, but how much we are getting for our money, and this is why we cannot separate rate questions from other considerations.

We cannot agree, to begin with, that the rates for American-flag vessels are too high, particularly with respect to the tramp segment of the fleet which the Congress, in enacting cargo preference, intended to be the principal beneficiary of this program.

If it were true that rates are too high, we would expect our tramp fleet to be prospering. On the contrary, as we know, our tramp fleet of dry cargo vessels and independent tankers is floundering in seas of bankruptcy, as well as obsolescence.

Such is the situation with respect to bankruptcy, in fact, that the Department of Agriculture has, since 1960, been refusing to pay the freight charges of such vessels until their cargo is delivered, although it is normal commercial practice for a shipowner to receive all or a substantial portion of his money as soon as his vessel completes loading in the States.

What are the reasons for this situation? We may cite three:

(1) Although cargo preference was intended to benefit primarily the tramp segment of the fleet, the Federal agencies charged with the responsibility for implementing the law have administered it in such a manner as to largely negate the benefits to the tramp fleet which might have accrued from the law. Every Federal agency which has testified before this subcommittee, in fact, has, in one way or another, engaged in such maladministration. To cite a few random examples:

> The Department of Agriculture has consistently been depriving American-flag tramps of their proper share of Public Law 480 cargoes. The last reported figures, for instance, show that American-flag dry cargo tramps have been carrying less than 40 percent of all Public Law 480 exports shipped on tramp vessels, although the Cargo Preference Act specifically states that the "at least 50 percent" requirement shall be "computed separately for dry bulk carriers, dry cargo liners, and tankers."
>
> The Maritime Administration has been pursuing a free-and-easy policy of approving so-called general waivers which permit the vessels of recipient nations to carry up to 50 percent of cargoes financed by Export-Import Bank loans, although the law involved—Public Resolution 17—specifically states that American-flag vessels shall carry 100 percent of these cargoes unless they are not available under clearly defined circumstances. So entrenched has this practice become, in fact, that it is now virtually standard operating procedure for the recipient of an Export-Import Bank loan to ask for waiver of the Public Resolution 17 requirement, and for the Maritime Administration to approve the request.
>
> The Agency for International Development has pursued a policy of excluding from its 50–50 computations cargoes which move in the cross trades, from one foreign port to another, although under the prodding of maritime unions, AID now is apparently attempting to rectify this situation.
>
> The Military Sea Transportation Service has been arbitrarily differentiating between the Cargo Preference Act, which calls only for the movement of 50 percent of Government cargoes on American vessels, and the act of

1904, which provides that military cargoes shall move entirely in U.S.-flag vessels.

(2) Various foreign trade missions and their shipbrokers, in an attempt to force American-flag vessels completely out of this field, have carried on a concerted campaign to drive the rates for Government-generated cargoes down to below even the "fair and reasonable" levels established by the Maritime Administration in 1957, and to make it virtually impossible for American shipowners to carry these cargoes profitably. Moreover, these practices have been condoned by the Department of Agriculture, which has long opposed the requirement that American-flag vessels carry a portion of our agricultural surpluses. It follows that if American vessels were driven out of the field, to the extent that they were no longer available, Agriculture would be free to ship all of its cargoes in foreign flags.

(3) While the above practices have been carried on, our Government has steadfastly refused to provide—other than through cargo preference—any meaningful assistance to the tramp fleet. Our subsidized fleet of passenger and general cargo liners has not only participated in the cargo preference program, but has received construction and operating differential subsidies and has been permitted—in fact, required—to deposit moneys in tax-free reserve funds for purposes of replacement. Thus this segment of the fleet—representing only one-third of our present oceangoing merchant marine—has, in effect, been receiving a triple subsidy. Our tramps, on the other hand—aside from the benefits of cargo preference which have been largely annulled by maladministration of the law—have received nothing.

What has been the result of the above-cited Federal policies? The result has been that our tramp fleet, as we have already noted, has been pushed to the verge of extinction. Many vessels have already gone bankrupt. Others face bankruptcy while the remainder, already obsolete, and with no prospect of replacement in sight, can look forward to nothing except the scrap heap within the next few years.

Our present tramp fleet, it must be remembered, is composed almost entirely of warbuilt Liberty and Victory ships. These vessels, compared with the modern-day bulk carriers which our foreign rivals are building, are small, slow, and unable to compete effectively. Moreover, they are extremely costly to repair and maintain. And these costs, if the vessel is to remain operative, must be compensated for in the rates. Thus, while the rates are not high, they are higher than they would be if the conditions we have just described were not a reality.

The tragic aspect of this situation is that our Government, which through its maritime policies has brought about the near demise of our tramp fleet, has now become the principal victim of its own actions. For not only is our Government now paying rates which are higher than they have to be, but it is paying these rates to perpetuate an antiquated and outmoded structure whose ability to serve the commercial and security needs of the Nation has been seriously curtailed, and which still cannot operate profitably, even at the present rates.

We believe, as we stated originally, that the question of rates cannot be considered apart from other questions relating to the functioning of our merchant fleet. And we also believe, therefore, that no satisfactory resolution of the rate problem can be obtained unless we attack the problem at its roots and deal with the nature of the fleet itself.

The Seafarers International Union of North America has, for many years, maintained that there is a vital need, in this country, for a new fleet of swift, modern, and efficient bulk carriers which would not only be able to carry Government cargoes more reasonably, but would also be able to compete more effectively for the commercial cargoes which are now virtually the exclusive province of the foreign flags. Moreover, we believe such a fleet could be built and maintained at a nominal cost to the American taxpayer.

We should like to call to the attention of the subcommittee that our views in this respect were presented in greater detail in a statement which we submitted to the President's Maritime Advisory Committee on February 8, 1965.

Among other things, we noted at this time that plans for the construction of at least 10 new bulk carriers have been submitted by American tramp ship operators to the Maritime Administration, and that these plans have indicated, with appropriate data relevant to operational costs, the manner in which these vessels could not only compete effectively for commercial cargoes, but carry Government cargoes at substantially reduced rates.

The operators who have submitted these plans maintain, in fact, that the savings accruing to the Government from reduced cargo preference costs would enable the Government to amortize the construction costs of the vessels in as little as 3 years, and that thereafter the Government could continue to enjoy the benefits of reduced rates without further costs, since these vessels could obtain enough commercial cargoes to remain profitable, even without heavy expenditures for operating subsidies.

We believe that a vigorous and affirmative policy by the Government to facilitate the construction of a new bulk carrier fleet would not only pay dividends to the Government in the form of lower cargo preference costs, but would restore our tramp fleet to a position in which, even while carrying cargo at lower rates, it could operate profitably.

Moreover, such a fleet could contribute substantially to a reduction of our balance-of-payments deficit. The American-flag merchant fleet, even though it now carries less than 10 percent of our Nation's foreign commerce, already helps to reduce our balance-of-payment deficit by $1 billion annually. Certainly, the greater use of American-flag shipping would help to reduce this deficit even further, as Secretary of Commerce Connor recently noted in announcing formation of his Balance of Payments Advisory Committee.

We respectfully urge the members of the subcommittee, as well as all other representatives of the Government, to support the program we have set forth above.

TELEGRAM FROM ATLANTIC & GULF AMERICAN-FLAG BERTH OPERATORS, APRIL 13, 1965, TO ADM. JOHN HARLLEE, CHAIRMAN, FEDERAL MARITIME COMMISSION, WASHINGTON, D.C.

Members of Atlantic & Gulf American-Flag Berth Operators ask that Commission institute investigation into rates filed by the Sapphire Steamship Lines, Inc., for carriage of household goods and personal effects of military personnel and carriage of military cargo because rates are so unreasonably low as to be detrimental to commerce of United States in violation of section 18(b) (5). Also seek investigation of unfiled section 15 agreements between Sapphire Steamship Lines, Inc., Liberty-Pac International Corp., Pioneer Overseas Service Corp., or others in violation of section 15. In addition AGAFBO seeks investigation of completely unfounded charges made by Mr. Marshall Safir before the Douglas committee against AGAFBO lines. AGAFBO lines believe they are entitled to hearing of alleged violations of the Shipping Act before Commission where falsity of such charges can be established. Mr. Lyle Bull, witness appearing before the Douglas committee on behalf of AGAFBO, advised committee that AGAFBO would demand an investigation of these charges by the Commission. As Commission is aware AGAFBO previously filed petition for investigation of Sapphire Steamship Lines' rate quoted for the movement of household goods and personal effects of military personnel which petition served and filed with Commission on about February 23, 1965.

R. L. HANSEN,
Secretary, AGAFBO.

[Served, Apr. 14, 1965]

FEDERAL MARITIME COMMISSION

Docket No. 1105 (Sub. 1)

AGREEMENT NO. 8900. RATE AGREEMENT—UNITED STATES-PERSIAN GULF TRADE

Agreement No. 8900 approved pursuant to section 15 of the Shipping Act, 1916, subject to compliance with General Order No. 7.

Agreement No. 8900 found not to be unjustly discriminatory or unfair as between carriers, shippers, exporters, importers, or ports, or between exporters from the United States and their foreign competitors, or to operate to the detriment of the commerce of the United States, or to be contrary to the public interest, or to be in violation of the Shipping Act when there is no substantial competition between two groups making or conferring on rates in regard to ports served, shippers served, cargoes carried, or service offered.

MARVIN J. COLES, STANLEY O. SHER, ARMIN U. KUDER, for respondents Hellenic Lines, Ltd., Hansa Line, N. V. Nedlloyd Lijnen, and Constellation Line.

THOMAS K. ROCHE and SANFORD C. MILLER, for respondent Concordia Line.

ELMER C. MADDY, PAUL F. MCGUIRE, and BALDVIN EINARSON, for intervener Persian Gulf Outward Freight Conference.

FRANK GORMLEY, J. SCOT PROVAN, and HOWARD LEVY, hearing counsel.

E. ROBERT SEAVER, hearing examiner.

REPORT

BY THE COMMISSION (James V. Day, Vice Chairman; John S. Patterson, Commissioner):

On November 9, 1962, Concordia Line, Deutsche Dampschiffahrts-Gesellschaft "Hansa," Hellenic Lines, Ltd., Nedlloyd Line (now N. V. Nedlloyd Lijnen), Kulukundis Lines, Ltd., and Kulukundis Maritime Industry, Inc., filed with the Federal Maritime Commission (Commission) and applied for approval under section 15 of the Shipping Act, 1916 (act) of a proposed agreement for consultation on freight rates for service between U.S. Atlantic and gulf ports and ports in the Persian Gulf and adjacent waters in the range west of Karachi and northeast of Aden, assigned agreement No. 8900. Since the proceeding was instituted, both Kulukundis applicants ceased to participate in the proceeding, and Crescent Line, Ltd., was accepted as a party to agreement No. 8900 and added as an applicant. Since the close of the record, the name of Crescent Line, Ltd., has been changed to Constellation Line. The applicant lines are now operating independently of the conference and are referred to herein as either "applicants" or "independents." All signers of the agreement are common carriers by water in foreign commerce as defined in the first section of the act.

The Persian Gulf Outward Freight Conference (conference or protestant) protested approval of agreement No. 8900, and we instituted this proceeding by our notice of June 4, 1963, naming applicant carriers as respondents. The conference at the time of the institution of the proceeding consisted of Central Gulf Steamship Corp. and Isthmian Lines, Inc. Later, Stevenson Lines joined the conference (exhibit 2).

An examiner has decided, after hearings, that the proposed agreement No. 8900 should be disapproved, and exceptions to his initial decision have been filed. We held oral argument.

The applicants, respondent Concordia Line, and hearing counsel submitted exceptions, summarized as follows:

1. The record does not support any of the statements, findings, or conclusions made by the examiner in regard to competition between the applicant and protestant carrier groups as to ports served, cargoes carried, rates charged, or services to shippers.

2. The record does not support, and it was error in the interpretation of the law to conclude that anything "that encourages ship lines to stay out of approved conferences is inimical to the public interest"; and that approval of agreement No. 8900 will militate against the reformation of a single conference.

3. The record does not support the findings that approval of agreement No. 8900 and the creation of a second rate-regulating group would lead to increased strife and rate instability.

Exceptions was also taken to several statements as being contrary to the facts, such as that the applicants prevented their rejoining the conference by refusing to negotiate a pooling agreement, that competition by the independents was "directed at the conference lines," and to the discussion of the *Oranje Line* case (infra) as being contrary to law, which do not control our decision and are disregarded as irrelevant.

For the reasons herein stated, the exceptions are sustained and the examiner's initial decision is reversed. Based on the findings and reasoning herein, we conclude that agreement No. 8900, regulating transportation rates and regulating competition, a true copy of which has been filed with the Commission, should be approved and the protest rejected.

I. FACTS

The following facts have been shown:

1. The five applicants are common carriers by water, engaged in transporting property between U.S. ports along the Atlantic and Gulf of Mexico coasts and ports in the Persian Gulf area. The ports called at in this area during the period between September 1, 1962, through August 31, 1963 (the period selected by the parties as providing a typical presentation of operation) by the five applicant carriers and the approximate number of calls were as follows:

Port	Calls
Abadan, Iran	23
Abu Dhabi, Saudi Arabia	6
Ad Dammam, Saudi Arabia	66
Al Bahrayn, Bahrein Islands	49
Al Basrah, Iraq	81
Al Kuwayt, Kuwait	88
Bandar-e Shapur, Iran	6
Busheir, Iran	9
Das Island (not located by country)	2
Dubayy, Trucial Coast (coastal sovereignty undefined)	9
Jabal Dana (not located by country)	4
Khor El Muffata, nuetral zone	19
Khor al Ami (not located by country)	1
Khorramshahr, Iran	87
Mina al Ahmadi, Kuwait	18
Muscat, Saudi Arabia	3
Ras Al Khafgi (neutral zone)	4
Shatt El Arab (not located by country)	1
Um Said, Qatar	12

NOTE.—Figures compiled from exhibits 3, 6, 8, 16, 38.

2. The protestants are likewise common carriers by water engaged in transporting property between the same areas. The ports called at in this area in same period by the two carriers and the approximate number of calls were as follows:

Carrier / Port	Calls
Central Gulf Steamship Corp.:	
Ad Dammam, Saudi Arabia	1
Bandar-e Shahpur, Iran	21

NOTE.—Figures compiled from exhibit 19, schedule 2.

Carrier / Port	Calls
Isthmian:	
Ad Dammam, Saudi Arabia	14
Al Basrah, Iraq	1
Al Kuwayt, Kuwait	2
Bandar Abbas, Iran	2
Bandar-e Shahpur, Iran	17
Bushehr, Iran	2
Khorramshahr, Iran	14
Ra's at Tannurah, Saudi Arabia	9

NOTE.—Figures compiled from exhibit 22.

(Ships calling twice at one port on a single voyage—unloading outbound and loading inbound—counted as one call.)

There are no facts in the record regarding calls by Stevenson Lines.

Of the foregoing ports, Ad Dammam is primarily a tanker port that is used by Isthmian ships working for Arabian American Oil Co. Ra's at Tannurah is called at when Ad Dammam is crowded. Bandar-e Shahpur is primarily a port for Iranian Army equipment cargo and is not a regular port of call for commercial cargo, except when Iranian authorities direct cargo there because of port congestion at Khorramshahr.

3. The ports called at in this area during the same period by both applicants and protestants herein were shown to be as follows:

Ports	Conference	Independents
Al Basrah	1	81
Ad Dammam	15	66
Al Kuwayt	2	88
Bandar-e Shahpur	38	6
Busheir	2	9
Khorramshahr	14	87

There were no overlapping calls at any of the other ports.

4. Central Gulf and Isthmian cargoes to the Persian Gulf and to non-Persian Gulf ports were as follows:

Cargo carryings, Sept. 1, 1962, to Aug. 31, 1963, in payable tons

Lines	To Persian Gulf	Other than to Persian Gulf	Percentage carried other than to Persian Gulf
Central Gulf	79,667	222,141	73.60
Isthmian	87,456	140,694	61.67

Source: Exhibits 19, 23.

5. The applicants' cargoes to the Persian Gulf were approximately 603,481 payable tons out of a total 803,794 payable tons (exhibits 4, 6, 10, 14, 18, 45, 47, and 48, transcript, 183). The balance of 200,313 payable tons went to non-Persian Gulf ports. Of applicants' total payable tons carried, 40 to 50 percent was estimated to be from automobiles and trucks.

Cargo carryings, Sept. 1, 1962, to Aug. 31, 1963, in payable tons

Lines	To Persian Gulf	Other than to Persian Gulf	Percentage carried other than to Persian Gulf
Concordia	150,352	37,631	20.01
Hansa	148,905	35,852	19.40
Nedlloyd [1]	79,412	41,335	34.23
Hellenic	153,064	57,452	27.29
Crescent [2]	71,748	28,043	28.10

[1] See transcript 317.

[2] Includes Kulukundis Lines, Ltd.

6. The protestants' cargoes to the Persian Gulf were estimated to be between 60 and 70 percent government-financed. Government-financed cargo is that portion of cargo reserved by law to U.S.-flag carriers under section 901(b) of the Merchant Marine Act of 1936,[1] Public Resolution No. 17 (48 Stat. 500),[2] and cargo of the Department of Defense (MSTS cargo), all of which must be carried under 10 U.S.C. 2631[3] on American-flag ships. The conference carriers cannot accurately determine the percentage of Government-sponsored cargo they carry as their records do not distinguish between cargo sponsored by the Agency for International Development (AID), other cargo, and commercial cargo. The applicants carry about 86.9 to 90.2 percent of the commercial cargo in this trade (exhibits 4, 6, 10, 14, 18, 19, and 23). The estimated 30 to 40 percent of the 167,000 payable tons of commercial cargo carried by the two conference lines is 50,100 to 66,800 payable tons.

If MSTS or AID cargo to the Persian Gulf were discontinued, it would be extremely difficult for the protestants to continue in the trade. Central Gulf, moreover, has not been offered any commercial shippers' cargo.

7. The applicants' and protestants' rates on most commodities in tariff schedules show differentials from 15 to 25 percent. The rates of protestants on the commodities most frequently carried are from 25 to 100 percent higher than those of applicants. These rates are as follows:

Rates quoted by foreign-flag lines on Persian Gulf commodities

Exhibit No.	46	42	43	44	55
Lines	Crescent	Hansa	Hellenic	Nedlloyd	Concordia
PRINCIPAL COMMODITIES					
Autos and trucks:					
Boxed	$26	$26.00	$26.00	$26.00	$26.00
Unboxed	30	30.00	30.00	30.00	30.00
Lubricating oil or petroleum products, packed	28	28.00	28.00	28.00	28.00
Bagged flour	22	22.00	24.00	24.00	22.00
Bagged rice	22	22.00	24.00	22.00	----------
Air conditioners	35	35.00	35.00	----------	35.00
Refrigerators	31	31.00	31.00	31.00	31.00
Oil production equipment	34	34.00	----------	----------	34.00
Machinery, industrial, roadbuilding, agricultural	38	39.15	38.00	39.15	39.15
Canned, bottled goods or foodstuffs	----------	40.50	----------	40.50	----------
Iron and steel pipe	----------	29.25	----------	29.25	----------
Tallow in drums	25	----------	22.50	----------	----------
Vegetable oil	----------	----------	22.00	----------	----------
Tires	----------	----------	100.00	100.00	----------
Auto parts	----------	----------	----------	----------	26.00
Tinplate	----------	----------	----------	----------	22.00
Steel sheets	----------	----------	----------	----------	20.00

[1] "(b) Whenever the United States shall procure, contract for, or otherwise obtain for its own account, or shall furnish to or for the account of any foreign nation without provision for reimbursement, any equipment, materials, or commodities, within or without the United States, or shall advance funds or credits or guarantee the convertibility of foreign currencies in connection with the furnishing of such equipment, materials, or commodities, the appropriate agency or agencies shall take such steps as may be necessary and practicable to assure that at least 50 per centum of the gross tonnage of such equipment, materials or commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers), which may be transported on ocean vessels shall be transported on privately owned United States-flag commercial vessels, to the extent such vessels are available at fair and reasonable rates for United States-flag commercial vessels, in such manner as will insure a fair and reasonable participation of United States-flag commercial vessels in such cargoes by geographic areas: * * *."

[2] Public Resolution No. 17 (48 Stat. 500, ch. 90): "*Resolved* * * * That it is the sense of Congress that in any loans made by * * * any * * * instrumentality of the Government to foster the exporting of * * * products, provision shall be made that such products shall be carried exclusively in vessels of the United States * * *" unless the Maritime Administration certifies there are not enough vessels, or in sufficient capacity or "at reasonable rates".

[3] 10 U.S.C. 2631: "Only vessels of the United States or belonging to the United States may be used in the transportation by sea of supplies bought for the Army, Navy, Air Force, or Marine Corps * * * Charges made for the transportation of those supplies by those vessels may not be higher than the charges for transporting like goods for private persons."

A comparison between the rates quoted by the applicants and the protestants on certain commodities shows the following:

Rates quoted by independents and conference carriers on Persian Gulf commodities

Principal commodities	Applicants	Protestants	Percent conference higher
Autos and trucks:			
Boxed	$26.00	$33.00	27
Unboxed	30.00	44.00	47
Lubricating oil or petroleum products, packed	28.00	36.25	29
Bagged flour [1]	22.00	43.50	98
Bagged rice [1]	22.00	43.50	98
Air conditioners	35.00	46.75	34
Refrigerators	31.00	38.00	23
Oil production equipment	34.00	41.75	23
Machinery, industrial: [1]			
Roadbuilding	38.00	46.25	22
Agricultural	38.00	50.00	32
Canned, bottled goods foodstuffs	40.50	49.50	22
Iron and steel pipe	29.25	35.75	22
Tallow in drums [1]	25.00	35.75	43
Vegetable oil	22.00	44.00	100
Tires	100.00	133.00	33
Auto parts	26.00	33.00	27
Tinplate	22.00	30.25	37
Steel sheets	20.00	36.75	84

[1] Differences exist among the applicants on these commodities.

8. Four of the applicants resigned from the conference in 1960 and became independent carriers for the purpose of protecting their steady shippers by meeting the rates of occasional competitors which enter the trade. The conference had refused to reduce its high rates which had attracted such competition. Nedlloyd resigned in late 1959, and shortly afterward Concordia, Hellenic, and Hansa resigned. Thereafter, wide rate fluctuations occurred as the result of competition between the resigned and now independent carriers.

Central Gulf and Isthmian remained in the conference.

When Stevenson associated itself with the conference, it considered only the conference rates and gave no thought to what the nonconference lines were charging. During the period of rate fluctuation, automobile rates went from $40 a ton to $19 a ton. A count of the applicants' rates shows that their rates vary between them on at least 360 tariff items (exhibit 12), although it was estimated in testimony that their rates are presently somewhat similar. When rate changes are made, their effective dates are different (transcript 340–341).

9. Most of the applicants' ships depart with free space (exhibit 14; computations from exhibits 6, 7, 10, 15, 18, 45, 47, 48). (Counsel's representations as to "free space," in the context of his arguments, and comparison with conference ships were taken to mean the ships were not fully loaded in terms of weight or space and could take on additional cargo if available.) The conference ships seldom depart from U.S. ports with any free space (exhibits 19, 23).

10. Shippers many times have to call four and five carriers to make sure that all lines are quoting the same rates. The proposed agreement provides that each party delivers to the others copies of its tariffs and changes therein (sec. 3).

11. The most frequently moving commodities, such as automobiles, bagged flour, lubricating oil, and others, are also imported into the Persian Gulf ports from foreign countries. Under the protestants' rate it costs $640 to ship an automobile (based on a standard-sized Chevrolet or Ford) and $450 under the applicants' rate. Hansa's witness stated his belief that if it were to adopt the conference rate of $43.50 on flour in bags, its main cargo buyers would find other import sources (referred to in testimony as $44).

Arabian-American Oil Co., a nongovernment commercial shipper, ships approximately 6,000 payable tons each year on Isthmian for other reasons than the rates, and indicated the possibility of diverting purchases to foreign countries from the United States.

12. Meetings were held in the spring of 1963 to determine whether the applicants could be induced to join the conference. It was determined that they would not join because of the rate differential between the groups (exhibit 11).

48–063 O—65—pt. 1——14

The rate differential has increased since 1963. The applicants have remained out of the conference since 1960 and there is no indication in the record that the now independent applicants will join the conference in the future.

13. The proposed agreement No. 8900 contains seven sections providing for: Consultation on rates, agreement thereon based on majority "assent" (including the right to take independent action), separate maintenance of tariffs, addition of parties to the agreement, effectiveness after Commission approval, furnishing of minutes of meetings to the Commission, and termination.

II. FINDINGS

Based on these facts, and as developed in the following discussion, we find:

1. Agreement No. 8900 is an agreement regulating rates and competition between common carriers by water in the foreign commerce of the United States between ports on the Atlantic and gulf coasts and ports in the Persian Gulf and adjacent waters in the range west of Karachi (Pakistan) and northeast of Aden (Aden Protectorate), but excluding both Aden and Karachi.
2. The Persian Gulf Outward Freight Conference operates in the identical area under a Commission-approved agreement.
3. There is no substantial competition between applicants and the conference in regard to either ports served, cargoes carried, rates charged, or services to shippers.
4. There is no record proof that refusal of common carriers by water in foreign commerce to join the conference or that the existence of two rate-regulating agreements covering the same trade is contrary to public policy on the facts of this proceeding.
5. There is no record proof that approval of agreement No. 8900 and the creation of a second rate-regulating group would lead to increased strife and rate instability.

III. DISCUSSION

Underlying the examiner's disapproval of agreement No. 8900 is the conclusion that relations between the applicant carriers and the existing conference carriers in the event of approval will create destructive competition which will cause unfairness between carriers, exporters, and others, detriments to commerce, and injury to the public, and that applicants will be induced to rejoin or reform in the existing conference in the event of disapproval. It is argued that the law favors only one conference in a trade, not two. The conclusion rests on treating future events that may never happen as though they had happened. Such use of unproven suppositions is not reasonable. Conclusions should be based on a comparison of what the record shows exists or is reasonably foreseeable based on past and present events and of the express terms of the agreement with the conditions for disapproval stated in the second paragraph of section 15 of the act.

The facts show there is substantially no present or foreseeable competitive relation between the parties in regard to either ports served, cargoes carried, rates charged, or service to shippers. Lacking any conflicting competitive conditions, the basic premises of the initial decision vanish. The existence of two rate-making associations in a single trade, by itself, is not a valid test for disapproving agreements under section 15, and the suppositions as to reformation of the presently approved conference following disapproval, and of future strife and rate instability following approval, are not supported by fact or reason.

1. Competition between the parties

(*a*) *Ports served.*—The facts showed that the applicant and protesting carriers call at only 6 out of 21 ports served by all of the carriers herein and that at the 6 ports where there are overlapping calls there are substantial differences in the number of calls and service. Ad Dammam is called at over four times as often by applicants with commercial cargoes. Bandar-e Shahpur is called at over six times as often by the protestants with Army equipment cargo and is not a regular port for commercial cargo, and Khorramshahr is called at over six times as often by applicants. At the remaining 3 ports protestants' service seems insignificant, not exceeding 2 in the period covered in comparison with 81, 88, and 9 calls by the applicants (facts. Nos. 1–3). There is no basis for disapproval in regard to ports served.

(*b*) *Cargoes carried.*—The protestants' cargoes carried to ports covered by the proposed agreement are from 26.40 to 38.33 percent of their total cargoes, the balance going to ports in other areas, and of area-bound cargoes between 60 and

70 percent are not cargoes obtained in the open market, but are so-called government cargoes which are reserved to U.S. registered ships. Applicants carry from about 66 to 80 percent of their total cargoes to area ports, and obtain their cargoes from commercial shippers under competitive conditions. Protestants carry about 21 percent of the commercial cargo carried (facts, Nos. 4–6). These facts show there is no basis for disapproval in regard to cargoes carried.

(c) *Rates charged.*—The present conference is composed of only a minority of the carriers in the trade and has not been effective in serving or offering rates on commercial cargo which are attractive to shippers. Protestants' rates, varying from 22 to 100 percent higher than those of applicants, virtually preclude all competition for cargoes in the trade. Because of the presence of other carriers ready to transport at the same or lower rates, there is no practical basis for believing applicants will ever adopt present higher conference rates. Nor is there any evidence that the conference will lower its rates. The protestants have no competitive need to reduce their rates because they neither serve the same ports to any extent nor carry similar commodities as cargoes because government cargo is carried on their ships (facts, Nos. 7–9). In spite of lower rates, applicants' ships depart with free space, and in spite of higher rates, protestants depart with full ships, showing that rates are not a significant factor with respect to conference cargoes and that other nonmarket factors influence relations between the carriers. The largest shipper in the trade already makes substantial purchases abroad and indicated it might increase such procurement if the applicants increased their rates (tr. 291). As a result of the higher conference rates and the absence of any market compulsion for the two sides to have similar rates, there is no unjust discrimination or unfairness to shippers or exporters in the proposed agreement, nor is there any possibility of rate instability caused by competition between the two groups resulting in detriments to commerce.

(d) *Service to shippers.*—The applicants and protestants provide entirely different service to shippers, and to the extent applicants are allowed to agree, better service will be provided. It was shown some of their ships have greater lifting capacity. Protestants are engaged primarily in transporting government-controlled cargo not available to applicants. Applicants will tend to provide shippers with uniform rate service through assurance of identical quotations and effective dates of rates. Exporters of commodities competitive with similar commodities shipped from foreign countries will have some assurance of more competitive rates (facts, Nos. 8, 10, and 11). Because of the differences in the quantity and quality of service by applicants, there is no basis for disapproval as to carriers, shippers, or exporters under Agreement No. 8900.

2. *Reformation of present conference*

The possibility of the independents rejoining the conference is held to be enough to justify disapproval of Agreement No. 8900. Reformation of the single conference with the five applicants, on this record, assuming relevance to the possibility, is impossible at this time. We must approve or disapprove the agreement on the facts we have before us. If the facts change and create other conditions affecting approval or disapproval, their effect can be adjudicated at the time they are claimed to create a need for other conclusions. Our task is not to approve for all time, but only to pass on what we have before us.

Agreements must be approved "unless we find them contrary to the provisions of that section," *Alcoa Steamship Co.* v. *CAVN*, 7 FMC 345 (1962) aff'd 321 F. 2d 756 (D.C. Cir. 1963). Full conference participation may be more desirable, but such a value judgment is not a basis for disapproving an agreement. Agreement No. 8765, *Gulf Mediterranean Trade*, 7 FMC 495, 499 (1963).

This record does not support any predictable possibility that approval of the applicants' contract will be detrimental to commerce later on. Neither will disapproval encourage reformation of a single large conference, assuming further public interest in such an objective, in view of the proven market situation which has nothing to offer either group by way of incentives to agree in the absence of a common area of economic interest. Existing rate differentials shown by applicants' tariffs and the conference's tariffs are dictated by market forces and are not capable of being eliminated under the existing conference agreement. About 90 percent of commercial cargo tonnage controlled by shippers and carriers is not available in the market for commercial cargoes represented by conference carriers at their rates, nor does it go in any volume to the same ports. The government or noncommercial market as seen by the conference dictates a level of rates which the majority of shippers will not pay. The threat of competition

as well as the demands of shippers as seen by the applicants, on the other hand, dictates a lower level of rates which shippers will pay. Testimony in the record shows that disapproval of the proposed agreement will not induce membership, but will deter membership. A history of 4 years' operations outside the conference is more convincing than unsupported speculations that there is a possibility of rejoining the conference. Market influences reenforce the intention not to join to the point where the possibility of a single conference is not a real factor in this case.

We do not find that entrance of another conference in the trade will result in instability of rates with a consequent detriment to commerce or injury to the public interest. The proposed new conference members are concerned with commercial cargoes while the existing conference is dedicated almost exclusively to Government-sponsored cargoes.

We would not foreclose opportunities to independents to form what might well prove to be an effective conference and by such foreclosure prompt them (even if such prompting were possible) to join the present high-rate conference; thereby insuring its existence, thereby having only high rates available to commercial exporters from the United States, and thereby reducing the opportunities for U.S. exporters to participate in the trade in competition with foreign competing shippers who possibly might have lower rates available to them.

3. Increased strife and rate instability

Record support for a supposition of future "increased strife between the two competing camps and to increased instability" is entirely missing because all the evidence is to the effect that approval will decrease "strife" and instability. The only present competition is between applicants themselves, and the possibility of conflict is here, not with the protesting conference.

The record shows further that if rate wars and instability are a factor they will be diminished by approval because all the incentives to reduce rates opportunistically exist between the applicant carriers rather than between applicants and protestants. There is a potentially destructive competitive relationship among the independent applicant carriers which compete in regard to rates and serve many ports in common.

The competitive relationships among the five applicants is such as (*a*) to create unstable rate conditions, with no remedy, (*b*) to deprive shippers of a central source of rate information, and (*c*) to cause a possible loss of markets for American exporters if rates are induced to go to conference levels. Approval of agreement No. 8900 will remove these three detriments to our commerce.

The Commission has stated: "We and our predecessors consistently have based approval of agreements at least partly on the anticipated rate stability which would result therefrom." *Oranje Line et al* v. *Anchor Line, Limited, et al.* (5 FMB 714, 731 (1959)). Where rate stability exists, as at present in this trade, "the threat of rate disorganization cannot be overlooked." *Contract Rates—North Atlantic Con'l Frt. Conf.*, (4 FMB 353, 367 1953)). There have been fluctuations in rates in the past harmful to shippers, and rapid changes may occur again unless applicants confer on rates. Instability in rates is harmful to shippers because it injects a speculative risk in the closing of future sales contracts. This risk would be reduced. The Commission, by favoring "anticipated rate stability" where rate stability exists, accepts the theory that predictability of rates over a forward term is desirable, and by approving ratefixing agreements, on such ground, agrees that some limitations on market forces are essential for this purpose. The rate agreement is supposed to provide the latter. The facts here show that a market level of rates has been achieved after a period of intense competition and extreme changes in rates. Having achieved a relative stability dictated by economic realities, it seems sensible to take the next step which is to stabilize the present situation by approving the proposed agreement. This action would not be a detriment to commerce.

The Commission has held that the duties imposed on conferences by section 15 "are intended, in furtherance of the policies of the Shipping Act, * * * and * * * place upon conference members the duty to consider shippers' needs and problems, and to provide for the orderly receipt and careful consideration of shippers' requests with full opportunity for exchange of views." *Pacific Coast—European Rates and Practices* (2 U.S.M.C. 58, 61 (1939)). The inconvenience of checking five sources for prevailing freight rates may be eliminated, because each carrier will be able to provide the prevailing rate for all signatories. Disapproval of agreement No. 8900 would leave six entities (the five applicants and one conference) shippers have to deal with and approval would leave only two.

The legislative history of section 15 indicates that the approval of conference agreements thereunder would—

(1) Assure exporters fixed rates and regular sailing opportunities which place all merchants "on the same basis as regards their estimates on contracts," thus producing stability of rates over long periods of time and "much better results for the exporter."

(2) Permit shipowners who "depend for success upon the good will of shippers" to build up business by establishing rates "which will enable their American clients to compete successfully with foreign merchants engaged in the same trade."

Investigations of shipping conferences under House Resolution 587 (63d Cong., 2d sess., 1914—Report vol. 4, p. 298, and see pp. 295–303)

The findings herein show that agreement No. 8900 will assist in achieving the objective of enabling U.S. merchants to compete better in the Persian Gulf area, particularly in regard to automobiles and bagged flour. The testimony regarding Arabian American Oil Co. operations lends further support to the possibilities of diversion of trade. Such factors outweigh any conceivable detriments to our commerce as a ground for disapproval.

With regard to the *Oranje Line* case, the two groups had numerous rates which were the same (pp. 726–727), served the same ports (pp. 725–726) and were presently as well as in the immediate past in rate competition. One of the findings was that the parties "agree" that "rate wars" would result (p. 731). None of these findings can be made here. The case is not applicable.

The applicants' proposed agreement does not contain provisions covering policing of obligations under it, as required by the third paragraph of section 15 and General Order 7. If such provisions are provided, further consideration will be given to final approval.

IV. CONCLUSIONS

It is concluded—

1. The existence of another ratemaking group in the same trade on the facts of this proceeding will not destroy rate stability, nor subvert the existing conference.
2. Approval of agreement No. 8900 would not undermine the entire conference system.
3. Approval of agreement No. 8900 will not operate to the detriment of the commerce of the United States nor be contrary to the public interest.

The proceeding is dismissed.

HARLLEE, *Chairman*, concurring.

This proceeding comes before us upon the application of five presently independent lines for approval under section 15 of agreement No. 8900, "Rate Agreement—United States/Persian Gulf Trade." The proposed agreement provides for discussions of freight rates and other tariff matters and for the establishment of uniform rates by the members with a reservation of independent action by any member upon 48 hours notice to other members. Each member must file its tariff with the Commission and provide copies to other participating carriers.

In this proceeding we must decide whether the Commission should sanction two conferences, with general ratemaking authority, in the same trade. The question arises upon the protest of the Persian Gulf Outward Freight Conference, agreement No. 7700, a conference already established in this trade. Underlying this issue, however, is the ever present judgment: how shall we regulate this trade to insure the greatest benefit to the shipping public.

The filing of agreement No. 8900 is the culmination of a bitter rate war which commenced with the entry into the trade of a strong independent line, followed by the partial breakup of the conference because of the need of some conference members for greater flexibility in combating the independent competition, and ending in all-out fight between the independent lines for the available cargo, which was accompanied by a rapid deterioration of rates. At present, the trade languishes in a precarious stability. The conference remains, now made up of Isthmian Lines, Central Gulf Steamship Co., and Stevenson Lines, all U.S.-flag lines catering almost exclusively to Government-sponsored cargo. In addition, five independent lines, Nedlloyd Lines, Hellenic Lines, Hansa Lines, Concordia Lines, and Constellation Line—the parties to proposed agreement No. 8900, serve the trade.

There is no question that the Commission must take steps to provide the public with the service it requires in this trade and to protect the carriers serving the

trade from the threat of future rate wars. But what is the most practical way to stablize the trade?

On this record, there are two alternatives: (1) we can disapprove proposed agreement No. 8900, thereby strengthening the conference, with the expectation that the five independent lines would reenter the conference in order to end the destructive competition among themselves or (2) we can approve proposed agreement No. 8900 with the assurance of a cessation of rate-cutting among the independents but with the possibility of future rate competition between the conference group and the independent group.

In his initial decision, the examiner concluded that approval of agreement No. 8900 would result in a fundamentally unstable situation with two ratemaking groups in the same trade. He surmised that this inherent instability would probably deteriorate eventually into a serious rate war between the two groups. Thus, the presiding examiner chose to disapprove the agreement. In doing so he relied heavily on a policy favoring strong conferences—the traditional vehicle of dependable service at fair, stable rates. In addition, the presiding examiner sought to follow the rationale of *Oranje Line* v. *Anchor Line* (5 F.M.B. 714 (1959)) in which the Board concluded that approval of agreements setting up two competing rate-fixing groups in the same trade in all likelihood would engender rate instability and rate wars.

While the presiding examiner correctly delineated existing policy, I cannot agree that his is the best, immediate solution. In judging the alternatives presented to him, the presiding examiner concluded that the ideal solution—one strong conference made up of the important carriers in the trade—should be our goal. Thus, we found agreement No. 8900, which was incompatible with that goal, to be unapprovable as detrimental to our commerce and contrary to the public interest. But in my view, his ideal solution is precarious. The disapproval of the agreement might simply rekindle the previous hostility in the trade. However, if we approve agreement No. 8900, we will insure at the very least short-term stability. In light of the history of drastic, disruptive competition in this trade, this is a meritorious, even if temporary, objective. Since we have continuing responsibility to supervise competitive conditions in our foreign trades, we may accept a pragmatic, and somewhat less than ideal, solution in order to effect stability. The rate stabilizing influence of agreement No. 8900 is, therefore, in the public interest.

At present, the conference and the independents do not compete for the same cargoes. As noted, the conference, since they were priced out of the general cargo market by the rate war, are substantially limited to Government cargo; the independents carry commercial cargo. So long as the conference is unable or unwilling to meet the prevailing independent rates, no conflict will exit between the two groups. Thus, the *Oranje* decision is distinguished. At the same time, the competitive relationship between the independents, upon approval of this agreement, will be ameliorated. Currently, our approval of agreement No. 8900 will serve the immediate needs of the trade. Later on, if conditions warrant, we may reexamine the practical justification for continued approval of the agreement.

Commissioner Barrett dissents. Neither the record nor the majority report has convinced him that the initial decision served was not correct. He therefore concurs with the examiner and upholds his decision.

By the Commission.

[SEAL] THOMAS LISI, *Secretary.*

AMERICAN MARITIME ASSOCIATION.
New York, N.Y., April 23, 1965.

Hon. PAUL DOUGLAS,
Chairman, Subcommittee on Federal Procurement and Regulation, Joint Economic Committee, New Senate Office Building, Washington, D.C.

DEAR MR. CHAIRMAN: This association submits the following statement with respect to the statement made by Hon. Charles S. Murphy, Under Secretary of Agriculture, before your subcommittee, on April 7, 1965, and similar recent statements reportedly made by the Secretary of Agriculture. The burden of Mr. Murphy's statement was:

1. The requirement that 50 percent of grain exported to Soviet bloc countries be carried in U.S. ships had prevented much greater sales of American grain to those countries (transcript 18); and

2. That, generally, the Cargo Preference Act has prevented larger shipments of American commodities abroad (transcript 24).

In his statement, Mr. Murphy frequently alluded to evidence in support of his theses, but failed to adduce such evidence. We think both theses are unsound.

1. Shipments of grain to Soviet bloc countries

(*a*) To understand this matter it must be viewed in historical perspective. Prior to 1963, it had not been the policy of our Government to permit the export of grain to Soviet bloc countries. According to Hon. G. Griffith Jonhson, Assistant Secretary of State for Economic Affairs,[1] in 1961 the President had made a policy determination that subsidized commodities would not be made available to the bloc. In view of this policy, to permit the sale of subsidized commodities such as grain to the bloc required the establishment of a new policy (p. 122). It was the establishment of this new policy which President Kennedy announced in his news conference of October 9, 1963. Prior to that establishment of new policy, whether or not the bloc countries had desired to purchase grain in this country, they could not have done so. Obviously, the policy against the export of subsidized commodities to the bloc countries was a political policy, and had nothing whatever to do with the American merchant marine.

(*b*) We think it is also obvious that the new policy was political at least in its origin. It was preceded by global advertisement of a shortage of food in the bloc countries, and especially Russia. It was accompanied by protestations of our charitable inclination to aid starving people. We think it is true to say that the change in policy was represented as being for the benefit of hungry Russian people, not for the benefit of the American economy. Hitherto we had survived and prospered without selling grain to Russia. Presumably, we could have continued to flourish without selling grain to Russia. Have we reached a point where our prosperity depends upon dealing with Russia, or is the need for such deals indicative of a failure of our agricultural policy?

(*c*) It must be recognized that a large and vocal part of the American people had theretofore opposed the sale of American goods to Russia and her satellites, and still do. Certainly, a large segment of the American maritime industry had been opposed to dealing with the bloc countries. History records, in particular, that the American maritime unions opposed any dealing with Russia. This opposition, if it had not been overcome, would in all probability have prevented any sale of wheat to Russia on any terms.

(*d*) The opposition was overcome by propaganda to the effect that the wheat transaction was necessary to save starving people, that it would benefit the American economy, and in particular that it would benefit the American maritime industry. This latter benefit was emphasized by President Kennedy in his news conference when he stated that "the wheat we sell to the Soviet Union will be carried in available American ships, supplemented by ships of other countries as required * * *. The sale of 4 million metric tons of wheat, for example, for an estimated $250 million and additional sums from the use of American shipping, will benefit our balance-of-payments and gold reserves by that amount and substantially strengthen the economic outlook for those employed in producing, transporting, handling, and loading farm products * * *" (p. 82). The President, in the same news conference, also pointed out the intangible, noncommercial advantages which would accrue to the United States. He said, "This transaction advertises to the world as nothing else could the success of free American agriculture. It demonstrates our willingness to relieve food shortages, to reduce tensions, and to improve relations with all countries, and it shows that peaceful agreements with the United States, which serve the interests of both sides, are a far more worthwhile course than a course of isolation and hostility * * *" (p. 83). A comparison of these noble objectives with the statement of Mr. Murphy illustrates that, somewhere along the line, the Department of Agriculture, or the grain dealers, or both, substituted the desire for financial gain for the President's ideals (tronscript 18, et seq.). It is apparent from Mr. Murphy's statement that now it is not Russia who needs to buy grain from us, but we who desire to sell grain to Russia.

(*e*) The Russian wheat deal followed the debacle of maladministration which has characterized the enforcement of the Cargo Preference Act by the Department of Agriculture. Starting with President Kennedy's promising announce-

[1] "Ocean Transportation of Grain to Russia," hearings before the Subcommittee on Merchant Marine of the Committee on Merchant Marine and Fisheries, House of Representatives, 88th Cong., 2d sess., Jan. 28–30, 1964.

ments that the wheat would be carried on American ships and thus improve business and employment, the Commerce Department issued its Current Export Bulletin No. 881, on October 11, which provided that the same principle would be applied to wheat, wheat flour, barley, corn, grain sorghums, oats, rye, cotton, vegetable oils, tobacco, etc. However, it is apparent that immediately some vigorous pressure was exercised by someone, because on November 3, in its Current Export Bulletin No. 883, Commerce announced that American-flag ship participation would be limited to 50 percent. The details of what followed can be read in the hearings of the House Merchant Marine Committee on the Russian deal previously cited, in the transcripts of the Grievance Committee later established by direction of the President under the chairmanship of the Maritime administrator, and in the public press. Following is a brief summary. First, it was announced that only American ships within a certain limited tonnage range would be used. It is a common practice by shipping companies, shippers, and even maritime unions, to keep charts of the positions of ships. Thus, it was an easy matter for the grain exporters to select a port for loading and a date at which no American ship of the specified tonnage would be available. This device was used very effectively to deprive American ships of cargo and to substitute foreign vessels. As a result, only a small fraction of the first shipments were carried on American-flag ships. Then it was announced that practically all of the shipments were to be discharged at Odessa, or other Black Sea ports, and that the maximum draft there was 31 feet. This eliminated another segment of even the restricted class of American-flag ships approved for participation in the movement. It was explained to the industry that these restrictions were imposed by the Russians (who so recently had been starving). But it was obvious that these representations were false. The maritime industry knew something about the draft at Black Sea ports. (One American owner had been approached by the Russian purchasing organization and asked to make available a ship of 106,000 deadweight tons, with a minimum draft when fully loaded of 54 feet.) But now, caught in a bureaucratic mesh, the maritime industry was not dealing with the Russians, but with grain exporters aided by our Government. After many conferences, the industry succeeded in initiating a mission to Moscow. The mission discovered that the Russians were willing to accept wheat shipped on American ships, that the draft at Odessa was 33 feet or more, and that the Russians were familiar with the ancient arts of lighterage and lightening vessels, so that even their shallow ports were able to accommodate large vessels. In fact, cargo carried by American-flag ships made excellent sailing schedules and the Russian port facilities turned the ships around in record time. But in the meantime, the American maritime industry had been further unstabilized and its labor-management relations disturbed. Who benefited from the denial of cargo to American ships? Not the American farmer, because he received his subsidized price regardless of who carried his grain. Not, so far as we can see, the Government of the United States, which simply found itself embroiled in an ugly hassle. But the bloated American grain exporters who monopolize the export of subsidized grain benefited by increased profits at the expense of the American maritime industry.

(*f*) Mr. Murphy repeatedly stated that the 50–50 provision had prevented additional sales to Russia. All of the evidence available to us indicates that this position is untenable. For example:

(1) The International Wheat Council judged that the U.S.S.R. would not need to import wheat in 1964–65. In case that need should arise, however, the Soviets have bought 1.7 million tons so far this season. Most of this has been from Canada, Australia, and Argentina. Anglo-Soviet trade shows Soviet purchases from Britain at 35 million pounds sterling as against sales of 90 million pounds. This means that the Soviet Union enjoys a surplus of sterling currencies and would be more inclined to utilize such currency for the purchase of wheat rather than finance such purchases with gold or American currency. Hence, the Soviets are more favorably disposed to buying wheat from Commonwealth nations.[2]

(2) Prior to the purchase of wheat from the United States in 1963, the U.S.S.R. made up any grain shortage experienced by purchasing from Canada and Australia, not the United States.

[2] Journal of Commerce, Apr. 2, 1965.

(3) On many occasions the United States has failed to negotiate grain sales with countries when the question of cargo preference was not even a factor. The recent sale of wheat from Argentina to Brazil illustrates this point. The United States competed for this business but was not awarded the contract. Cargo preference would not have been applicable in this particular instance, yet the sale was not concluded.[3]

(4) Apart from economic considerations, the U.S.S.R. may be motivated in its choice of seller by political factors. It cannot be assumed that the Soviet Union would purchase grain from the United States merely because that grain is competitive on the world market, because of foreign-flag vessel utilization for delivery. Events in Vietnam, Berlin, and in other areas loom as important factors in making grain purchases. Only if the United States were the sole supplier of grain, and there were no substitutes, could the Secretary's assumption have any validity.

(5) The claim that the cargo preference requirement prevented further sales to the Soviet Union contradicts the original Russian attitude towara U.S. vessels, as set forth above.

2. Cargo preference acts

(*a*) It would seem unnecessary, at this late date, to argue the necessity of cargo preference laws. As you so ably pointed out in your opening statement, it was not the function of the hearing on April 7, 1965, "to question whether or not cargo generated by the U.S. Government should or should not be reserved for U.S.-flag ships." From the date of the first Tariff Act enacted by the U.S. Congress, cargo preference has been a principle of primary importance in the maritime policy of the United States. We think there has never been a time when the United States relinquished their right to reserve a certain portion of their waterborne commerce for their own merchant marine. It goes without saying that the infringement of this right constituted an important cause of the American Revolution and was the primary cause of the War of 1812. If we, as a nation, cannot insist upon our right to carry a substantial part of our foreign commerce, then we shall be defenseless in the presence of our enemy.

But the principle of cargo preference was not, of course, invented by the United States. It is inherent in the doctrine of national sovereignty. If our borders can be penetrated at will and without limit by the ships of other nations, then we can never know security. Regrettably, of all the great maritime nations of the free world, we have suffered to the largest extent from the invasion of our trade boundaries by foreign-flag ships. That is to say, we have allowed to a greater extent than other great maritime powers in the free world, the deterioration of our commercial defense. In 1963, U.S.-flag ships carried 8.5 percent of our foreign commerce. France carried 59 percent of her own foreign commerce; West Germany 37 percent; Greece 46.6 percent; Italy 32.6 percent; Japan 46.2 percent; the Netherlands 16 percent; Norway 42 percent; Sweden 33 percent; and the United Kingdom 52 percent.[4] We now carry less than 9 percent of our foreign commerce; about 3 percent of our import trade.[5] Alarmingly, these imports which we allow foreign ships to carry represent the sinews of war; oil, iron ore, bauxite (aluminum), chrome, magnesium, sugar, etc. Without these imports, we could not preserve our present economy or our ability to defend ourselves. The degree to which we participate in our export-import trade is now almost exclusively dependent upon the cargo preference laws. If these laws were repealed or nullified, our participation in these trades would shrink to nothing. What kind of policy is it, on the part of the Department of Agriculture, the Department of Commerce, the grain traders, the American owners of runaway flag ships, and others, which would run this risk by advocating the weakening, or the repeal, of our cargo preference laws? Mr. Murphy (tr. 20) stated he is confident "that we can find some better way of doing this than the present system of cargo preference." Various alternative methods of "doing this" have been suggested. For example, we could subsidize the construction of modern bulk carriers. Or we could provide an operating-differential subsidy for our bulk carriers. Or we could subsidize return carriage, etc. We

---

[3] Journal of Commerce, Mar. 17, 1965.

[4] "Changing Patterns in U.S. Trade and Shipping Capacity," U.S. Department of Commerce, Maritime Administration, December 1964 (p. 5).

[5] Contribution of Federal programs to U.S. foreign trade, 1963, showing participation by U.S. merchant ships in each category (thousands of tons of 2,240 pounds). U.S. Department of Commerce, Maritime Administration, Aug. 12, 1964.

could build "surface effect" vessels. We could automate our ships. We could do innumerable things. But all of these remedies overlook the basic economic fact that a merchant marine cannot successfully operate without cargo. If you gave the bulk-carrying segment of our fleet 100 percent construction subsidy, and 200 percent operating-differential subsidy, no ship would move unless it could obtain cargo.

One of the basic economic facts is that to obtain business you must offer a competitive price. Other basic economic facts are that American wages, costs of construction, costs of repairs, insurance, etc., are higher than foreign costs. Another inescapable economic fact is that however much we may be able to decrease our costs in these categories, foreign-managed economies with lower standards of living can undercut us. For example, the American seaman earns about five times what a Japanese seaman earns. And if you cut the earnings of American seamen by 50 percent, there is nothing to prevent the Japanese from making an equal cut in the earnings of their seamen. If the industrial success of the United States must be based upon a decreased standard of living of American workers, servicemen, businessmen, etc., then we are in a hopeless plight. The only way in which we can match the low costs of foreign production is by the reduction of the American standard of living. If this is the solution upon which we decide, then certainly we have entered the last sorrowful phase of our history.

But we think this is not the solution. America is still the greatest commercial nation in the world, exporting and importing more than any other country. Aside from the negligible proportion of our foreign commerce carried by railroads and pipelines, we are completely dependent upon oceanborne commerce for both exports and imports. We think it is improvident not to utilize this basic economic position to improve our position in foreign trade, to enlarge our influence in the world, and exploit our position as the greatest producer-consumer to promote the basic doctrines of democracy. Such a policy is impossible unless we maintain, preserve, extend, and enlarge the role of our merchant marine. Until the world of the future descends upon us like a missile from outer space, we must recognize the basic fact that world commerce is still primarily a matter of seaborne commerce. All of these facts, and many others beside, require the existence and strength of the American merchant marine.

It is a sad fact that, at the present time, our merchant marine, subsidized and unsubsidized, depends for its stability and profit on the Government-generated cargo we give away or sell at less than cost. We have only to repeal or weaken the cargo preference laws to obliterate the economic possibility of the continuance of our merchant marine. If we have reached that phase, if we are willing to face this fact, then we are ready to consider the destruction of our merchant marine, subsidized and unsubsidized, by the repeal, or subversion of the cargo preference acts.

Mr. Murphy's (transcript 20) confidence in better alternatives strikes us as strange, since, after several years in office, he has not proposed a better alternative. Even more surprising, perhaps, is the failure of the Secretary of Commerce and the Maritime Administrator, to propose a better solution. They have the legal authority to do so. If they have not done so, their failure can only be attributed to the impossibility of the assignment, or their own incompetence, or apathy.

Obviously, American-flag vessels cannot ordinarily compete on a rate basis with foreign-flag operators, without some form of direct or indirect subsidy. If the cost of transportation in American-flag vessels is preventing grain from being sold, there is an accepted procedure for the elimination of the obstacle which does not involve setting aside the requirement that the commodity involved be transported in American-flag vessels. In this respect, section 211(h) of the Merchant Marine Act of 1936, as amended, 46 U.S.C. 1121, provides that the Secretary of Commerce is authorized and directed "to investigate, determine, and keep current records of * * *

> "(h) The advisability of enactment of suitable legislation authorizing the Commission, in an economic or commercial emergency, to aid the farmers and cotton, coal, lumber, and cement producers in any section of the United States in the transportation and landing of their products in any foreign port, which products can be carried in dry-cargo vessels by reducing rates, by supplying additional tonnage to any American operator, or by operation of vessels directly by the Commission, until such time as the Commission shall deem such special rate reduction and operation unnecessary for the benefit of the American farmers and such producers; * * *."

Section 212 of the Merchant Marine Act, 46 U.S.C. 1122, directs the Secretary of Commerce:

"(b) To study, and to cooperate with vessel owners in devising means by which—

"(1) the importers and exporters of the United States can be induced to give preference to vessels under United States registry; and * * *"

"(d) To establish and maintain liaison with such other boards, commissions, independent establisments, and such representative trade organizations throughout the United States as may be concerned, directly or indirectly, with any movement of commodities in the waterborne export and import foreign commerce of the United States, for the purpose of securing preference to vessels of United States registry in the shipment of such commodities; * * *."

So far as we know, there has been little or faint effort to exercise these vast powers.

(*b*) The ability of Americans to compete in world trade, and even in our own domestic market, has never hitherto depended upon low wages, and a low standard of living. It has always depended upon efficiency. In place of the backward-looking suggestions of Mr. Murphy and the Secretary of Agriculture, we recommend the following program to improve the efficiency of the American merchant marine:

(1) Presentation of the cargo preference laws, and their extension to imports of strategic materials, such as oil, bauxite, iron, etc.

(2) A construction subsidy program for bulk carriers, which will be adequate to enable the American operators with citizen crews to capture a substantial portion of our vital bulk carriage trade.

(3) Strengthening of our interstate commerce laws to protect domestic water carriers against the rapacious selective rate cutting by the railroads.

(4) Review of existing operating-differential subsidy laws, and programs, with a view to achieving the objectives of the 1936 act.

(5) A more aggressive program to encourage American exporters and importers to employ the American-flag merchant marine.

(6) Abolition of the tax haven which now permits gigantic American corporations to operate ships in American commerce under foreign-flag ships, thereby escaping American tax and labor laws, safety provisions, etc.

I request that this statement be included in the record of your hearings. Personally, and in behalf of the association, I am most grateful for the opportunity to appear before your subcommittee and to submit this statement.

Respectfully,

RAY R. MURDOCK,
Legislative Director.

DEPARTMENT OF THE NAVY,
MILITARY SEA TRANSPORTATION SERVICE,
Washington, D.C., April 22, 1965.

Senator PAUL H. DOUGLAS,
Chairman, Subcommittee on Federal Procurement and Regulation, Joint Economic Committee, New Senate Office Building, Washington, D.C.

MY DEAR MR. CHAIRMAN: For your information, enclosed herewith is a list of the membership of the Atlantic & Gulf American-Flag Berth Operators and the West Coast American-Flag Berth Operators as of April 6, 1965.

Sincerely yours,

GLYNN R. DONAHO,
Vice Admiral, U.S. Navy,
Commander, Military Sea Transportation Service.

MEMBERSHIP OF ATLANTIC & GULF AMERICAN-FLAG BERTH OPERATORS AND WEST COAST AMERICAN-FLAG BERTH OPERATORS ON APRIL 6, 1965

ATLANTIC & GULF AMERICAN-FLAG BERTH OPERATORS MEMBERS

Alcoa Steamship Co., Inc.
American Export Isbrandtsen Lines, Inc.
American President Lines, Ltd.
American Union Transport, Inc.
Bloomfield Steamship Co.
Central Gulf Steamship Corp.
Farrell Lines, Inc.
Grace Line, Inc.
Isthmian Lines, Inc.
Lykes Bros. Steamship Co., Inc.
Moore-McCormack Lines, Inc.
Prudential Lines, Inc.
States Marine Lines, Inc., and Global Bulk Transport, Inc. (as one member)
Stevenson Lines and T. J. Stevenson & Co., Inc. (as one member).
United States Lines Co.
Waterman Steamship Corp.
Associate member:
Matson Navigation Co.

WEST COAST AMERICAN-FLAG BERTH OPERATORS MEMBERS

American Export Isbrandtsen Lines, Inc.
American Mail Line, Ltd.
American President Lines, Ltd.
Isthmian Lines, Inc.
Pacific Far East Line, Inc.
States Marine Lines, Inc.
States Steamship Co.
Waterman Steamship Corp.
Associate members:
Matson Navigation Co.
Puget Sound-Alaska Van Lines, Inc.

AMERICAN STEAMSHIP TRAFFIC EXECUTIVES COMMITTEE,
April 21, 1965.

Hon. PAUL C. DOUGLAS,
Chairman, Subcommittee on Federal Procurement and Regulation of the Joint Economic Committee, Congress of the United States, Washington, D.C.

DEAR SENATOR DOUGLAS: When we testified for the committee at its session held on April 8, 1965, we stated that, inasmuch as we had prepared our statement prior to hearing the testimony given at the hearings on April 7 and 8, we would like to have the opportunity to supplement our statements after having the opportunity to hear the testimony given and to read the transcript. We believe that our testimony was responsive to any issues raised and refutes where necessary contrary testimony before your committee. Particularly, I have reference to the testimony of Under Secretary of Agriculture Charles F. Murphy and his critical attitude toward the cargo preference laws. We believe our statement adequately explains the justification and need for such laws. We also take due note of your opening statement that the purpose of the hearings was not to change or to criticize cargo preference laws.

In addition we would like to say a few additional words with respect to the issue of so-called double subsidy. This issue we also believe was adequately covered in our statement. However, for the committee's information, we would like to call its attention to the two publications of the U.S. Department of Commerce, Maritime Administration, summarizing the principal subsidies and aids granted by foreign maritime countries to their shipping. These documents both have the title, "Subsidies—A Summary of the Principal Subsidies and Aids Granted by the Major Foreign Maritime Nations to their Shipping and Shipbuilding Industries." The first was prepared by the Maritime Administration Statistics and Special Studies Office and dated October 15, 1958, and the second was prepared by the Office of Statistics of the Maritime Administration and dated June 1962. We are enclosing copies of these documents with this letter.

In addition it should be pointed out that substantial amounts of cargo in the foreign trade of the United States are not available to U.S. vessels due to the effective operation of foreign laws, regulations, and trading practices. Normal commercial-flag preference is that which is achieved without mandatory force or effect of law or Government regulation. Normally, it results from the conventional functioning of the marketplace and the day-by-day cargo solicitation process. It is tempting to conclude that such cargo is competitively open and free to all who desire to transport it. This is notably fallacious in most maritime nations excepting principally the United States.

Nations with maritime-centered economies, including, but not limited to, insular powers such as Great Britain and Japan, must espouse the open sealane as a trading image before the world and restrain themselves from restrictive legislation. However, they possess an even more powerful weapon in the nationalistic influence which emanates from an economy directly wedded to world shipping. The strength of the Nation, the livelihood of the people, the health of their industrial enterprise, and even the preservation of their basic institutions is interwoven with the urgent need to support expansive maritime interests. An examination of the waterborne traffic of the major maritime nations reveals that the United Kingdom and France carry in excess of 50 percent of their own cargo in world trade, and Norway, Greece, and Japan carry approximately 50 percent of their trade. Nationalistic-flag shipping thus becomes more than a cargo-routing process. It has embedded itself deeply as an institution of national economic survival. Shipping services have become a commodity for export and the welfare of the people is decidedly interwoven with the success of the maritime enterprise. Such are the building blocks of normal commercial cargo preference which have constructed substantial, but effective protective walls around their trades. This serves with such force as a hidden instrument of the directing of the routing of cargo to national-flag shipping, as to be more effective than many mandatory provisions of law.

This has never been possible in America, chiefly because of the great diversification of our industrial complex, the division of national interest into so many divergent enterprises of magnitude, and the lack of equal affinity with the sea which characterizes so many insular and preponderantly maritime nations.

Mandatory cargo preference, on the other hand, is that which is required by law or Government regulation. Omitting military cargo where carriage on national ships is common to most nations for reasons of security, mandatory cargo preference is applied under two distinct concepts.

One practice applies the concept to cargo which is available for transportation solely because of Government programs to assist other countries. This is the position of the United States, a nation which has never applied mandatory cargo preference to commercial cargo. Since World War II, particularly, the United States has engaged in extensive programs of rehabilitation, economic and military assistance to needy nations through grants, loans, sales for local currency, etc. The U.S. cargo preference laws are applicable only to the transportation of the cargoes under these programs.

On the other hand, mandatory cargo preference has been applied by many nations for the purpose of reserving purely commercial cargoes for ships of their own national flags.

We understand that the Maritime Administration has information that approximately 40 countries practice some type of cargo preference.

We would appreciate your making my letter and the enclosures[1] part of the record.

Yours very truly,

JOHN C. GORMAN.

[1] Enclosures referred to are Maritime Administration documents available at Superintendent of Documents, U.S. Government Printing Office.

MAY 11, 1965.

Mr. W. J. DEWINTER,
President, Flour Millers' Export Association,
Minneapolis, Minn.

DEAR MR. DEWINTER: We appreciate your recent letter informing us of the position of your association concerning present regulations requiring the use of 50-percent U.S.-flag ships on sales to Red bloc countries.

This matter came up in connection with our recent hearings on ocean freight rates and we are putting your letter, along with statements of other interested parties, in the record of these hearings. We will send you a copy as soon as they are available.

Faithfully yours,

PAUL H. DOUGLAS,
Subcommittee on Federal Procurement and Regulation.

FLOUR MILLERS' EXPORT ASSOCIATION,
Minneapolis, Minn., April 23, 1965.

Mr. PAUL H. DOUGLAS,
U.S. Senator,
Senate Office Building,
Washington, D.C.

DEAR SENATOR DOUGLAS: As you are chairman of the Federal Procurement and Regulation Subcommittee of the Joint Economic Committee, concerned with hearings on the Cargo Preference Act, we would like to acquaint you with the consensus of the members of the Flour Millers' Export Association. The members of this association constitute the great majority of U.S. flour millers who participate in commercial dollar wheat flour export business.

We are opposed to present regulations, which require the use of 50-percent U.S.-flag ships on sales to Red bloc countries.

In October and November of 1963 the Flour Millers' Export Association spent a great deal of time in active negotiations with the Russian purchasing mission in Washington, and although the Russians' interest was obviously extremely intense at the commencement of our talks, the obstacle of the 50 percent U.S.-flag requirement caused the negotiations to wither and finally break down completely. The flour mills' position was harmed more than the position of wheat exporters, in that while some wheat eventually was exported to Russia, during the period that the Department of Commerce's regulations were clarified and modified the Russians passed the crisis point so far as imported flour was concerned. It was very apparent that speed was of the essence in the case of flour, and if we had been able to conclude a sale quickly after commencement of negotiations, we are positive that a substantial quantity of flour would have been purhcased by the U.S.S.R.

As the situation turned out, however, by the time the shipping requirements had been put into reasonably workable order, the Russians had begun to receive large quantities of Canadian flour, and had made substantial quick-shipment purchases in Europe. By the time we were able to talk realistically to the purchasing mission, the opportunity to make a sale had been lost.

Not only would the sale of flour to Russia have bettered the U.S. balance of payments substantially, but also the internal economy of the United States would have enjoyed a very appreciable benefit. This is because there is a great deal of labor and use of materials involved in the processing and shipment of flour in bags.

A sale to the Russians would have benefited not only elevator operators and flour millers, but also bag companies, railroads, and seaports. Considerable labor is required to load flour, as contrasted with the minimum amount of manpower required to load bulk wheat, and taxes paid by longshoremen, alone would

represent an important contribution to the U.S. Treasury—over and above the taxes paid by millers, railroads, bag manufacturers, etc. Another indirect benefit which would have accrued to the U.S. public relates to the fact that the milling of a large quantity of flour within a comparatively short period of time invariably depresses the millfeed market; which in turn reduces the cost of operation of cattle feeders, and results in lower meat prices to the U.S. consumer.

We have continued to correspond with the U.S.S.R. purchasing bureau, and the tone of the Russians' replies indicates a willingness to purchase large quantities of flour at a politically opportune time. If we are to be successful in selling the Soviets whenever they enter the market, we first must have seen the way cleared of impediments. The prime obstacle at this moment is the 50–50 shipping requirement, and this obstruction will automatically preclude any chance of a successful sale if it remains in effect.

The fact that we have a different situation prevailing in the world today merits particular emphasis. Whereas in 1963, after the Canadian sale of flour, worldwide availability of flour was relatively limited—except for the United States—such conditions do not obtain today. We know that in 1963 the Russians were unable to buy as much flour for prompt shipment from Europe as they desired, which was the result of relatively large prior sales by European mills. As of this moment, European milling capacity appears to be as wide open as is the case in the United States, and we would have immediate head-to-head competition on a large scale from Europe if the Russians were to enter the market tomorrow. In addition to the availability of milling time, this year we also have a huge world crop of wheat, which every producing country is anxious to move. In circumstances such as this, European nations have demonstrated in the past their eagerness to subsidize their milling industry heavily, to insure participation in any sales opportunity which presents itself.

It is apparent that the U.S. flour milling industry will have many serious competitive conditions to meet and overcome if the Red bloc reenters the market, and the added burden of shipping 50 percent on U.S.-flag vessels would preclude U.S. participation right at the outset. For this reason, it is in the best interests of the U.S. economy as a whole, the balance-of-payments situation, and the industries which could participate and benefit in a flour sale to the Russians, to have the 50 percent U.S.-flag restriction removed immediately, so as to put the United States in a competitive position in advance of any inquiry from the Soviet bloc.

Considering that the Department of Commerce is vitally concerned with this issue, we are providing Under Secretary Franklin D. Roosevelt, Jr., with a copy of this letter. If either the Departments of Agriculture or Commerce, or any other Government agency, desires further information or would like to discuss this case more fully with the Flour Millers' Export Association, our members would be very pleased to meet with interested parties in the Government at a time and place of your choosing. Your serious consideration of the foregoing, and your wide dissemination of our viewpoint to Government departments involved, will be greatly appreciated.

Yours very truly,

W. J. DEWINTER,
President, F.M.E.A.

AMERICAN EXPORT-ISBRANDTSEN LINES,
New York, N.Y., May 5, 1965.

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

DEAR SENATOR DOUGLAS: I have followed with interest your hearings on ocean shipping rates and the balance of payments. While I do not agree with all of the observations which your committee has made, I consider that your hearings have served a very useful purpose, in that you have developed some extremely important and relevant facts.

I certainly share your observations concerning the need for maintaining competitive bulk carriers under the American flag pursuant to a new program. Although American-flag bulk carriers will require some kind of cargo preference assistance, similar to that accorded to national flag bulk carriers of every other major maritime nation, a program of direct operating subsidy to replace the indirect subsidy now being paid under the present Cargo Preference Act, is obviously the only sensible and logical step.

A payment of direct operating differential subsidy to American-flag bulk carriers will permit:

(1) A substantially larger and more modern American flag bulk carrier fleet for roughly the same amount of money now being largely wasted under the present indirect subsidy system of the Cargo Preference Act;

(2) The carriage by American-flag bulk carriers of outbound dry bulk carriers at competitive rates, without the excrescence of a surcharge on those commodities and without obstructing the commercial sales of some commodities, such as grain sales to the Soviet Union and satellite countries;

(3) The carriage by American-flag bulk carriers on inbound commercial bulk cargo at competitive rates, allowing for a remunerative two-way operation, rather than relying upon the outbound bulk cargo to pay the entire expense of the voyage.

I am enclosing herewith a document entitled "A Proposal for Establishing an American Flag and Bulk Carrier Fleet," prepared by American Export Isbrandtsen Lines, Inc., which has been submitted to the Maritime Administration. On the basis of the various remarks which you have made I believe that your ideas and ours, with respect to the establishment of an American-flag bulk carrier fleet are coincident.

I would consider it appropriate for you to place part or all of this document into the record of your current hearings, as you see fit, and I should like to have the opportunity of discussing this matter with you at your convenience.

Sincerely,

JAKOB ISBRANDTSEN.

48-063 (Part I) O-65—15

A PROPOSAL FOR ESTABLISHING AN AMERICAN-FLAG BULK CARRIER FLEET

PROPOSAL, BACKGROUND AND CONCLUSIONS, WITH APPENDICES DEVELOPING SUBSIDIZED BULK CARRIER ECONOMICS, TRAFFIC PROJECTIONS AND CERTAIN FINANCIAL AND OPERATING CONSIDERATIONS RELATING TO SUBSIDIZED PASSENGER VESSELS

Revised
March 8, 1965

AMERICAN EXPORT ISBRANDTSEN LINES, INC.
26 BROADWAY, NEW YORK 4, N. Y.

TABLE OF CONTENTS

	Page
A PROPOSAL FOR ESTABLISHING AN AMERICAN-FLAG BULK CARRIER FLEET	1
I. Background Information	3
II. Conclusion	10
APPENDIX A -- THE ECONOMICS OF A SUBSIDIZED BULK CARRIER OPERATION	13
I. Introduction	13
II. Operational Cost Considerations for Bulk Vessel	14
A. Bulk Carrier Operating Cost	15
B. Estimated Bulk Carrier Subsidy	16
C. Alternate Method of Bulk Carrier Subsidy Calculation	16
III. Comparison — Bulk Carriers vs. AEIL Passenger Liners	18
IV. Capital Cost of Bulk Carrier Vessels	19
A. Capital Cost Based on Foreign Building Cost . . .	20
V. Operating Costs of Bulk Carrier Vessels	23
APPENDIX B -- DEPARTMENT OF COMMERCE, MARITIME ADMINISTRATION, OFFICE OF STATISTICS — PRINCIPAL BULK COMMODITY TONNAGE EXPORTS AND IMPORTS IN THE OCEANBORNE COMMERCE OF THE UNITED STATES (ACTUAL 1955-1963 - ESTIMATED 1965-1975) . . .	29
PRINCIPAL BULK COMMODITY EXPORTS	31
COAL	32
SCRAP IRON AND STEEL	34
CORN	36
COTTON	38
GRAIN SORGHUM	40
SMALL GRAINS (RYE, BARLEY, OATS)	42

Page

SOYBEAN 44

WHEAT 46

PRINCIPAL BULK COMMODITY IMPORTS 49

SUGAR 50

BAUXITE 52

MANGANESE 54

CHROME 56

IRON ORE 58

PETROLEUM PRODUCTS 60

APPENDIX C -- FINANCIAL RESULTS OF AEIL'S PASSENGER OPERATION 63

1964 Financial Picture 64

Significance of the Passenger Loss 65

APPENDIX D -- POSSIBLE CONSOLIDATION OF ATLANTIC COAST PASSENGER OPERATIONS 69

Relevant Considerations 69

The Economics of Consolidation 70

AEIL Attitude Toward Consolidation 71

Status of Consolidation Studies 73

A Proposal For Establishing An American-Flag Bulk Carrier Fleet

It is the purpose of this study to set forth a proposal for establishing a long-range policy for promoting and maintaining a bulk carrier segment of the American Merchant Marine, and to explore the methods under which such a fleet can be brought into being at the minimum cost to the Government.

The basic conclusions of this study are as follows:

1. A subsidy expenditure of approximately $13.4 million annually could sustain the operations of 43 American-flag bulk carriers and special purpose vessels of 25,000 deadweight tons, assuming automated vessels, crews of 27 men and a "simplified" subsidy approach.

2. An annual subsidy payment of $13.4 million, which would support this substantial increase in the American Merchant Marine, is the equivalent of the annual operating subsidy paid for the three passenger vessels now being operated by American Export Isbrandtsen Lines, Inc. (AEIL), which operations result in an annual loss of over $2 million, even after subsidy.

3. Approximately half of the $310,000 annual operating subsidy necessary to maintain such a 25,000 DWT bulk carrier could be recaptured by the Government.

4. For an annual subsidy cost of $31 million, less than the amount of operating subsidy paid to the eight American-flag passenger vessels operating out of New York, the United States could eventually maintain a fleet of 100 bulk carriers and special purpose vessels of 25,000 DWT, capable of carrying a significant amount of our non-liner dry-bulk

commercial commerce, of which American-flag vessels are now carrying only about 5%.

5. If budgetary restrictions should render it unwise or improvident to construct all such vessels in domestic shipyards, at a construction-differential subsidy cost of approximately $4 million per vessel, rather than leaving the American Merchant Marine inadequate and allowing the great preponderance of these bulk cargoes to continue to move in foreign vessels, with American seamen remaining on the beach, after a determination has been made as to how many of these vessels should be built in American yards, construction of the balance should be authorized to be undertaken in foreign shipyards under appropriately flexible conditions.

6. Such a fleet would be capable of competing with foreign-flag vessels for purely commercial cargoes and would not have to rely upon the carriage of Government-impelled or cargo preference cargoes at higher rates than those prevailing for the transportation of ordinary commercial cargoes on foreign-flag vessels.

7. Such a fleet would save dollar expenditures now being earned almost entirely by foreign-flag vessels, resulting in an annual benefit to our international balance-of-payments position of approximately $150 million (assuming 100 vessels).

8. Such a fleet would act as an effective instrument of our foreign commerce, assuring regular and reliable transportation of essential bulk commodities, and preventing a chaotic situation such as developed during the recent Russian grain program. It would also eliminate exorbitant rate practices and windfall profits by foreign-flag operations as occurred during the Korean conflict and during the Suez Canal crisis.

9. Existing United States-flag vessels now engaging in tramping operations would continue to be employed in the carriage of cargo preference cargoes, primarily grain cargoes moving under Public Law 480.

I. *BACKGROUND INFORMATION*

The Merchant Marine Act of 1936 sets forth the maritime "policy of the United States," which is to "foster the development and encourage the maintenance" of a privately owned American Merchant Marine, "composed of the best-equipped, safest, and most suitable type of vessels," which shall be "sufficient to carry (our) . . . domestic water-borne commerce and a substantial portion of the water-borne export and import foreign commerce of the United States . . ." This policy, calling for an "adequate and well balanced American merchant marine" obviously envisages cargo vessels of all types and design most suitable to move our commerce. It is clear that we can never hope to approach the goal of moving a "substantial portion" of our foreign water-borne commerce with cargo liner vessels alone.

Significant changes have taken place in world transportation since the Merchant Marine Act of 1936 was established. New methods of shipping commodities in bulk and the development of containerization constitute the two most critical changes in oceanborne transportation. Unfortunately, the American-flag steamship industry has been slow to reflect changes in technology and to adopt improved methods of cargo handling. In large part, however, the failure of the American Merchant Marine to move forward on a broad basis, especially in the construction and operation of special purpose bulk carriers, is due to the fact that existing subsidized operators are circumscribed by the provisions of the Merchant Marine Act itself and by restrictions in their operating-differential subsidy contracts, and because this country has not developed a positive long-range policy for promoting and maintaining the bulk carrier segment of our Merchant Marine. The Merchant Marine Act is undoubtedly basically sound and has worked well in sustaining an essential liner industry. It has done nothing, however, to foster the development of a sound and viable fleet of American-flag bulk carrier vessels.

When the Merchant Marine Act of 1936 was passed, the movement of cargo in liner vessels was significantly larger than the movement of bulk cargoes in tramp vessels. There was, indeed, the thought that tramp operations were diminishing. The background statement, submitted by the Maritime Administrator, Mr. Nicholas Johnson, on November 2, 1964, to the members of the President's Maritime Advisory Committee, places this subject in its proper perspective as follows:

> "The (American-flag tramp) fleet is an outgrowth of the war. In 1937 the United States did not possess a dry-bulk fleet. The present fleet was brought into existence under the Merchant Ship Sales Act of 1946, and consist of ships built during the war. There has been substantially no new construction of dry-bulk carriers.
>
> "In contrast to the declining state of the dry-bulk fleet, the carriage of bulk commodities plays an ever-increasing role in the United States foreign trade. In 1937, 22% of our total trade was accounted for by dry-bulk movements. Now approximately 85% of our total trade is in bulk; of that amount a little more than one-half is dry bulk, and the remainder liquid bulk.
>
> "Since the immediate post-war period American-flag ships have been carrying a continually diminishing portion of this bulk trade. At present they are carrying only 5.2% of our trade in dry-bulk commodities.
>
> "Suggestions for improvement of this situation have ranged from an extension of the quota system to a larger range of commodities, to the extension of construction and/or operating subsidy to bulk carriers."

On every major foreign trade route, declared to be essential under Section 211 of the Merchant Marine Act, the movement of bulk commodities in tramp vessels or in specially designed bulk carriers (operating as contract carriers) is several times larger than the movement of commodities in liner vessels. It might be noted that, in terms of tonnage, although approximately 85% of our foreign water-borne commerce is represented by bulk commodities, in terms of value, liner companies carry over 70% of the value of the commodities moving. In addition to

general cargoes, liner vessels have traditionally carried parcels of bulk commodities as base or filler cargoes along with general cargoes, but such carriage of bulk commodities by liner vessels amounts to only a small part of the total bulk commodity movement.

There has recently been a trend for more and more cargoes to tend to move in bulk or in specially designed bulk carriers. Certain commodities, such as coal and ore, have always moved in bulk. Many other commodities, which were formerly shipped predominantly or wholly in liner vessels, are now moving in specially designed bulk carriers. This trend, which has developed and accelerated during the last decade, has resulted in the strange phenomenon of the total liner commodity movement decreasing on many essential foreign trade routes, while, at the same time, the total over-all commodity movement (liner plus non-liner) on these same trade routes has been increasing. Sugar, for example, which was once shipped only in bags, has within the last few years become almost entirely a bulk commodity. Virtually every agricultural commodity, and many other products, that were once shipped in bags or cartons, are now being shipped or will be transported in bulk in the future. Recently, such items as cleaning fluids, rice, vegetable oils, chemicals, fertilizers and powdered detergents are tending to move in bulk in increasing quantities. Experience has demonstrated that once facilities are provided at ports, to load and discharge such commodities in bulk, the ocean transportation problem is quickly resolved, and the movement of these commodities in bags virtually ceases. Also, when a bulk commodity movement becomes sufficiently large, the trend has been for the shippers of such a commodity to seek a specially designed bulk carrier, tailored to fit the transportation needs of that commodity, which vessel will carry the commodity under a long-term or short-term contract of carriage, with the result being that the liner movement of such a commodity will be virtually foreclosed.

Obviously, because a bulk commodity movement develops does not mean that every such commodity will automatically move entirely or even predominantly on bulk carrier or tramp vessels. In this respect, liner operators are also adapting themselves to the movement of bulk commodities. There will always be significant quantities of bulk commodities available to liner operators in parcel lots, and the economy of this country would certainly be frustrated if liner vessels were not available to perform this essential service. Indeed, approximately half of the commodities that are now being carrier by liner operators in our foreign commerce are bulk cargoes.

Nevertheless, as the traffic statistics show, more than 80% of the foreign oceanborne commerce of the United States involves commodities that move on non-liner vessels, both dry cargo tramps and tankers. Outbound, these commodities consist predominantly of coal, corn, grain sorghums, iron and steel scrap and soybeans. Inbound, the major commodities are petroleum products, bauxite, iron ore and sugar. In 1963, principal bulk commodity exports amounted to 75.1 million tons and the principal bulk commodity imports to 165.6 million tons. The Maritime Administration has estimated that by 1970 these same exports will increase to 113.2 million tons and that imports will increase to 216.4 million tons.

The major part of these bulk commodity movements reflects purely commercial transactions, and to the extent that American-flag participation in their carriage is not protected by the Cargo Preference Laws, the American-flag tramp or bulk carrier vessels have carried virtually none of them.

American Export Isbrandtsen Lines desires to move forward on a sound basis in expanding its transportation business. The company is at the present time attempting to develop as rapidly as possible the movement of cargo in its liner services in containers, which will undoubtedly be the method of transportation of general cargo in world

commerce in the future. At the same time, we are also interested in achieving more flexibility in our liner operations, and in expanding our liner services on essential trade routes where additional American-flag service is warranted. In short, American Export Isbrandtsen Lines is expansion-minded, and it is ready, willing and able to operate additional American-flag vessels in world commerce.

Our interest is not confined, however, to liner vessels. A fleet of bulk carrier and tramp vessels, operating under the American flag, is necessary if the United States is to achieve a well-balanced American Merchant Marine capable of carrying a substantial portion of our foreign water-borne commerce. We consider that the operation of bulk carrier and special purpose vessels is a natural and necessary adjunct to the shipping business which we are now conducting. Indeed, if it were not for the restrictions of the Merchant Marine Act and the Operating-Differential Subsidy Contract, our plans in this field would have moved forward before this.

It is interesting to note that major foreign steamship operators have already diversified their shipping operations into the field of bulk carriage and the operation of tanker vessels. In this respect, for example, recent newspaper announcements have noted the acquisition of bulk carriers by Canadian Pacific Steamship Company, P & O Steamship Company, and Cunard.

American Export Isbrandtsen Lines supports and applauds the efforts of the present Maritime Administrator to bring the policy of the Merchant Marine Act up to date. Although, as we have stated, the Merchant Marine Act is basically sound in promoting and maintaining a liner segment of the American Merchant Marine, it must be improved in order to deal with the present day problems – not those of 1936.

A policy of expansion must also involve a re-evaluation of existing operations and existing facilities. American Export Isbrandtsen Lines

presently operates 43 vessels, 40 of which are cargo ships and three of which are passenger vessels. Any fair appraisal of the operating results of the company leads inescapably to the conclusion that the present passenger operation is a drag on our entire operation and an impediment to the progress which we could otherwise achieve.

Over 40% of the operating-differential subsidy received by AEIL goes to sustain the uneconomic passenger ship operation. It is a matter of continuing concern to the company's management that the passenger vessels, while requiring over $13 million annually in governmental subsidy assistance, lose, after subsidy, more than $2 million. The reasons for the loss incurred by the passenger vessels are fairly plain. An inevitable cost squeeze has developed due to constantly increasing costs of maritime and shipyard labor, increased selling costs, and inability to raise rates and revenues due to proliferation of competition and an over-supply of space, and a change in traffic from transportation (with relatively dense utilization of rooms) to a "cruise" or "vacation" occupancy, which more often than not leaves upper berth and multiple berth facilities unsold.

It is not our recommendation that American-Flag Passenger Liners should be abandoned, especially at a time when many nations, including Great Britain, France, Israel, Italy, Greece and Russia are constructing new large passenger vessels, but we do believe that the United States must undertake a realistic evaluation of the financial results of these vessels in the light of the purpose of the American-flag passenger service. Such an evaluation has been started under the direction of the Maritime Administration. The first tentative figures already indicate the possibility of very substantial savings in sales and operational expenses through elimination of duplicating facilities and personnel; we are very optimistic that a progressive and viable program for American-Flag passenger operations will result from these efforts. However, as important as these passenger vessels may be to our prestige and national image

on the high seas, it is even more essential that prompt and effective action be taken to correct the glaring deficiency of this nation in the operation of bulk carriers. There is no reason that the adequate and well balanced American Merchant Marine, envisaged by the Merchant Marine Act, should not include passenger as well as bulk carrier vessels.

Congressman John J. Rooney, in a speech before the Propeller Club of Washington, D. C., on February 18, 1965, vividly depicted the paradox that exists with respect to the size of the bulk commodity movement in relation to the complete lack of American-flag vessels to accommodate this movement:

> "In the bulk trades, which provide the basic sinews of our great domestic industries, American-flag shipping is practically unknown."

We have set forth as separate appendices to this report, the following separate studies which form the basis of our proposal:

APPENDIX A – The Economics of a Subsidized Bulk Carrier Operation.

APPENDIX B – Bulk Commodity Statistics and Projections of the Maritime Administration.

APPENDIX C – Financial Results of AEIL's Passenger Operation.

APPENDIX D – Possible Consolidation of Atlantic Coast Passenger Operations.

II. *CONCLUSION*

The Maritime policy of the United States has reached the crossroads. Either we move forward with a rational and realistic policy of achieving the basic objective of the Merchant Marine Act, or we must resign ourselves to the realization that the United States will become a second rate maritime power. The choice indeed presents a paradox. At a time when there is a constant drain on our gold reserves and our international balance-of-payments position worsens, it would seem that all possible steps would be taken to make our Merchant Marine an effective instrument of our foreign commerce. Without such an effective American Merchant Marine, and if reliance should be placed entirely on foreign-flag operators, it is difficult to see how the long-range objectives of the Trade Expansion Act of 1962 can be achieved.

As the recent Report of the Joint Economic Committee on "Discriminatory Ocean Freight Rates and the Balance of Payments" has pointed out, there is an "inadequacy of American shipping" and a drastic need for more American flag ships. This need is especially acute with respect to bulk carrier and tramp vessels concerning which the United States has up to now evolved no positive or long-range policy whatsoever.

AEIL agrees with those who say that bigger subsidy expenditures are not the answer. We believe that a reappraisal of our present operations and a better use of existing subsidy dollars can achieve the desideratum of an "adequate and well-balanced American Merchant Marine" which will be capable of carrying a "substantial portion of our foreign water-borne commerce." The establishment of an adequate American-flag bulk carrier fleet can be undertaken immediately. AEIL is ready, willing and able to be a part of this new approach.

APPENDIX A

THE ECONOMICS OF A SUBSIDIZED BULK CARRIER OPERATION

I. INTRODUCTION

The subsidy expenditure of approximately $13,400,000 which is paid annually for the operation of the three American Export Isbrandtsen Lines (AEIL) passenger liners could itself sustain a bulk carrier operation of sizeable magnitude. These ships might operate on the world's sea lanes in response to specific bulk commodity movements, seeking employment on a spot charter basis or under long term or short term contracts of carriage. They could be used on various heavily trafficked bulk commodity routes, that is, to serve cargo movements, under long term charter, in trades where heavy volumes of bulk cargoes traditionally have been carried to or from the United States, such as:

Coal from Hampton Roads/Baltimore to Amsterdam
" " " " " to Italy
" " " " " to Japan
Grain from U.S. Atlantic or Gulf Ports to Greece/Turkey
" " " " " " " to India/Pakistan
Grain from U.S. West Coast to Far East ports generally
Sugar imports from Philippine ports to the U.S. Atlantic
Basic Ores imports from Newfoundland, Labrador, Venezuela and Africa
Petroleum imports from Persian Gulf, North Africa and Caribbean points to the U.S.

Ideally, it would perhaps be desirable to the preponderant part of the bulk carrier fleet fixed under long-term charters, with the rest being kept available for spot or short-term business.

Recognizing that the current operating-differential subsidy is basically one to maritime labor, it should be readily acknowledged that a subsidized bulk carrier operation could not be expected to maintain 100% of the

48-063 (Part I) O-65—16

seagoing employment that now is sustained through the operation of the AEIL passenger liners, which employment is for 1543 seamen. (On the basis of 1090 voyage days per year, this means 1,680,000 man days of employment per year.) A vast preponderance of these man-days are, however, in steward department ratings, where wages tend to be less than those of the more skilled deck and engineering personnel who would man a bulk carrier. It should be recognized that employees in the steward department are in reality not performing or capable of performing maritime or nautical services. Their functions are actually more akin to hotel or restaurant services.

The slight decrease in total numbers of men afloat would, from a national maritime strength viewpoint, be readily offset by these critical considerations:

a) A vastly increased number of vessels of substantial size would operate and could carry a material portion of the bulk commodity commerce of the U.S. Today, this is carried almost entirely by foreign flag vessels.

b) The program would intensify the support of seamen who are practicing traditional seafaring skills, rather than hotel occupations afloat, thus providing a storehouse of nautical know-how which would be capable of supporting a great expansion in the numbers of operating vessels in time of national emergency.

II. OPERATIONAL COST CONSIDERATIONS FOR BULK VESSEL

Although the capacity of a bulk carrier in operation varies radically (from ships of 18,000 deadweight tons to mammoth 60,000-70,000 ton vessels) the simplicity of vessel functions and their traditional point-to-point operating pattern lead to little or no need to vary in crew size as changes in cargo lift are considered.

The basic seagoing functions are navigation, engine operation and subsistence of the seagoing complement. Use of superior materials, new maintenance techniques, modern shipboard equipment and the ready availability of expanded, economical maintenance installations ashore will, in the future, virtually eliminate the emphasis and manpower previously devoted to maintenance of plant during the voyage.

Using automation and mechanization, modern high-class liner tonnage is currently being constructed using a basic manning of 32 men. A bulk carrier could conceivably be operated with a crew of about 20, but regulations and labor relations considerations argue in favor of the following more conservative manning of 27 men in evaluating the economics of any near-term bulk carrier program.

A. Bulk Carrier Operating Cost	Annual Cost
Crew Wages (including overtime, fringes, etc.)	
Deck Department: Master, 4 Officers, radioman and 6 seamen — Total 12 men	$ 161,250
Engine Department: Chief, 4 Engineers, electrician and 3 maintenance men — Total 9 men	115,100
Steward Department: Chief, 2 cooks and 3 messman/stewards — Total 6 men	51,500
Total wages and fringes - 27 men *	$ 327,850 per year
Subsistence @ $2.10 per man per day x 27 men x 360 days per year	20,400
Maintenance and Repairs @ $195.00 per day x 360 days	70,200
Stores and Supplies @ $100. per day x 360 days	36,000
Insurance	
Protection and Indemnity @ $180.00 per day	60,000
Hull and Machinery @ $96.00 per day	34,600
Miscellaneous Vessel Expense @ $25.00 per day	9,000
Gross Vessel Operating Cost	$ 558,050 per year
	$ 1,550 per day

* NOTE: One Deck Officer, the radioman, 3 seamen, one Engineering Officer, one maintenance man and one steward/messman (or a total of 8 from the 27) may be considered expendable.

B. Estimated Bulk Carrier Subsidy

Subsidy here is calculated on a "conventional" basis, using the average of the subsidy aid rates now current for Mediterranean and South Asian (India) liner operations under AEIL's subsidy contract.

Subsidizeable Item	Rates of Subsidy T.R. 10 Med.	T.R. 18 India	Aver.	Subsidizeable Expense	Annual Subsidy (Estimated)
Wages	71.3%	76.6%	73.9%	$327,850	$235,000
Subsistence	18.8	4.3	11.5	20,400	2,350
Maintenance & Repairs	33.2	41.2	37.2	70,200	36,100
P & I Insurance	79.0	80.4	79.7	60,000	47,900
H & M Insurance	18.7	13.9	16.3	34,600	5,600
	Estimated Subsidy Per Year				$326,950 per year
	Or			$910.00 per day	

Summary with Conventional Subsidy	Per Year	Per Day
Gross Vessel Operating Cost	$558,050	$ 1,550.00
Estimated Subsidy	(326,950)	(910.00)
Net Vessel Expense	$231,100	$ 640.00

C. Alternate Method of Bulk Carrier Subsidy Calculation

Since the basic premise of this analysis is one of American-Flag operation and the utilization of American seamen, the Wages and P & I Insurance (which costs directly reflect the high cost of seamen's injury due to American law) are the two items where cost differentials are virtually out of the ship operator's control. By contrast, the flexible handling of subsistence purchases and repairs so that these might not be required to be restricted to the United States could substantially lessen the ship operator's exposure to detrimental cost differentials in subsistence, M. & R. and H. & M. insurance.

From a *subsidy administration* viewpoint, the burden of operator and government in processing the subsidy payment could be lessened by incorporating the following features:

(a) Use of "liner" subsidy rates for bulk carriers where the bulk carrier operates on one or more routes on which the Administration subsidizes liner carrier operations. For example, the above calculation would be applicable for the operation of a bulk carrier half the year in the Greece/Turkey trade, and half year in the India/Pakistan trade.

(b) For both P. & I. insurance and H. & M. insurance, rates are developed quickly via special consultants to the Maritime Administration. In addition, subsidy collection follows after a relatively simple audit of a small number of insurance bills actually paid by the operator to a third party, his Underwriters. The subsidy collection thus proceeds as a relatively straightforward over-ride on a normal commercial transaction which the operator *must* make in the normal course of his business and in which there is no opportunity for impropriety.

(c) As crews get smaller, the gross amount of subsistence subsidy to the operator becomes less than its cost of collection.

(d) The relatively complicated and burdensome task of collecting, supporting and auditing maintenance and repair expense seems unwarranted, especially when this subsidy on this cost could be prudently handled by:

1. establishing a factual relationship based on experience between M. & R. expense and H. & E. insurance subsidy such as "5 times the H. & M. insurance expense." For administration, this latter is like P. & I., an override of a very simple and essential shipowner expense which occurs in the normal course of his business. "Total Loss" costs, as these are reflected in the H. & M. insurance premiums, could receive appropriate adjustment if warranted.

2. A subsidy "budget" could be made, subject to a general check once every few years. If the budget appears incorrect, it could be adjusted, *i.e.*, the above averages to $100 per day M. & R. subsidy.

For analysis purposes, a "simplified" subsidy calculation will also be used – as follows:

Subsidizeable Item		Rate	Subsidizeable Expense	"Simplified" Subsidy
Wages	As above	73.9%	$327,850	$235,000
Subsistence		NONE		
Maint. & Repair & Hull & Machy. Ins.		16.3%	Use 5 x H&M Ins. Exp. or $34,600 x 5	28,000
P & I Ins.	As above	79.7%	$60,000	47,900
			"Simplified" Subsidy - per year:	$310,900
			Or $865.00 per day	

III. COMPARISON – BULK CARRIERS vs AEIL PASSENGER LINERS

AEIL Passenger Liners – 3 ships – 1543 seamen – $13,400,000 subsidy per year

Bulk Carriers – 27 seamen per ship

Conventional Subsidy	Per year	Per Vessel day
Gross vessel operating cost (360 days)	$558,050	$1,550
"Conventional" subsidy	(326,950)	(910)
Net Vessel expense –	$231,100	$ 640.00

At $326,950 per year per bulk carrier, the $13,400,000 passenger vessels subsidy would support 41 bulk carriers, having a total employment (as estimated) for 1107 seamen.

Simplified Subsidy		
Gross vessel operating cost	$558,050	$1,550
"Simplified" Subsidy (i.e., Wages, P/I Insurance and 5 times the calculated Hull and Machinery Insurance subsidy)	(310,900)	(865)
Net Vessel expense –	$247,150	$ 685

At $310,900 per year per bulk carrier, the passenger ship subsidy would support 43 bulk carriers and permit the employment of 1161 seamen.

IV. CAPITAL COST OF BULK CARRIER VESSELS

The following contracts for the construction of high quality bulk carrier tonnages have recently been placed in Japan:

25,000 deadweight tons	16 knots	12,000 SHP	$3,999,000
33,000 "	15 knots	12,000 "	4,150,000
45,000 "	16 knots	20,250 "	5,865,000
103,000 dwt. total, at aggregate cost of or cost of $136 per deadweight ton			$14,014,000

Since the basic cost of the vessel does not maintain its proportion as the ship gets smaller, due to the cost concentration represented by propulsion machinery, we could estimate that a 16,000 dwt. 16 knot bulk carrier might be built abroad for $3,200,000 — or less. Similarly, a slightly larger 32,000 ton ship would cost about $4,600,000 on a conservative basis.

There is a practical limitation concerning the number and size of bulk carriers which can be reasonably used in operation to the major world ports. In many cases, either water depth in terminal ports or the total cargo available for movement in the trade could not accommodate a vessel of larger size. Similarly, storage and handling facilities are often of limited size and, more often than not, are capable of handling only so much cargo as would be capable of being delivered by a Liberty, Victory or T-2 ship such as predominates in many essential bulk trades. (The obsolesence of this war-built tonnage and its inevitable disappearance is in part the dilemma which the subsidized bulk carriers here proposed would hope to solve.)

Therefore, three different size and cost vessels will be analyzed, to determine whether a subsidy such as was outlined would make them competitive at rates which now occur in the trade.

	Ship I	Ship II	Ship III
Deadweight tons lift	16,000	25,000	32,000
Speed-operating	16-1/2 kts.	16 kts.	16 kts.
Horsepower	9,000 shp	12,000 shp	15,000 shp
Cost-foreign	$3,200,000	$4,000,000	$4,600,000
15 Year Write-off - per year			
Amortization	$213,000	$266,700	$306,000
Interest (5-1/2%) Avg.	94,000	117,500	134,500
Total Capital Charge	$307,000	$384,200	$440,500
Per day (365 per yr.)	$855	$1,065	$1,220
20 Year Write-off - per year			
Amortization	$160,000	$200,000	$230,000
Interest (5-1/2%) Avg.	91,700	115,500	132,000
Total Capital Charge	$251,700	$315,500	$362,000
Per day (365 per yr.)	$698	$875	$1,005
Fuel - steaming day	282 bbl	375 bbl	470 bbl
port day	40 bbl	40 bbl	40 bbl
Fuel Cost @ 2.10 per bbl —			
steaming day	$590	$790	$987
port day	$84	$84	$84

A. Capital Cost Based on Foreign Building Cost

The foregoing was based on assuming the foreign cost of building the bulk carriers, because this parity basis is that upon which the Merchant Marine Act makes higher cost U.S. built vessels available to qualified operators in the U.S. liner trades when these operators are willing to accept the obligations of subsidized operation.

Any broadening of the subsidy program to permit bulk carrier operation would presumably involve (1) a more flexible arrangement as to the trading restrictions on the ships to permit a feasible operation. (2) A means whereby the launching of the program did not depend entirely on whether the Administration and Congress were willing to grant the tremendous amounts of shipyard subsidy involved in building such ships. These factors may lead to the realistic necessity of having these ships built abroad.

For example – at 50 percent shipyard subsidy, the 43 bulk carriers herein discussed would require the following budgetary support if constructed in U.S. yards under present subsidy:

Owner Cost	$172,000,000
Government Cost	172,000,000
Total price in U.S.	$344,000,000

A 50% subsidy limit may be possible for bulk carrier tonnage since these vessels are inherently more simple to construct and may require less high cost U.S. labor per ship unit.

There would be no purpose, for example, in establishing a bulk carrier program for the U.S. operator and then, like the superliner replacement for the S.S. AMERICA authorized in the 1950's, have the program never reach fruition due to a dearth of appropriations.

Therefore, a practical program should provide that the potential operator build the ships abroad and still qualify for U.S. Registry, operating subsidy, and Title XI construction loan and mortgage insurance in the event that appropriations are not forthcoming to have the vessels constructed in the United States. Such a program should permit the United States to grant shipyard subsidy on new buildings as its interests and budget warrants.

The rudiments of the program would be:

a) Once an operator had qualified for subsidy on the bulk carrier operation program – or any other program in which vessel construction might be involved – he would tender the broad aspects of his new construction to the Maritime Administration for its consideration, including in his outline plans and specification for the proposed tonnage. These outline plans, etc. would be in the same detail as the owner requires for his own purpose of securing firm bids from shipyards.

b) The Maritime Administration would have a limited period of time to reject the proposed design for technical reasons if it does not qualify *or* if the proposed operation appears economically unfeasible for the grant of subsidy.

c) Competitive bids would be solicited in the U.S. and opened by the Maritime Administration on a stated date. At that time, the owner will also tender his firm negotiated *foreign* yard price; 30 days after this date the Maritime Administration would have the option of granting shipyard subsidy and having the ships built in the United States.

d) If the Maritime Administration should not choose to have the ship built in this country, the owner would be authorized to construct abroad, with the vessels contractually entitled to receive U.S. Registry, subsidy, and other benefits as if built in the U.S.

e) Contractual covenants and bonds, to the extent deemed required, would insure that the foreign price was the "true" price to the operator.

It may be possible to establish a procedure whereby the Maritime Administration could disclaim interest in a particular owner's specific building program, thereby permitting the owner to solicit foreign bids in an environment where he is 100% assured that a contract would be let abroad. Even without this certainty of contracting abroad, it appears that genuine foreign bidding interest would be aroused because:

a) If the prospective owner does not secure a foreign quote which he feels is representative, he has the option of suspending his plans until a more ideal time.

b) The foreign bidders have the incentive (which is in the owner's interest) to bid the lowest cost possible so as to (1) get the contract from other foreign yards and (2) make the U.S. differential as large as possible to thus inhibit the Maritime Administration from using this particular contract in a U.S. yard program.

c) The bulk carrier ship design would probably tend to be comparable from bid-to-bid, thus reducing the burdensome aspects of pricing and bidding.

V. OPERATING COSTS OF BULK CARRIER VESSELS

There may be substantial government subsidy recapture benefit in a subsidized bulk carrier program as is here proposed. Alternatively, the proposed bulk carrier operation may permit retention of the passenger vessels in lay-up status (without defaulting on their mortgages) while still mitigating the operating losses on those ships. See Subsection VI.

The voyage between Hampton Roads, Virginia and Istanbul, Turkey is 5,165 nautical miles each way. At 16 or 16-1/2 knots sea speed it would permit the following voyage to be operated:

Loading, USNA	2 days
USNA/Istanbul	13-1/2 days at sea
Discharging	10 days
Istanbul/USNA	13-1/2 days at sea
Margin *	1 day
	40 day voyage

Assume: 40¢ per ton loading cost, $10,000 despatch payment at discharge port, free discharge, one-way cargo haul, 2-1/2% brokerage on cargo, similar crew regardless of vessel size.

* Allowance for bunkering, delays in port and accrual for time of annual overhaul.

	SHIP I	SHIP II	SHIP III
Vessel Cost per voyage	16,000 dwt	25,000 dwt	32,000 dwt
40 days @ $1550 per day	$61,000	$61,000	$61,000
Less "simplified" subsidy @ $865 per day	(34,600)	(34,600)	(34,600)
Net Vessel expense:	$26,400	$26,400	$26,400
Port Expenses*			
Loading port	2,500	2,500	2,500
Bunkering port	900	900	900
Discharging port	2,000	2,000	2,000
	5,400	5,400	5,400
Cargo Expenses			
Loading	10,000	10,000	10,000
Despatch	10,000	10,000	10,000
	20,000	20,000	20,000
Fuel			
27 sea days	@$590** 15,090	@$790** 21,400	@$987** 26,600
13 port days @ $84 per day	1,045	1,045	1,045
	16,135	22,445	27,645
Misc. @ $100 per day	4,000	4,000	4,000
Gross Operating Expense:	71,935	78,245	83,445
Amortization (15 yr. basis) Principal & interest per day***	@$855	@$1065	@$1220
Amortization per voyage	34,200	42,600	48,800
General and Administration Overhead per voyage (at $100 per day)	4,000	4,000	4,000
Total Net Expense per 40 day voyage	$110,135	$124,845	$136,245

* Per day.

** See Section IV for assumed costs.

*** It should be noted that for SHIP I and SHIP III port expenses and cargo expenses would obviously be subject to slight variations depending upon the amount of cargo being transported, which variations have not been reflected in the above figures.

Break even calculation

	SHIP I	SHIP II	SHIP III
Nominal deadweight capacity, tons	16,000	25,000	32,000
Less fuel, stores, etc.	(1,500)	(1,500)	(1,500)
Cargo dwt.	14,500	23,500	30,500
Less 2-1/2% cargo brokerage*	(370)	(590)	(760)
Cargo tonnage/voyage	14,130 tons	22,910 tons	29,740 tons
Expenses per 40 day voyage	$110,135	$124,845	$136,245
Break even cost per cargo ton	$7.83	$5.46	$4.59

Profit Calculation for the 25,000 ton vessel (Ship II)

	At $8.85 ton**	Assumed $7.00 per ton
Revenue	$202,775	$160,370
Expense	124,845	124,845
Voyage Profit	77,930	35,525
Annual Voyages	9	9
Annual Profit	$701,370	$319,725
Annual Profit after taxes (50%)	$350,685	$159,863

Capital Necessary Employed — (CNE) during initial 4 years, for example

25% of ship price	$1,000,000	
1/2 of voyage-in-progress expenses	71,000	
C.N.E.:	1,071,000	1,071,000
10% of C.N.E.	107,100	107,100
Profit after tax over 10% of C.N.E.	487,170	105,525
1/2 of Profit over 10% of C.N.E. = Recapture	243,585	52,763
Annual Subsidy	310,900	310,900
Less Recapture	243,585	52,763
Net Subsidy after Recapture	67,315 per annum	258,137 per annum
Capital Recovery factor = $4,000,000 ÷ Annual profit before taxes	5.7	12.5

Note.

* For purposes of convenience, in making the break-even calculation, the cargo brokerage payment has been taken as a tonnage deduction rather than as a dollar deduction.

** Recent USNA/Istanbul fixture. It is doubtful whether such a rate level could be expected to hold for the operating life of these vessels. Nonetheless, there exists substantial margin over cost to withstand certain rate weakness.

VI. BULK CARRIER PROFITS AND THE AEIL LINERS IN LAY-UP

The bulk carrier operation appears inherently attractive. For example, owning but not operating the INDEPENDENCE, CONSTITUTION and ATLANTIC, and retaining them in lay-up status would incur the following charges:

Annual Depreciation	$1,660,046
Annual Interest	595,554
Annual Capital Charge	$2,254,600
Lay-up cost – $100 per vessel per day	109,500
Total capital cost, book basis	$2,364,100 per year
On an out-of-pocket basis, no depreciation would be involved, but amortization ($1,214,000) would be payable, making the annual charge	$1,919,054 per year

On the basis that each bulk carrier would make only 75% of the $319,725 profit calculated above (25,000 dwt. vessel basis, $7.00 per ton freight) – Profit per ship per year = $240,000 per year.

then: 10 bulk carriers would carry the full capital charge and up to 33 would be free to earn "recapturable" profits from their operation and, current AEIL operating results would be enhanced by elimination of passenger department overhead.

At $240,000 profit per ship per year, 8 bulk carriers would carry the out-of-pocket costs associated with the liners. Up to 35 would then be free to operate on a true profit basis, subject to recapture.

This exercise of showing how relatively attractive bulk carrier operation (compared with passenger vessel *ownership but not operation)* is, of course, contrary to good business judgment. Based on the recent sale of the antiquated S.S. AMERICA, the alternative of sale of these vessels to foreign flag ownership and operation, while under the so-called "effective U.S. control" would probably be the most sensible approach. If such a sale transpired, Reserve Funds would be enhanced by sale proceeds, mortgages would undoubtedly be paid in full and the

government would be saved the ignominy and expense of having to pursue mortgage foreclosure on these fine vessels, and all its subsequent expenses of sale, storage, etc.

It would be too much to expect at this time that the forthcoming government re-evaluation of merchant marine policy would go so far as to permit unsubsidized foreign flag operation of uneconomical assets like these by a "related" company of a subsidized company. This alternative is likewise not here explored, nor would there be any guarantee that the operation would be profitable.

VII. THE BULK CARRIER PROGRAM - SUMMARY

The previous demonstration of bulk carrier operating economics shows that the substantial passenger vessel subsidy paid to AEIL of $13,400,000 per year would clearly be better spent on another use. The apparent break-even costs are such that these vessels would be quite competitive with foreign flag tonnage and, presumably, could carry grain or other outward bulk cargoes at the prevailing world market rates. With a nucleus fleet such as is here considered, for example, a future Russian grain sale would not founder on the embarrassment which arose last time over high U.S. flag vs. lower foreign flag rates. The "subsidized" U.S. flag rate would be equal to the foreign flag freight.

This study does not evaluate the potential utilization of these bulk ships, nor does it attempt to assess the potential market or the effect on world-wide bulk carriage freight rates which such new American capacity would produce. The potential capacity is large. For example,

Assume 40 bulk carriers *of* 25,000 dwt. *each:*

10 in Turkey/Greece trade @ 40 day voyages.	90 voyages/year
10 in India/Pakistan trade @ 70 day voyages	53 voyages/year
10 in North Europe Coal trade @ 30 day voyages	120 voyages/year
10 in Far East Grain or Coal trade @ 80 day voyages . . .	45 voyages/year
Annual voyages for 40 vessels	308 voyages

308 voyages at 25,000 deadweight tons per voyage is equal to a cargo movement of *7,700,000 tons per year* on a one way load basis. This is almost 10% of the total export bulk movement, and twice the present percentage carriage of bulk goods by U.S. vessel.

One thing is clear. For subsidy not in excess of the amount now paid, U.S. flag participation would be increased substantially in trades when it today is virtually nil.

This paper does not test the elasticity in the break-even freight rate by a 20 year amortization rather than the 15 year basis contained herein. Such a variation could have a profound effect on the overall profitability and recapture status of the operation. Alternatively, it could permit a sustained economic operation in spite of rate deterioration or underutilization.

Finally, there is no attempt here to evaluate half-way measures to promote a bulk carrier fleet. For example, if appropriate overhead reductions could be made (which is doubtful), an apparently attractive half step would be to sell, abandon or otherwise dispose of AEIL's unprofitable S. S. ATLANTIC, and then to commence the bulk carrier program using her $3,284,000 annual subsidy to support and subsidize 10 bulk carriers. Such an interim measure — especially attractive to AEIL -- would unfortunately be as difficult to achieve in terms of statutory authorization as would be a 100% program for 43 bulk ships.

The inescapable conclusion from an operator viewpoint is that, for those companies which are of a mind to do so, there exists an attractive business opportunity in the substitution of bulk carriers for uneconomic passenger vessel operations. The corporations which now own these passenger ships are qualified in every respect to receive subsidy funds. What remains is for the government and the interested operators to collaborate on the changes in law and regulation which can bring the "new" and broadened Merchant Marine into existence.

APPENDIX B

DEPARTMENT OF COMMERCE
MARITIME ADMINISTRATION
OFFICE OF STATISTICS
OCTOBER 1964

PRINCIPAL BULK COMMODITY TONNAGE EXPORTS AND IMPORTS IN THE OCEANBORNE COMMERCE OF THE UNITED STATES (ACTUAL 1955-1963 - ESTIMATED 1965-1975)

To an increasing extent the movement of bulk dry and liquid cargoes is becoming more important in the overseas commerce of the United States. This has been particularly so since the end of World War II, when the dynamics of political and economic forces created demands upon this country's resources for assistance to emerging nations, and to sustain established governments until their economies recovered and they could stand alone.

The millions of tons of grain, coal, phosphate rock, scrap iron and steel, mineral products and other commodities moving in bulk outbound to overseas areas continues. It moves whether as a Government sponsored cargo or as a purely commercial cargo for which payment in hard, freely transferable currencies is received. As the standard of living rises in the industrialized and economically mature countries of the world, more of our commodities will move to help them achieve their wants. For the foreseeable future it seems probable that the United States will continue to grant aid to those countries whose need for food and the means of improving their agricultural potential are of primary importance.

For example, in 1955, United States exports of seven principal bulk commodities totaled 50 million tons. In 1963, their tonnage amounted to 75 million tons and by 1975 it is estimated that their volumes will be about 124 million tons.

If this country was generous in the assistance it gave others in the postwar period, it was also using up some of its natural resources

48-063 (Part I) O-65—17

at a very rapid rate while expanding enormously its commercial transactions at home and overseas. As a consequence, our imports of essential foods, mineral and petroleum products increased enormously. Bauxite, chromite, iron ore, manganese and sugar are among the largest imports on a tonnage basis that move in United States ocean-borne trade. In 1955, our imports of these commodities amounted to 36 million long tons. Nine years later the tonnage volume had increased to 49 million tons, and by 1975, it is estimated the requirements for these essential imports will rise to nearly 92 million tons. On the basis of past performance, it can be assumed that there will be sufficient shipping capacity *of all flags* available to carry not only these and similar commodities in United States trade, but in world trade as well. Except in war or periods of international crises, world shipping has always been available to meet transportation requirements for seaborne cargo movements. This has not been the case, however, as far as United States flag shipping is concerned or even shipping under the effective control of the United States. A study of the charts included in the following report indicates how small a volume of each commodity moved in United States flag ships.

This study was initiated by the Maritime Administrator. Its purpose is to estimate the ocean-borne volume of the principal bulk commodities that may participate in the future foreign trade of the United States. An extended application of these projections may contribute toward: (a) a comparison of projected United States flag bulk cargo capacity against future estimates of United States flag bulk cargo liftings, and (b) providing United States flag ship operators with a guideline toward establishing cargo volume goals so that their efforts may be directed toward the maintenance of a relative, if not an absolute, increase in the share of the projected commodity exports and imports.

Irwin M. Heine, Chief, Office of Statistics, and Joseph Nale-Povic, Assistant Chief, Cargo Data Division, Office of Statistics, prepared this study.

Table 1

PRINCIPAL BULK COMMODITY EXPORTS
IN U.S. OCEANBORNE FOREIGN TRADE
ACTUAL: 1955, 1960, 1963 AND
PROJECTED: 1965 THROUGH 1975
(In Millions of Long Tons)

Commodity	1955 (tons)	1960 (tons)	1963 (tons)	1965 (tons)	1970 (tons)	1975 (tons)
Coal 1/	32.1	22.4	33.2	45.0	65.0	72.0
Corn 2/	2.7	4.9	8.8	9.4	11.2	11.9
Cotton (Unmfgd.) 3/	0.5	1.5	0.9	1.0	1.0	1.1
Grain Sorghum 2/	1.6	2.4	2.8	3.1	4.0	4.2
Scrap Iron & Steel 4/	3.8	5.6	4.9	6.3	4.6	4.7
Small Grains 2/	1.9	2.5	1.4	1.7	1.2	1.2
Rye	0.1	0.1	0.3	0.2	0.2	0.2
Barley	1.5	1.9	1.0	1.4	0.9	0.9
Oats	0.3	0.5	0.1	0.1	0.1	0.1
Soybeans 5/	1.5	3.3	3.9	5.0	6.8	8.5
Wheat & Grain Equivalent of Flour 2/	7.2	15.6	19.2	17.1	19.4	20.1
Total	50.4	58.2	75.1	88.6	113.2	123.7

1/ Bureau of Mines, Department of Interior.

2/ Foreign Agricultural Service, Export Grain Division, Department of Agriculture.

3/ Economic Research Service, Department of Agriculture.

4/ Institute of Iron & Steel Scrap.

5/ Policy & Program Appraisal Division, Department of Agriculture.

COAL

EXPORTS

Export Outlook: Steep increase through 1970

Reasons:

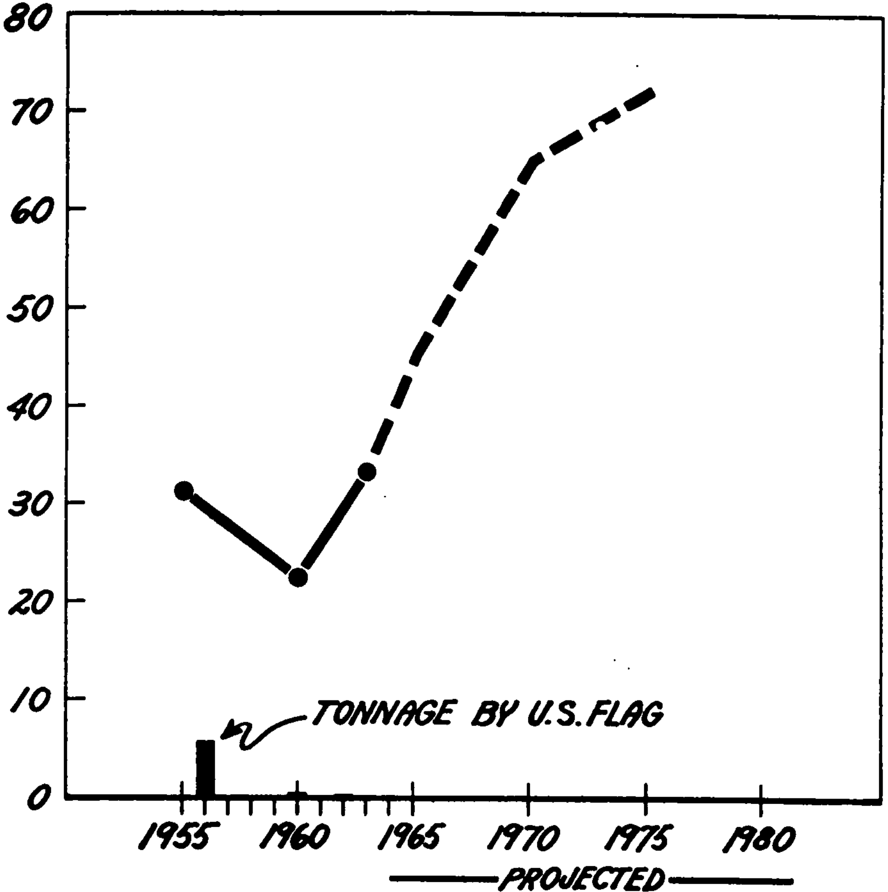
(a) Large coal requirements by France in next 15-20 years due to expansion of power plants.

(b) Expected relaxation of restrictions on coal imports by the common market members.

(c) Increased shipments of coking coal to Japan despite Australian competition.

(d) Italy looking to U.S. coal, primarily steam coal, in addition to coking coal. Quantity depends upon price competition. Italy requires steaming coal for expanding electrical power.

(e) Atomic energy for industrial purposes overseas not expected to become important until 1975 and later. Natural gas and oil gradually displacing coal, but coal needs still increasing. Developing countries expected to take more coal. Also possible increase in Latin America.


U. S. OCEANBORNE EXPORTS
OF COAL
1955-1963 ACTUAL
MILLIONS OF LONG TONS
80
70
60
50
40
30
20
10
0
TONNAGE BY U.S. FLAG
1955
1960
1965
1970
1975
1980
PROJECTED

SCRAP IRON AND STEEL

EXPORTS

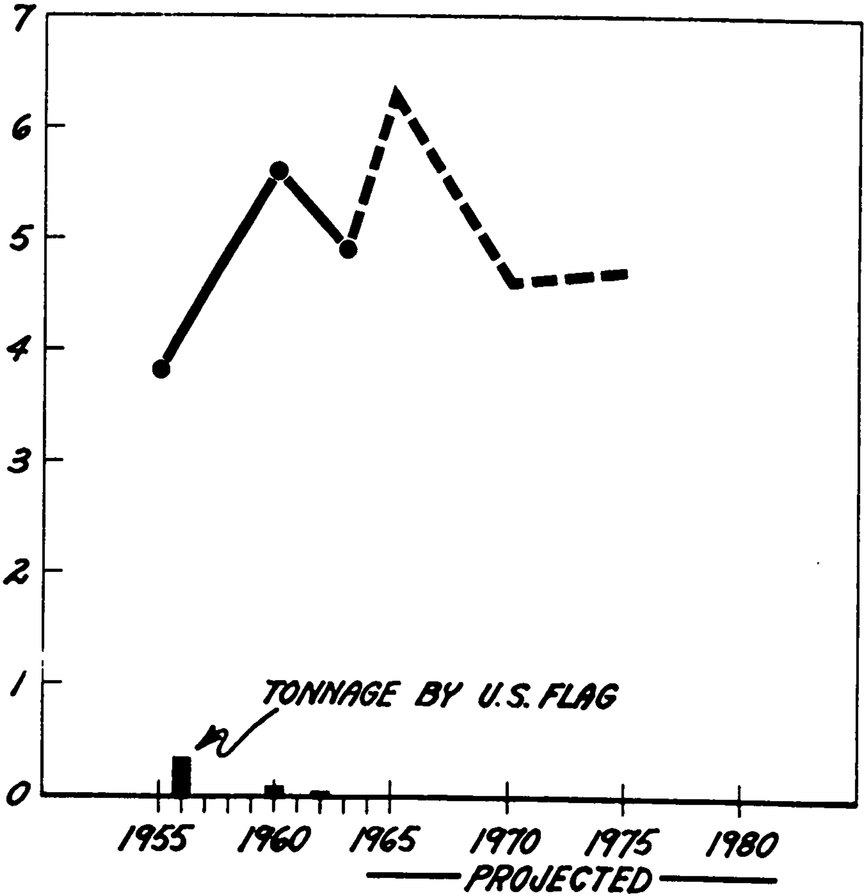
Export Outlook: Short run increase in mid-1960's leveling off at a lower rate through 1970-75.

Reasons:

(a) Fluctuations due to new steel making processes in United States. Exports to Japan and other industrial nations fall off from 1960 to 1963 due to world decrease in steel products consumption primarily in Japan, United States, Western Europe.

(b) As standard of living in importing countries (Japan, Western Europe) increases, they will generate their own scrap through increased steel production — leading to decreased United States exports.

(c) Slight upturn between 1970-75 due to expected scrap requirements by emerging nations.


U. S. OCEANBORNE EXPORTS
OF SCRAP IRON AND STEEL
1955 - 1963 ACTUAL
MILLIONS OF LONG TONS
7
6
5
4
3
2
1
0
TONNAGE BY U.S. FLAG
1955
1960
1965
1970
1975
1980
PROJECTED

CORN

EXPORTS

Export Outlook: Moderate increases in corn exports.

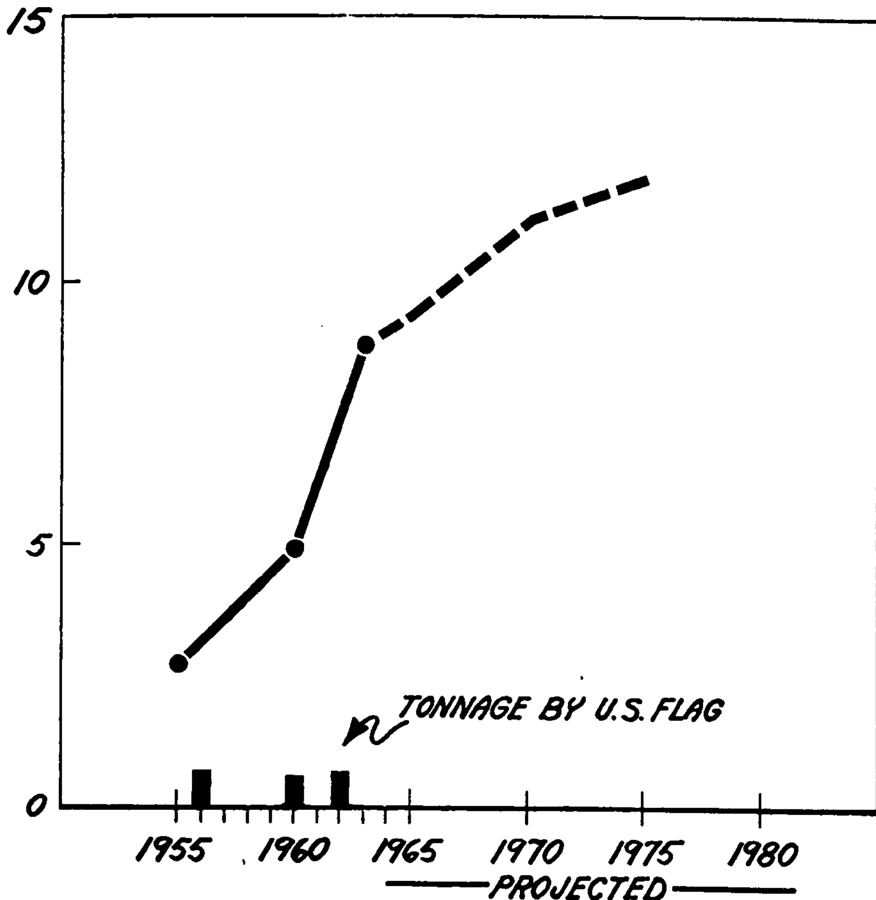
Reasons:

(a) The vitality of Western European economy has made increasing demands for livestock feed.

(b) For feed purposes corn is considered a mutual feed substitute for grain sorghum.

Principal Outlets:

Netherlands, United Kingdom, West Germany, Belgium, Italy, Canada.


U.S. OCEANBORNE EXPORTS
OF CORN
1955-1963 ACTUAL
MILLIONS OF LONG TONS
15
10
5
0
TONNAGE BY U.S. FLAG
1955
1960
1965
1970
1975
1980
PROJECTED

COTTON

EXPORTS

Export Outlook: Fair to moderate increase through 1975 but under the 1960 level.

Reasons:

(a) Cotton acreage allotment estimates remain constant through 1980.

(b) Inroads of man-made fibers make cotton future questionable.

(c) Foreign buyer stockpiling makes for erratic demands.

For example, in 1962, textile producing countries waited to benefit from United States cotton export program effective August 1, 1963.

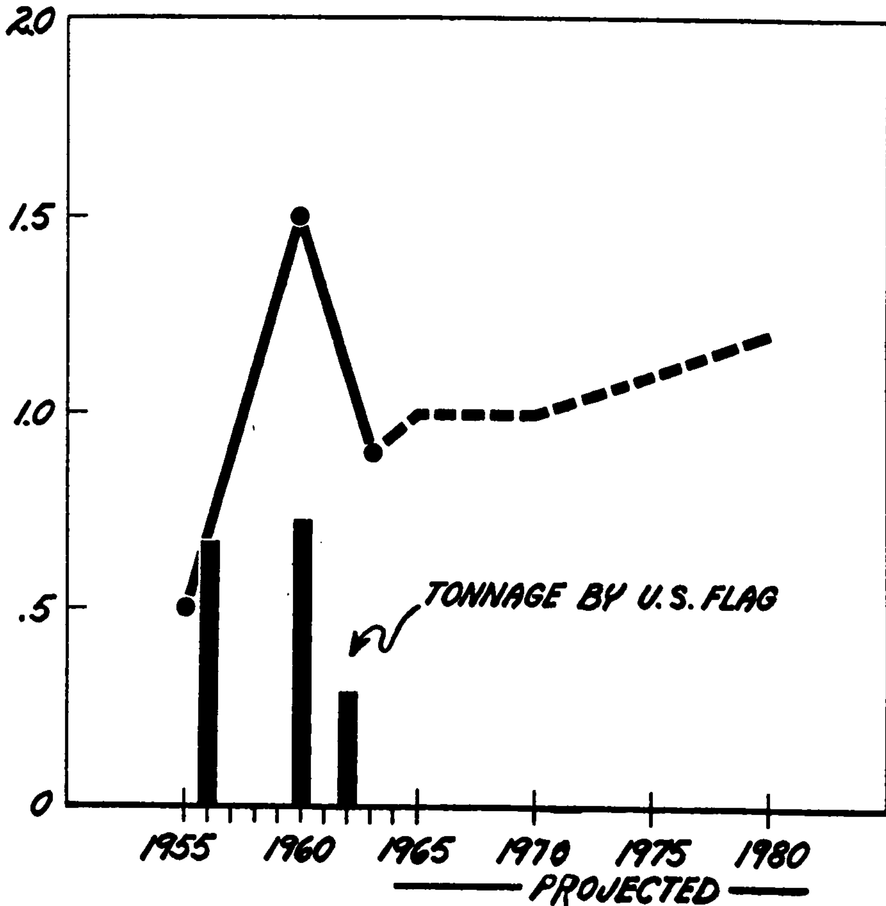
Principal Outlets:

(1) Japan.

(2) Western European countries.

Cotton Export Status 1963:

1.2 million bale decline from 4.8 million in previous year.


U.S. OCEANBORNE EXPORTS
OF COTTON
1955 -1963 ACTUAL
MILLIONS OF LONG TONS
2.0
1.5
1.0
.5
0
TONNAGE BY U.S. FLAG
1955
1960
1965
1970
1975
1980
PROJECTED

GRAIN SORGHUM

EXPORTS

Export Outlook: Steady increase through 1970 and increase at smaller rate through 1975.

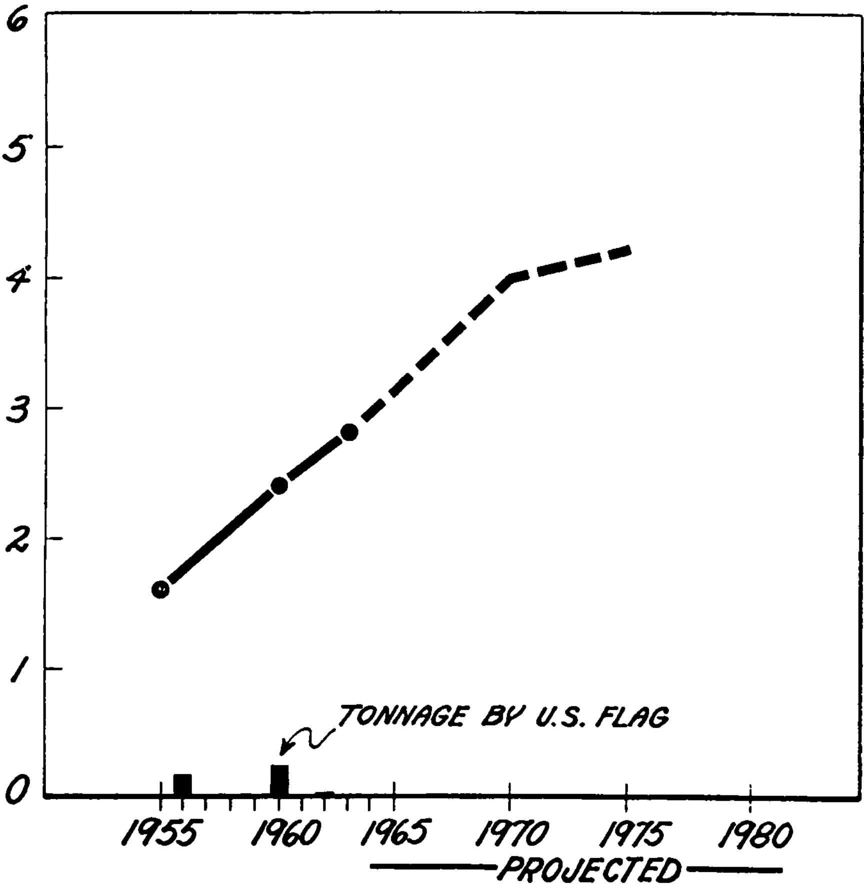
Reasons:

(a) Grain sorghum is considered a mutual feed substitute for corn.

(b) An increase in corn and soybeans as feeds exports.

Principal Outlets:

Netherlands, United Kingdom, West Germany, Belgium, Italy, Canada.


U. S. OCEANBORNE EXPORTS
OF GRAIN SORGHUM
1955-1963 ACTUAL
MILLIONS OF LONG TONS
6
5
4
3
2
1
0
TONNAGE BY U.S. FLAG
1955
1960
1965
1970
1975
1980
PROJECTED

SMALL GRAINS (RYE, BARLEY, OATS)

EXPORTS

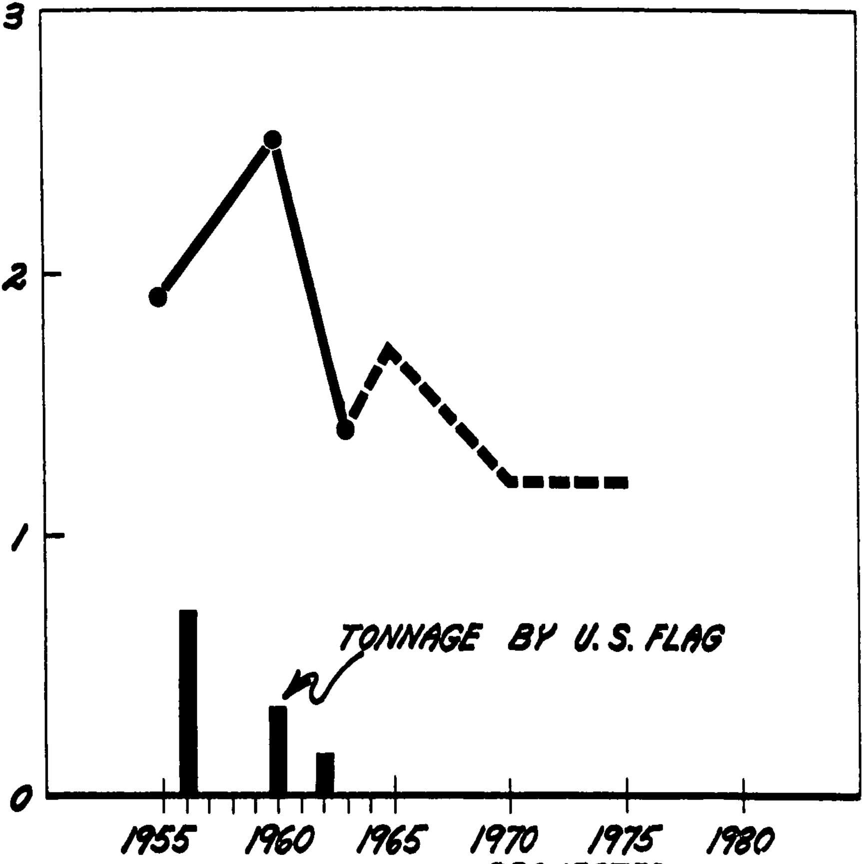
Export Outlook: Substantial decreases in rye, barley, oats by 1965 leveling off at low level through 1975.

Reasons:

(a) Progressive reduction in acreage allotments for these crops.

(b) Domestic price stabilization requires sharp cutbacks in barley, oats, rye.

(c) European shift to soybean for dual use of soybean oil for margarine and residue meal for high protein cattle feed.


U. S. OCEANBORNE EXPORTS
OF SMALL GRAINS*
1955-1963 ACTUAL
MILLIONS OF LONG TONS
3
2
1
0
TONNAGE BY U. S. FLAG
1955
1960
1965
1970
1975
1980
* BARLEY, OATS, RYE
PROJECTED

SOYBEAN

EXPORTS

Export Outlook: Excellent — sustained increase through 1975.

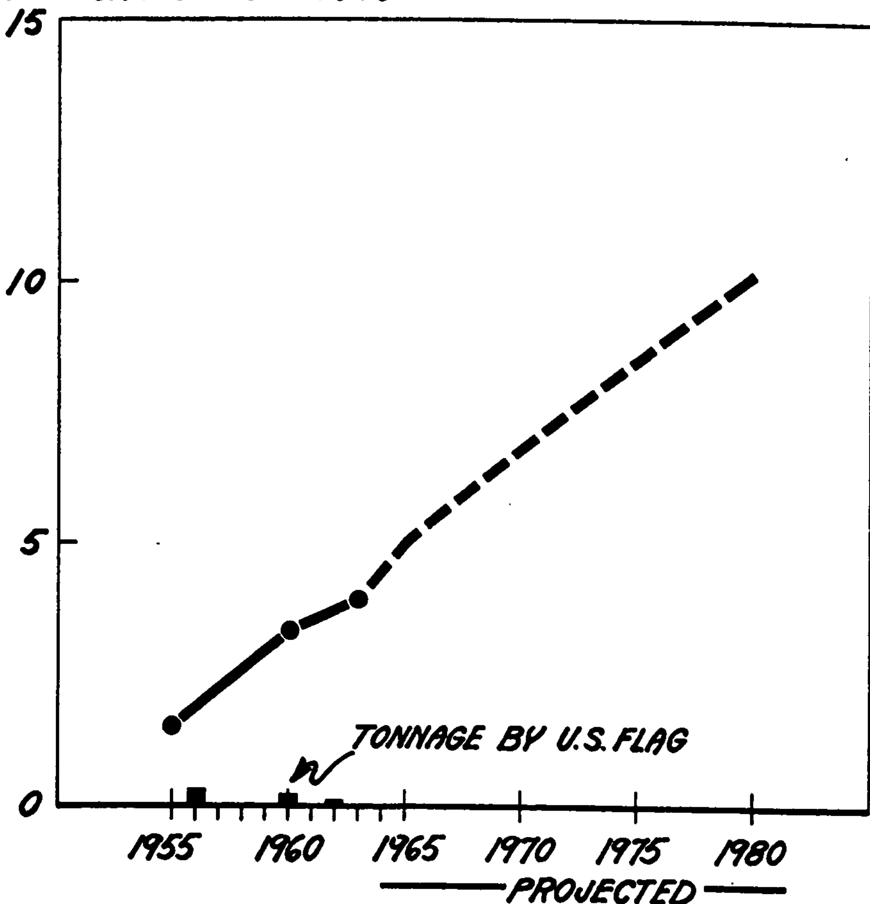
Reasons:

(a) Continued increase in acreage allocation through 1980.

(b) Substantial shift in Europe to soybean in lieu of vegetable oils in order to obtain the by-product protein meal for cattle feed.

There have been times when soybean meal from a bushel of crushed bean has been worth as much as the oil obtained therefrom. Soybeans tend to be grown as much for meal as for oil.

(c) The fact that cotton consumption is increasing at a slower rate than vegetable oil consumption means that expansion in the role of soybean is becoming additionally accelerated.



48-063 (Part I) O-65—18

WHEAT

EXPORT

Export Outlook: Not optimistic, modest recovery increase expected to approximate 1962 level.

NOTE: Only bad harvest situations in other grain producing nations are expected to effect short run demands on United States wheat, as for example, the recent Soviet wheat purchase.

Reasons:

(a) Reduced wheat acreage by 1980.

(b) Less optimistic future predicted in part on export commodities subject to variable levies by O.E.C.D. countries, e.g., wheat and wheat flour.

(c) Competition from wheat growing nations.

(d) Decreasing domestic consumption. United States wheat consumption today is no greater than it was 20 years ago yet production is half as great.

Principal Outlets:

India, Pakistan, Brazil, Egypt, Yugoslavia, Korea, Japan.

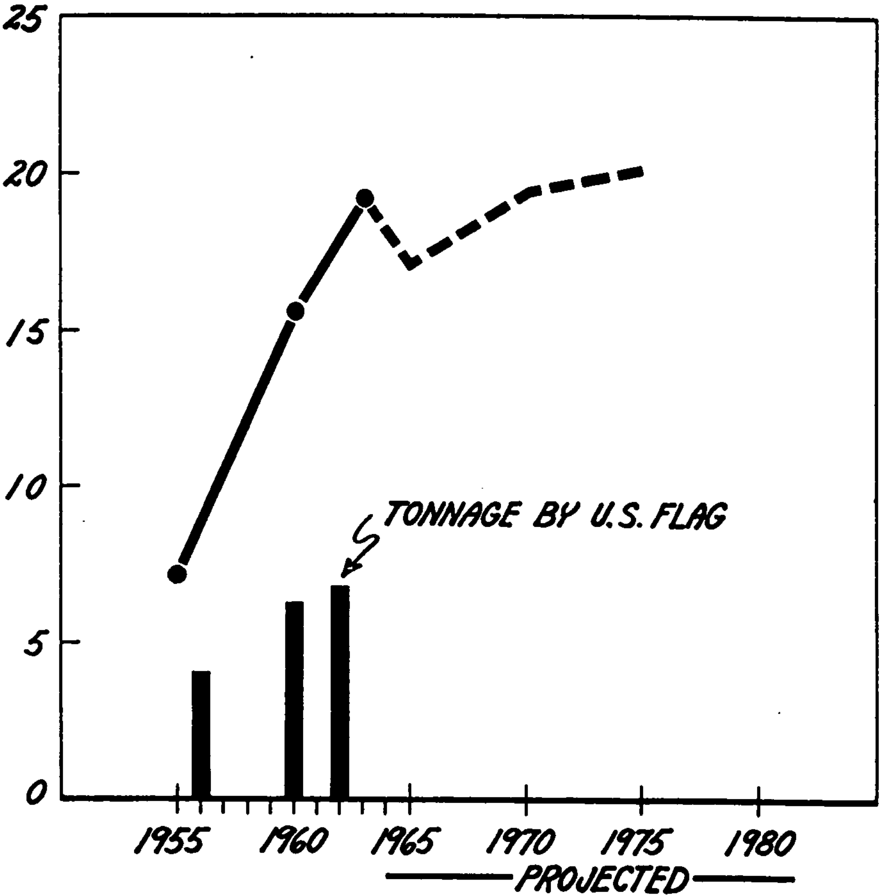
Japan is the leading top dollar market.

Wheat exports during 1963 were about 75 percent Government sponsored mainly Title I, PL-480.

U. S. OCEANBORNE EXPORTS OF WHEAT

1955-1963 ACTUAL

MILLIONS OF LONG TONS



47-48

Table 2

PRINCIPAL BULK COMMODITY IMPORTS
IN U.S. OCEANBORNE FOREIGN TRADE
ACTUAL: 1955, 1960, 1963 AND
PROJECTED: 1965 THROUGH 1975
(In Millions of Long Tons)

Commodity	1955 (tons)	1960 (tons)	1963 (tons)	1965 (tons)	1970 (tons)	1975 (tons)
Bauxite 1/	5.2	9.6	10.6	12.4	15.5	20.5
Chromite 1/	1.6	1.1	1.1	1.3	1.6	2.4
Iron Ore 1/	23.5	34.6	31.4	44.0	53.0	60.0
Manganese 1/	1.9	2.3	1.9	2.1	2.4	2.7
Petroleum Products 2/	68.6	99.7	116.6	122.0	138.5	155.1
Crude	43.9	57.3	63.6	66.2	76.1	87.0
All Other	24.7	42.4	53.0	55.8	62.4	68.1
Sugar 3/	3.5	4.2	4.0	4.2	5.4	6.3
Total	74.3	151.5	165.6	186.0	216.4	247.0

1/ Bureau of Mines, Department of Interior.

2/ Oil and Gas Office, Department of Interior.

3/ 1955-60-63 data by Economic Research Service, Agriculture Stabilization and Conservation, Department of Agriculture. 1965-70-75 projections by Marad, Office of Statistics.

SUGAR

IMPORTS

NOTE: No commitment on sugar projections by U.S. Department of Agriculture (USDA) are available due to pending expiration of sugar legislation December 31, 1964.

Import Outlook: Increase on basis of growing population need.*

Reasons:

United States population growth consumption is calculated at a USDA factor of 97 pounds per capita. Imports are the difference between the present domestic acreage allotment producing about 6 million short tons of raw sugar per year and the total United States annual requirement.

Principal Sources of U.S. Imports:

Philippines, Dominican Republic, Brazil, Peru.

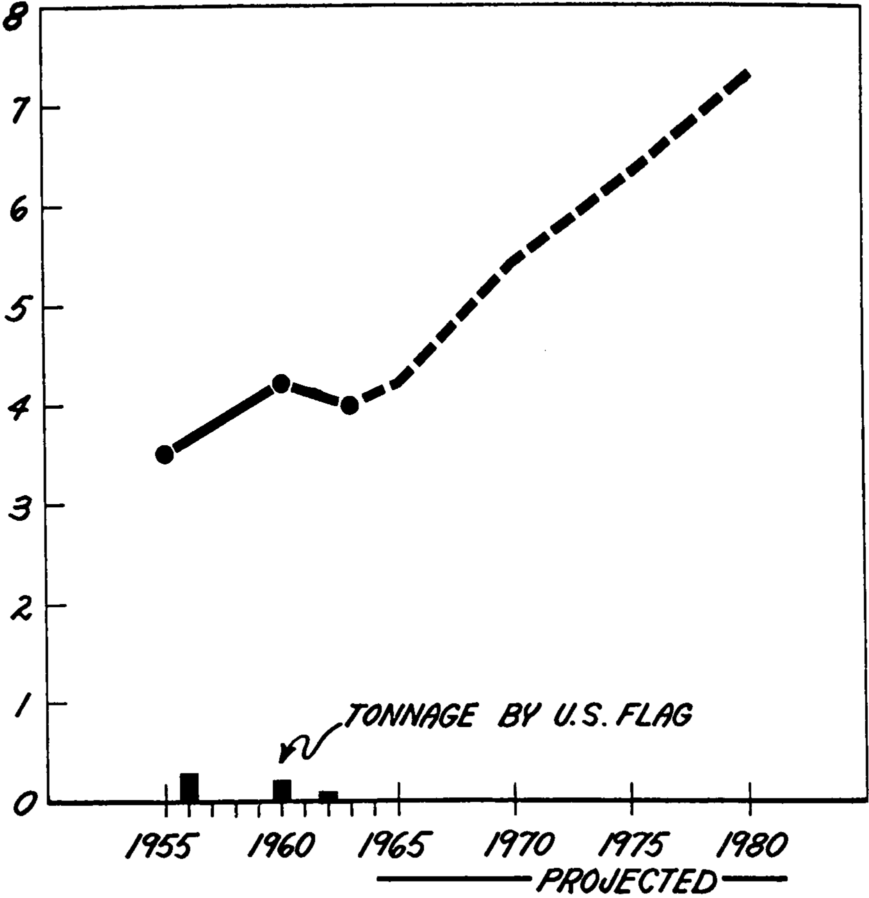
Total U.S. sugar consumption 1963 — approximately 12 million short tons.

Total annual U.S. domestic production of beet and cane sugar — approximately 50 percent of annual consumption. U.S. mainland - 3/5, Hawaii - 1/5 and Puerto Rico - 1/5.

Cuban quota of sugar exports to the United States was 3.2 million short tons in 1959 and 2.4 million in 1960. Since the breakdown of U.S./Cuban relations, the Cuban sugar quota has been re-allocated according to the provisions of the Sugar Act as amended.

---

* Projections for estimated sugar imports 1965-70-75 in Table 2 are by the Office of Statistics, Marad.


U. S. OCEANBORNE IMPORTS
OF SUGAR
1955 - 1963 ACTUAL
MILLIONS OF LONG TONS
8
7
6
5
4
3
2
1
0
TONNAGE BY U.S. FLAG
1955
1960
1965
1970
1975
1980
PROJECTED

BAUXITE

IMPORTS

Import Outlook: Strong sustained increase.

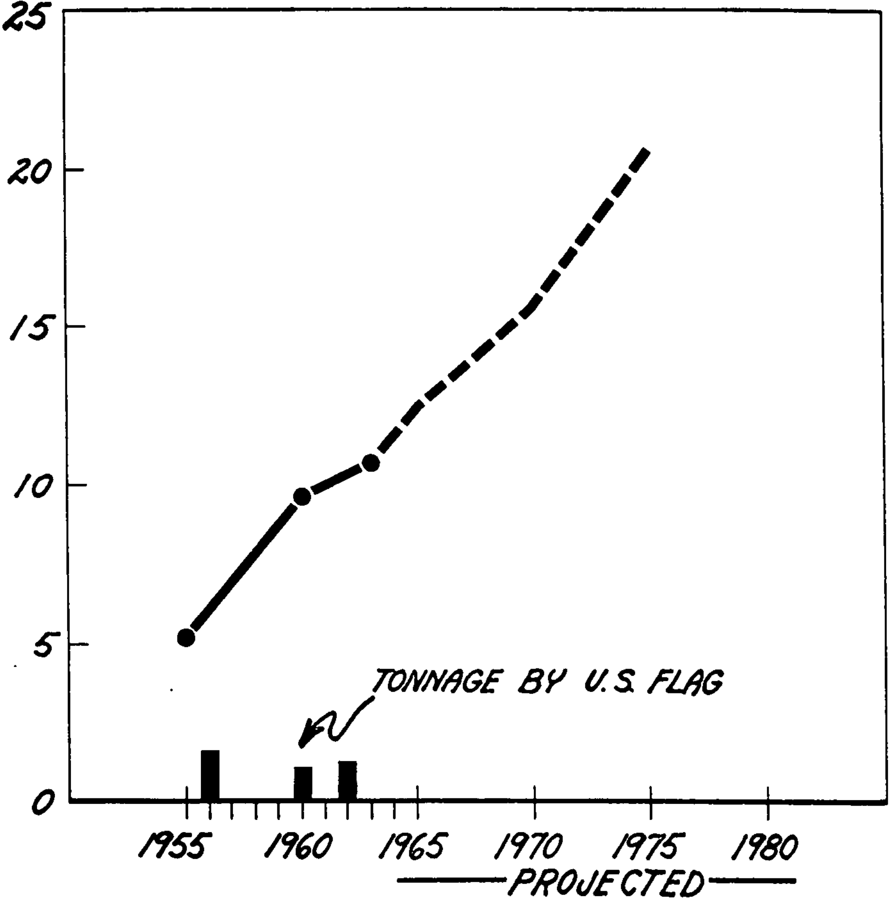
Reasons:

(a) Aluminum consumption estimates for 1970-1975 are about two to two and a half times 1960 consumption.

(b) Largest increases will occur to meet demands in transportation, construction, containers, consumer and producer durables.

Principal Sources of U.S. Imports:

Surinam, British Guiana, Jamaica, Haiti, Dominican Republic.


U. S. OCEANBORNE IMPORTS
OF BAUXITE
1955-1963 ACTUAL
MILLIONS OF LONG TONS
25
20
15
10
5
0
TONNAGE BY U.S. FLAG
1955
1960
1965
1970
1975
1980
PROJECTED

MANGANESE

IMPORTS

Import Outlook: Continuing increase.

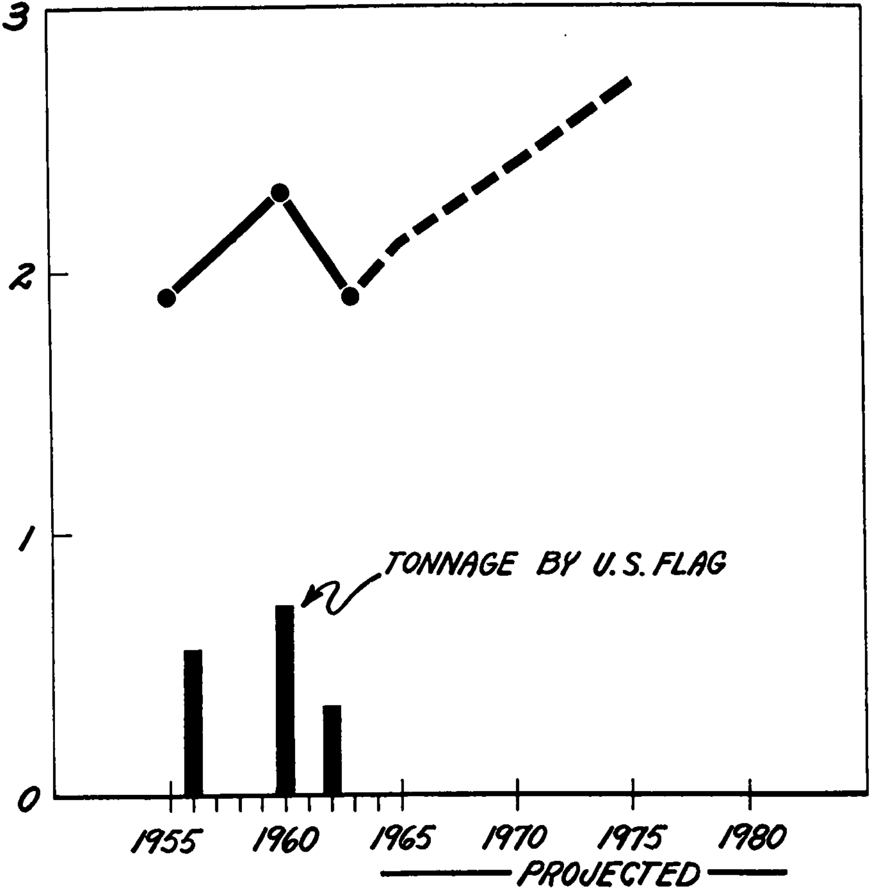
Reasons:

(a) Important as an alloying element in ferrous and non-ferrous metals.

(b) Essential to the steel making progress. Over 90 percent of United States manganese consumption taken up by iron and steel industry. As steel ingot production increases, so will demand for manganese.

Principal Sources of U.S. Imports:

Mexico, Brazil, British Guiana, India, Ghana, Morocco, South Africa.


U. S. OCEANBORNE IMPORTS
OF MANGANESE
1955-1963 ACTUAL
MILLIONS OF LONG TONS
3
2
1
0
TONNAGE BY U.S. FLAG
1955
1960
1965
1970
1975
1980
PROJECTED

CHROME

IMPORTS

Import Outlook: Moderate increase to 1955 by 1970. Strong increase by 1975.

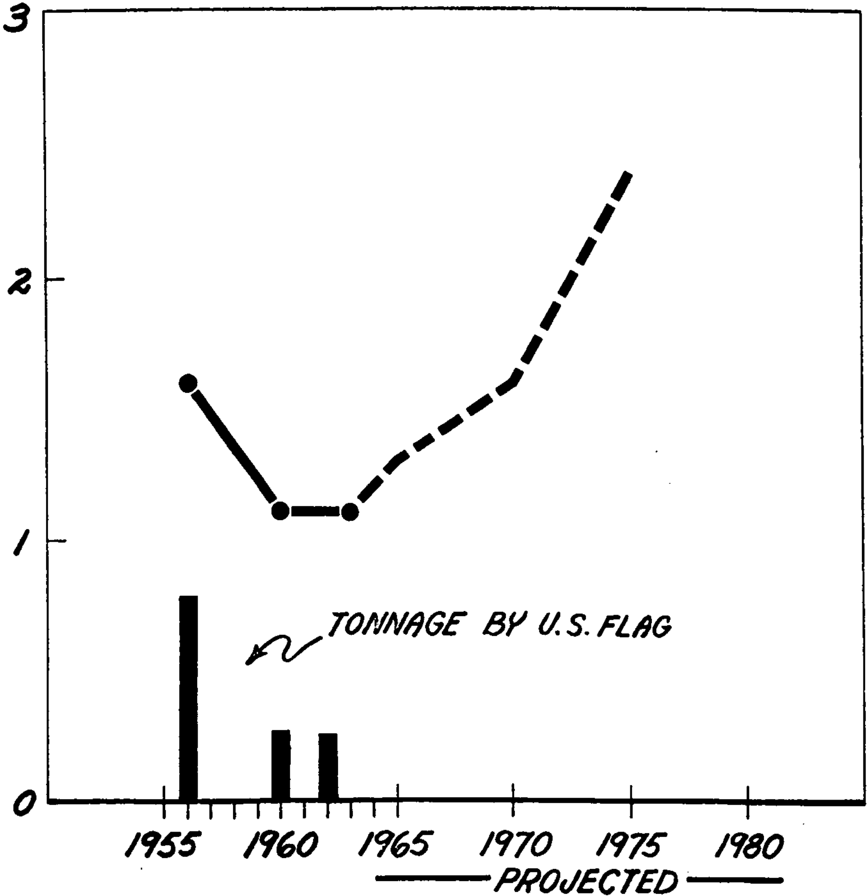
Reasons:

(a) Essential ingredient of stainless steel which is expected to increase by 1975 to about 2.5 to 2.9 million tons, as well as its use by metallurgical industries (refractories) closely related to pig iron output.

(b) Sixty percent of chromium supplies are used by metallurgical industries.

Principal Sources of U.S. Imports:

South Africa, Rhodesia and Nyasaland, Turkey, Philippines.


U.S. OCEANBORNE IMPORTS
OF CHROMITE
1955-1963 ACTUAL
MILLIONS OF LONG TONS
3
2
1
0
TONNAGE BY U.S. FLAG
1955
1960
1965
1970
1975
1980
PROJECTED

IRON ORE

IMPORTS

Import Outlook: Strong short run demand in 1965 over 1963 with steady increase through 1975.

Reasons:

(a) Iron ore production in U.S. steadily decreasing: 1950 — 40 percent world production, 1960 — 17 percent, 1962 — 14 percent.

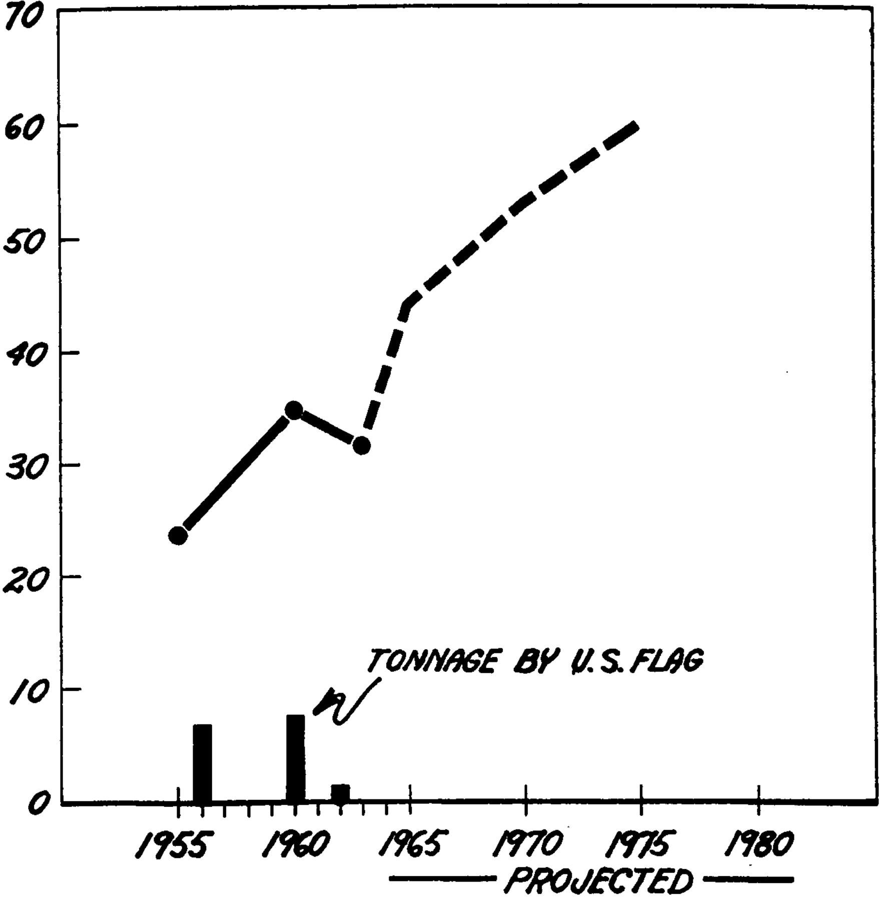
(b) As domestic production decreases and estimated production of steel ingots increases, need for foreign imports expanding. Steel ingot production estimated to rise from 99.3 million short tons in 1960 to 155 million tons in 1975.

(c) Between 1960 and 1963, a slackening of iron ore requirements due to drop in consumption of iron and steel products in the United States, Japan, Western Europe. Steel ingot production expected to increase between 45 and 50 million short tons in next 12 years.

(d) Research in use of steel increased substantially last 2 to 3 years and steel again in competitive position with nonferrous metals.

Principal Sources of U.S. Imports:

Canada (Labrador), Venezuela, Brazil, Chile, Peru, Liberia.


U.S. OCEANBORNE IMPORTS
OF IRON ORE
1955-1963 ACTUAL
MILLIONS OF LONG TONS
70
60
50
40
30
20
10
0
TONNAGE BY U.S. FLAG
1955
1960
1965
1970
1975
1980
PROJECTED

PETROLEUM PRODUCTS

IMPORTS

Import Outlook: Moderate increase in crude oil and heavy industrial fuel through 1975. No increase in light petroleum product imports.

Reasons:

(a) Crude imports forecast based upon present import program of the United States and growth rate is proportionate to United States consumption of petroleum products.

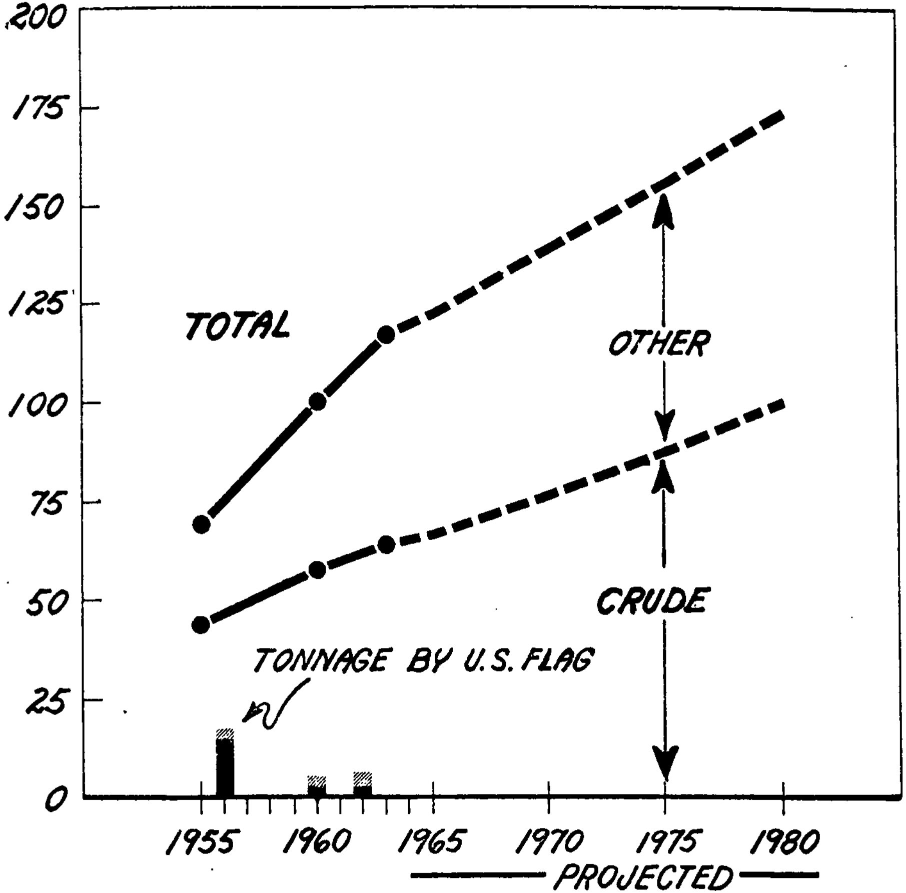
(b) Other petroleum imports — no growth forecast for the United States in consumption of residuals.

(c) Continued decline in United States production of residuals, dominant factor resulting in an increase in imports (heavy industrial fuels same as Bunker "C").

(d) No growth foreseen in imports for light petroleum products (gasoline, kerosene, light heating oils).

Principal Sources of U.S. Imports:

Caribbean Area (Venezuela, Colombia, Netherlands West Indies); Middle East (Iran, Kuwait, Qatar, Saudi Arabia, Iraq, etc.); Far East (Indonesia, Borneo); North Africa (Libya, other Africa).



U. S. OCEANBORNE IMPORTS
OF PETROLEUM PRODUCTS
1955-1963 ACTUAL
MILLIONS OF LONG TONS
200
175
150
125
100
75
50
25
0
TOTAL
OTHER
CRUDE
TONNAGE BY U.S. FLAG
1955
1960
1965
1970
1975
1980
PROJECTED

APPENDIX C

FINANCIAL RESULTS OF AEIL'S PASSENGER OPERATION

As of June 30, 1964, the passenger vessels of American Export Isbrandtsen Lines, Inc. had the following book value, part of which was represented by outstanding mortgages:

Vessel	Book Value	Mortgages
CONSTITUTION	$ 7,780,000	$ 4,213,000
INDEPENDENCE	7,460,000	4,249,000
ATLANTIC	9,925,000	6,843,000
	$25,165,000	$15,305,000

Excess of book value over outstanding mortgages (or net equity) was $9,860,000, as of that date.

Subsidy costs during the *1st half of 1964* were substantial. This was due mainly, of course, to the large crews involved.

Vessel	Crew	Subsidy
CONSTITUTION	609	$ 2,539,239
INDEPENDENCE	609	2,539,239
ATLANTIC	325	1,642,134
6 month total	1,543 men	$ 6,720,613 subsidy

Annual Subsidy — approximately $13,400,000.

Operating results for the ships for the *first half of 1964* were disappointing. There existed a net loss after the application of overhead, which overhead was developed by the direct allocation of certain discernable expenses to passenger operations.

48-063 (Part I) O-65—19

1964 Financial Picture (based on 6 months)

	CONSTITUTION and INDEPENDENCE	ATLANTIC	6 Months Total
Number of voyages	14	12	26
Voyage days	385	173	558
Revenue – Passenger	$ 8,074,788	$2,369,256	$10,444,044
Freight	970,109	80,144	1,050,253
Miscellaneous and mail	503,222	104,505	607,727
Total Revenue	$ 9,548,119	$2,553,905	$12,102,024
Expense – Vessel	10,659,198	3,421,595	14,080,793
Less Subsidy	(5,078,479)	(1,642,134)	(6,720,613)
Net Vessel Expense	5,580,719	1,779,461	7,360,180
Voyage Expense	2,067,802	781,405	2,849,207
Total Voyage Expense	7,648,521	2,560,866	10,209,387
Profit (loss) from Operations	1,899,598	(6,961)	1,892,637
Depreciation*	584,366	245,657	830,023
Interest	153,172	144,605	297,777
Profit (loss) after interest and depreciation, and before overhead	1,162,060	(397,223)	764,837
Less estimated 6 month passenger overhead			1,110,000
passenger advertising			750,000
Profit (loss) on passenger operations (6 months)			(1,095,163)
Annual Loss (based on 1st 6 months 1964)			$ 2,190,326

* Out-of-pocket mortgage payments and amortization, estimated, were: Liners $353,000, Atlantic $254,000, or total of $607,000 for the 3 ships for the 6 month period.

Significance of the Passenger Loss

This two million dollar annual loss represents:

a) No return on a net equity of $9,860,000 invested in the vessels.

b) An operating loss which is underwritten by the profitable freight operations of the company.

For example, if the $2,200,000 loss had not existed in 1963, but, instead, if passenger vessel income exactly offset all costs as shown above, the operating profit before taxes for the company would have been increased to $11,875,000 ($9,675,000, as reported in 1963, plus $2,200,000). Since the voluntary deposit of earnings made in 1963 placed the company in a recapture position for that year, an amount equal to 1/2 of the $2,200,000 in consolidated profits would have been returned to the United States for that year, either as recaptured profits (if maximum voluntary deposit) or as federal income taxes. Recapture is subject to a 10 year accounting period.

c) As above, a loss of $1,100,000 to the government of recaptured profits or, alternatively, of federal income taxes.

d) A poor return on the government's annual subsidy expenditure of $13,400,000.

e) An almost irrefutable argument against either the operator or the government making further investment in the construction of new passenger tonnage.

APPENDIX D

POSSIBLE CONSOLIDATION OF ATLANTIC COAST PASSENGER OPERATIONS

The overhead for the AEIL passenger operation represents a disproportionate percentage of total company overhead when compared with freighter operations.

	1963 AEIL Overhead plus Advertising	Overhead as a % of revenue	Overhead per voyage day
3 passenger ships	$ 3,700,000	$\frac{3.7}{22.8}$ = 16%	$\frac{37}{1,090}$ = $3,400
42 freighters	$ 8,300,000	$\frac{8.3}{78.5}$ = 10.6%	$\frac{83}{14,579}$ = $570
	$12,000,000	$\frac{1.2}{104.4}$ = 11.5%	$\frac{12}{15,669}$ = $765

Relevant Considerations

It is the considered belief of experts that the number of passenger vessels operated by any given company could be increased substantially without materially increasing the operator's shoreside organization over that now existing at AEIL. Stated conversely, the major American flag East Coast passenger operations could be consolidated with resulting economies in the following respects:

a) Branch office sales activities
b) Bookings and reservations
c) Accounting
d) Piers and terminals
e) Purchasing
f) Medical and crewing facilities
g) Claims
h) Advertising

However, these major *impediments* exist to consolidation:

a) Attachment of the various companies to the prestige value of these vessels.

b) Different labor union affiliations of the separate companies now owning the ships, with correspondingly different manning and work practices.

c) An inadequacy or uncertainty of present law insofar as the conditions under which the present funded depreciation of the ships might or might not be transferred to a new operating company.

The Economics of Consolidation

A study made in September of 1963 by a leading New York investment banker attempted to evaluate roughly the profit and loss picture for the passenger vessels of AEIL, United States Lines, Moore McCormack Lines and Grace Lines Inc., when the operations were all cumulated — with their estimated existing overhead charges — into one *combined* statement. Then, appropriate adjustments to reflect the estimated changes in cost which would accrue from a *consolidated* operation were made; the profit picture differed substantially.

Item	4 Lines Combined 1962	Consolidated Pro-forma
	(in $1,000's)	
Operating revenues	$78,397	$ 82,077
Operating expenses	96,396	100,059
Operating loss	17,999	17,982
Subsidy	34,451	35,941
Profit after subsidy	16,452	17,959
Depreciation	5,184	5,320
Overhead	14,602	8,307
Net Operating Profit (Loss)	$(3,334)	$ 4,332
Interest	(2,376)	(2,665)
Net of misc. income and expenses	(909)	(237)
Pre-tax Profit (Loss)	$(6,419)	$ 1,494

This pro-forma differs from the combined analysis mainly in the incorporation of revenues and expenses, etc. for the newly modernized liners of one company and through the estimation of a combined overhead. If the study were modified today, it would need adjustment to reflect the retirement of the S/S AMERICA of United States Lines from service, and operating crew economies reportedly achieved by Moore McCormack Lines.

The overhead assessment charged to the combined evaluation would be subject to further refinement and rationalization to put each company's figures on a consistent basis. In our opinion, the overall conclusion of the study, if made today, would not change.

AEIL Attitude Toward Consolidation

AEIL believes that the efficiencies of consolidated operation with reference to overhead, *can* be readily achieved. These economies are presently being sought piecemeal through office consolidation by selected companies where possible, and through a posture of cooperation, etc. with the other passenger lines to the extent possible.

The corporate identification or prestige dilemma is capable of solution in time, possibly through the retention of stack colors or other unique attributes reflecting the current owners of the respective ships. With candid analysis, it is believed that the companies involved will recognize the staggering cost to them and their shareholders of this illusory prestige.

The union or labor problem is more imagined than real when viewed in the context that individual lines are now operating with different labor unions in their fleets. Further, the alternative is to lay-up one or all of the ships, thus giving no employment for the large crews involved.

In short, it appears that profitable operation may be possible through the:

a) Lessening of overhead.

b) An ultra-flexible subsidy contract permitting lengthy cruising and generally "placing the ships where the business is."

c) Diminished operating expenses through volume purchasing, standard operating practices and unified terminals, etc.

The benefits from consolidation are manifest. For example, the funded depreciation on the 3 Export ships, the UNITED STATES, the BRAZIL, and the ARGENTINA (which on a current basis approximates $5 million per year) would permit the construction of at least one ship to replace the UNITED STATES in 1977 (or prior to that date). This, of course, would require the concurrence of national prestige and defense rationales, plus the success of the new company.

As to potential financial participation, AEIL believes each company would be willing to turn over its vessels for common stock in the new operation, to contribute working capital in a pro-rata amount in exchange for unsecured debt of the new company and, as needed, subscribe for a limited period of years to underwrite operating losses (before depreciation) such as might occur.

However, it seems that the Maritime Administration, in the interest of maximizing the efficiency of its subsidy aid to passenger vessels and collecting subsidy recapture from healthy subsidized freighter services, should take the moving position to bring such consolidation of operations about at a near date. Only the Maritime Administration is in the position to press for solution of the following critical issues:

a) That the new operation would, in fact, receive subsidy and a flexible subsidized service description to permit the maximum of profitable operation.

b) That legislation would be introduced and supported, as an extraordinary matter, to leave all funded depreciation from passenger ships in the respective Reserve Funds of the current Operators.

c) That, for recapture accounting and all other relevant purposes, equitable treatment would be given to the handling of advances of cash or such other assistance to the new company as is necessary.

Status of Consolidation Studies

Under the sponsorship of the Maritime Administration, the various East Coast passenger vessel operating companies have met to explore the possibilities of consolidated operation. The results have not been encouraging. However, the Maritime Administration is taking a commendable position in requiring each company analyze its passenger overhead on a consistent basis and asking it to submit a picture of the health of the company without the burdens of its passenger operation. This will permit the agency to evaluate:

1. The continued economic feasibility of subsidizing the passenger ships.

2. The effect of the passenger operations on recapture.

3. The wisdom of supporting legislation which would permit consolidation of all or some operations.

Meanwhile, the respective companies are looking at possible ways of operating joint branch offices in various cities, and at the integration of reservation activities.

* * * * * *

This section on Consolidated Passenger Vessel operations is presented only to indicate that steps can and hopefully will be taken to

improve the desirability of passenger ship operation to the present companies which own these vessels, and to show that the vast amount of subsidy aid devoted thereto can be directed to a profit rather than a loss operation. In economic perspective, and considering the overall needs of the commerce of the United States, if there is to be a choice on the expenditure of these subsidy dollars, a bulk carrier program as here envisaged offers a more attractive use for the subsidy monies involved.

THE

UNITED STATES

BULK CARGO FLEET --

PROSPECTS AND PROBLEMS

Third in a series of studies re-examining National Maritime Policies and Requirements prepared by the

COMMITTEE OF AMERICAN STEAMSHIP LINES
1000 CONNECTICUT AVENUE, N. W.
WASHINGTON, D. C. 20036

MARCH, 1965

III

FOREWORD

This is a further report prepared by the Committee of American Steamship Lines in a series of studies representing a basic contribution to the current evaluation of the maritime objectives and programs of the United States.

In recent years there has been an increasing concern both in and out of Government over the weakness of the U.S.-flag bulk cargo[1] fleet. The fleet is an aging one that carries only a small part of the enormous tonnage of bulk cargo imports and exports of the United States and the percentage of U.S.-flag participation in the carriage of such cargo has decreased. Concurrently, the large modern bulk carrier fleets of other maritime nations have steadily grown. Intensive studies of this problem are presently going on in the Government and out of it.[2] A number of proposals are being considered to strengthen this element of our merchant marine through a Government aid program.

The Committee of American Steamship Lines believes that it can make a contribution to the consideration of this important issue and accordingly has prepared this report on the problems and prospects of the U.S.-flag bulk cargo fleet.

The report:

- Reviews the history of U.S. bulk cargo movements and of the U.S.-flag bulk fleet.
- Examines the trends of U.S. bulk cargo movements and the participation of the U.S.-flag bulk fleet in our bulk cargo trades.
- Weighs the economic, military and strategic needs for such a fleet.
- Considers the cost and operational disadvantages of U.S.-flag bulk carriers *vis a vis* foreign-flag vessels.
- Examines the form of Government aid and support that would be needed to create and maintain a viable bulk cargo fleet and estimates the cost of such programs.
- Realistically assesses the cargo potentially available to long-term operations of a U.S. bulk fleet.
- Stresses the need for establishing priorities in the development of the various segments of our merchant fleet.

The Merchant Marine Act of 1936 has shown that rational government support programs can develop real and lasting strength in a segment of our merchant marine. That Act concentrated on the development of a liner fleet and has had great success, creating a U.S.-flag liner fleet which is the second largest in the world and qualitatively second to none.

Our country must now decide whether it is in the national interest to expand that program to cover the ailing bulk-carrier segment of our merchant marine. This is not an easy question to answer, and must be resolved at the highest Government levels, giving due regard to many aspects of our national interests, aspirations and responsibilities. It is the purpose of this report to help shed some light on this difficult problem.

COMMITTEE OF AMERICAN STEAMSHIP LINES

American Mail Line Ltd.
American President Lines, Ltd.
Bloomfield Steamship Company
Delta Steamship Lines, Inc.
Farrell Lines Incorporated
Grace Line, Inc.
Gulf & South American Steamship Co., Inc.
Lykes Bros. Steamship Co., Inc.
Moore-McCormack Lines, Inc.
Pacific Far East Line, Inc.
Prudential Lines, Inc.
States Steamship Company
The Oceanic Steamship Company
United States Lines Company

[1] Throughout this report the term "bulk cargo," except as otherwise specifically indicated, will refer to both liquid and dry cargo which is fungible and not generally identified by mark, count or other identification. Grain, ore, oil and petroleum products are typical bulk cargoes. Because of their nature and because they are of relatively low value, such cargoes are normally shipped in full shipload lots with speed and regularity of service of secondary importance. The vessels employed in the carriage of bulk cargo are typically contract carriers rather than common carriers. The dry bulk carriers engaged in single voyage or short term contract carriage are frequently called "tramps." Many other dry bulk carriers and tankers are employed under long-term contracts for the carriage of ores, petroleum and other industrial commodities. The tramps are more commonly engaged in the carriage of grains and other agricultural commodities.

[2] The President's Maritime Advisory Committee has had the matter high on the agenda of its meetings. In a number of his recent public utterances the Maritime Administrator has indicated that this subject is under serious study in his agency and elsewhere in the Government. See also *Position of the SIU of North America, AFL-CIO, Before the Maritime Advisory Committee* (Aug. 10, 1964).

SUMMARY OF FINDINGS AND CONCLUSIONS

Summary of Conclusions

Based on a careful survey of the U.S. bulk trades, summarized in the report and findings listed below, CASL believes that the decision whether or not to extend direct government aid on a long-term basis for the creation and maintenance of a modern, bulk-carrier fleet is a matter which should be decided promptly at the highest government level. It is not a simple decision. It involves budgetary and defense considerations, international relations, foreign exchange, seagoing labor and many other matters unique to the field of international shipping. If the decision is in the affirmative, and there are many good reasons why this should be so, CASL will lend its complete support to the program.

CASL does urge, however, if such a program is adopted by the United States, that it be based on the time-proven "parity" principles of the 1936 Act which were developed after almost a century of costly, frustrating and humiliating attempts by the United States to create a substantial maritime establishment.

In large measure, the long range success of the program will depend on access to the vast bulk import movements of ores, petroleum products and other cargoes which makes imperative settlement of existing differences between the U.S. maritime unions and the owners and users of the U.S. owned PANHONLIB fleet.

Finally, and in consonance with all objective analyses of this subject, the program must be administered in such manner and on terms and conditions that will not conflict with the successful operation of U.S.-flag common carrier services.

Findings

1. The U.S.-flag bulk cargo fleet, both in its tanker and dry cargo bulk carrier elements, is very small considering the size of our U.S. bulk cargo trade and is declining in size. It is old as compared with other national bulk fleets and in other major respects it is qualitatively deficient.

2. In pre-war years, the United States had only a small bulk carrier fleet and after an extensive survey, authorized by the 1936 Act, the Maritime Commission concluded that it would not be wise to subsidize tramp (bulk carrier) shipping.

3. Following the end of World War II, the U.S. bulk carrier fleet was reborn because of the availability of war-built ships and U.S. relief cargoes coupled with the decimation of foreign fleets. In recent years, the United States bulk cargo fleet has been supported by indirect subsidies granted in the form of rate preference on cargoes controlled by the United States.

4. There has been a tremendous growth in the movement of tonnage of bulk cargoes in the export and import trades of the United States. In 1938 there were only 45 million tons of bulk cargo in the foreign trade of the United States but by 1963, such cargo had increased to 265 million tons. The most dramatic increase has been in the increasing volume of imports—principally petroleum products and ores.

5. Bulk cargoes constitute approximately 85 per cent of total U.S. export and import cargoes by tonnage. Due to their relatively low value, however, they represent only about 20 per cent of our foreign trade on a *cargo value* basis.

6. The U.S.-flag bulk cargo fleet in 1963 carried approximately 4.8 per cent of the total U.S. bulk cargo imports and exports.

7. There are considerations of national prestige and of economic significance such as the long-range effect on the U.S. balance of payments and on the maintenance of seagoing skills and employment which weigh in favor of a new bulk carrier fleet.

8. If U.S.-flag bulk cargo vessels are forced to rely for their revenue on cargoes carried at world market rates, they cannot compete with foreign bulk cargo vessels without operating subsidies. Primarily, this is because the substantial wage cost differentials between U.S. and foreign seagoing labor result in much higher vessel operating costs. This is true even for large, new vessels with reduced crews resulting from shipboard mechanization. Legislation will be required to extend operating subsidy to bulk carriers.

9. Under any new program, bulk cargo vessels would have to be obtained by their owners at foreign market prices. The present differential between U.S. and foreign shipyard prices for dry-bulk carriers appears to be in the 50 to 55 per cent range.

10. Up to the present, successive national administrations have declined to grant shipyard subsidies for the construction of bulk carriers even though legislative authority has existed since 1952.

11. A long-range contractural commitment of aid to a bulk fleet based on operating and vessel price parity will involve yearly appropriations for shipyard and operating subsidy: this is estimated to cost about $52 million per year for a 100 ship, 25-year program.

12. Though the United States has a very substantial amount of bulk cargo moving in its foreign trades, much of this cargo would not become available to a new U.S.-flag bulk fleet because of national preferences and the control of bulk cargo movements by U.S. industries with their own foreign-flag and PanHonLib fleets.

13. The routing of most export cargo, other than U.S. Government controlled cargo, is controlled by the foreign purchaser who generally prefers to route his cargo via his national flag ships.

14. The vast majority of import bulk cargoes is controlled by large U.S. industrial interests and their cooperation must be solicited and secured as a prerequisite to any successful long-range program.

15. Industrial importers require continuity of service; therefore, it is essential that machinery be set up to resolve all labor disputes without interruption by strikes, or other incidents. Without such cooperation, the existence of even a relatively small U.S. bulk fleet (tanker and dry cargo) would be precarious and depend largely on exports of government controlled agricultural type cargo.

16. If a bulk fleet support program is to be undertaken, understandings should be reached by the Government and management with representatives of shipboard labor unions on the manning and work rules for all subsidized vessels, both liner-type vessels covered by the present 1936 Act and the new bulk cargo vessels. This would insure that the total maritime support program costs would not be excessive and would enable these U.S.-flag vessels to compete on more nearly equal terms with their foreign competition.

17. A U.S.-flag bulk cargo fleet would, under present circumstances, be at a disadvantage in a number of important respects as compared with foreign-flag vessels, even if vessel operating and capital costs are equalized with those of foreign-flag competition. Other deterrents to the use of U.S.-flag vessels in the movement of bulk cargoes include tax advantages of foreign-flag vessels, excessive U.S. Government regulation, added capital costs due to higher U.S. regulatory and crew facilities requirements and other factors.

18. Other incentives and aids needed to stimulate the expansion of a U.S.-flag bulk fleet, in addition to those insuring equal shipboard operating costs and foreign vessel construction costs, include tax incentives, mortgage insurance, changes in construction contracts, and the right to carry a substantial portion of U.S. Government-generated bulk cargoes.

19. If a national decision is made to develop a U.S. bulk cargo fleet, the program should not be subjected to excessive regulations or controls. But there should be requirements that (a) restrict such vessels to bulk operations; (b) apply appropriate conservative financial standards to the companies that seek to operate vessels under such a program; and (c) obligate bulk carrier operators to replace their vessels in an orderly but flexible manner at the end of their economic life. As in the case of subsidized liner operators, the arrangements should be reflected in long-term contracts and legislation enabling such a program should be enacted.

TABLE OF CONTENTS

	PAGE
FOREWORD	i
SUMMARY OF FINDINGS AND CONCLUSIONS	ii
Summary of Conclusions	ii
Findings	ii
BACKGROUND	1
Pre-World War II U. S. Bulk Operations in the Foreign Trade	1
The Post World War II Years	1
Dry Bulk Cargo	1
Tanker Cargo	2
Commodities	2
Status of U. S.-Flag Bulk Fleet	2
U. S. Government Bulk Fleet Policies	3
Administration	4
Preferential Rates	4
THE U. S. AND FOREIGN BULK CARGO FLEETS—A QUANTITATIVE AND QUALITATIVE ANALYSIS	5
World Wide Trends	5
The U. S. Bulk Fleet	5
Dry Bulk Vessels	5
Tankers	6
The U. S.-Owned PanHonLib Fleet	6
Foreign National Bulk Cargo Fleets	7
THE NATIONAL INTEREST IN A U. S.-FLAG BULK FLEET	8
Cargo Participation Goals	8
Balance of Payments	9
Manpower Needs	9
Strategic and Military Considerations	9
Summary	11
THE BASIC GOVERNMENT SUPPORT NEEDED TO CREATE A VIABLE U. S.-FLAG BULK CARGO FLEET	12
The Capital Cost Problem	12
Construction Subsidy for Bulk Cargo Vessels	12
The Operating Cost Problem—The Need for Operating Subsidies	13
Effect of Bulk Fleet Subsidization on Overall Merchant Marine Policy	14

TABLE OF CONTENTS (continued)

PAGE

POTENTIAL DETERRENTS TO DEVELOPMENT OF A U. S.-FLAG BULK FLEET 15
- Ship Construction Deterrents 15
  - Higher U. S. Standards 15
  - Higher Financing Costs 15
- Tax Advantages of Foreign-Flag Operation 15
- Labor Management Relations 15
- Government Regulation 15

CARGO POTENTIALLY AVAILABLE TO A U. S.-FLAG BULK CARGO FLEET 16
- U. S. Government Assistance in Development of the Market 17
- Labor Stability 17
- Cargo Preference 17

ADDITIONAL INCENTIVES NEEDED FOR A U. S.-FLAG BULK CARGO FLEET 19
- Tax Incentives 19
- Financing and Mortgage Insurance 19
- Cargo Preference 19
- Replacement Flexibility 19
- Labor Relations and Stability 19
- Limited Government Regulation 19

OBLIGATIONS THAT SHOULD BE INCLUDED IN A BULK CARGO FLEET PROGRAM 20
- Replacement Obligations 20
- Trading Restrictions 20
- Financial Qualification of Participants 20
- Modern Vessels 20

CONCLUSION 21

EXHIBITS I to III—inclusive 22-24

BACKGROUND

PRE-WORLD WAR II U.S. BULK OPERATIONS IN THE FOREIGN TRADE

Prior to World War II the U.S.-flag foreign trade bulk fleet was very small. In 1938 there were only 38 dry cargo bulk vessels of which 19 were small vessels in the 2,000 to 6,000 deadweight ton range.[3] And there were in the same period only 43 U.S.-flag tankers engaged in foreign trade, totaling 480,000 deadweight tons, of which 33 were proprietary vessels.[4]

Our bulk cargo imports and exports totaled 46 million tons of which 30 million were liquid bulk cargo, mostly petroleum products.[5] Of this total bulk movement the small U.S.-flag bulk fleet carried about 18%, most of it export liquid petroleum products.[6] There was no government support program of any significance for these vessels.

In 1936 the new merchant marine program embodied in the Merchant Marine Act of 1936 (46 *U.S.C.* Sec. 1101, *et seq.*) was inaugurated. It limited the new subsidy program to common-carrier liners by requiring operation on regular routes[7] and, therefore, provided no government aid for the bulk cargo fleet.

The Congress was not unaware of the bulk cargo shipping problem, however, and required in Section 213 of the 1936 Act (46 *U.S.C.* Sec. 1123) that a study be made of the need and practicability of establishing a U.S.-flag bulk carriage operation. The Maritime Commission's *Economic Survey of the Merchant Marine* issued in November, 1937, disclosed the results of its study of this subject.

It contained the following conclusions:

"Our studies show that it would be unwise for the United States to enter the field of tramp shipping at this time." (p. 17)

* * *

"In view of fundamental world trends, it would not be wise for the United States to undertake the subsidization of tramp shipping." (p. 18)

* * *

"From the viewpoint of national defense it is far better to subsidize cargo liners." (p. 19)

* * *

"Of all the branches of the shipping industry the tramp is the biggest gamble. There is no demand for the American Government to subsidize tramp shipping, and there is really no good reason why it should attempt to do so." (p. 19)

THE POST WORLD WAR II YEARS

The years since World War II have seen an enormous growth in the tonnage of U.S. export and import bulk cargoes. The following table illustrates this:

TABLE 1

Exports and Imports of Non-Liner Cargo in U. S. Foreign Trade

(In Millions of Long Tons)

	Dry Cargo Non-Liner	Tanker Total	Total
1951	68.6	56.2	124.8
1952	60.9	61.7	122.6
1953	47.7	65.7	113.4
1954	52.2	64.8	117.0
1955	81.8	74.2	156.0
1956	109.6	95.1	204.7
1957	128.8	106.0	234.8
1958	102.1	104.4	206.5
1959	105.5	111.3	216.8
1960	108.5	116.0	223.5
1961	107.5	114.6	222.1
1962	124.5	120.2	244.7
1963	139.5	126.0	265.5

Source: U. S. Department of Commerce, Maritime Administration, An Analysis of the Participation of U. S. and Foreign-Flag Ships in the Oceanborne Foreign Trade of the United States (1962), pp. 6-7 (figures since 1960 from Maritime Administration).

The foregoing growth in tonnage is much more significant when broken down between import and export movements. Of the total increase of 140 million tons during these thirteen years, 106 million tons or about 75% of the total was attributable to imports while exports grew by 34 million tons or 25% of the total increase. This striking growth in imports consisted largely of liquid petroleum products (about 70 million tons) and ores.

Dry Bulk Cargo

The dry bulk cargo carried by bulk carriers separated into import and export movements during this same period is shown below:

TABLE 2

Cargo Carryings of Dry Cargo Bulk Carriers in U. S. Foreign Trade

(In Millions of Long Tons)

	Exports	Imports	Total
1951	47.0	21.6	68.6
1952	38.5	22.4	60.9
1953	20.8	26.9	47.7
1954	21.8	30.4	52.2
1955	45.8	36.0	81.8
1956	66.3	43.3	109.6
1957	77.6	51.2	128.8
1958	52.9	49.2	102.1
1959	44.5	61.0	105.5
1960	49.1	59.4	108.5
1961	56.3	51.2	107.5
1962	62.3	62.2	124.5
1963	78.3	61.2	139.5

Source: U. S. Department of Commerce, Maritime Administration, An Analysis of the Participation of U. S. and Foreign-Flag Ships in the Oceanborne Foreign Trade of the United States (1962), pp. 6-7 (figures since 1960 from Maritime Administration).

---

[3] *Tramp Vessels and Tramp Traffic in the U.S. Trade, 1938* (April, 1944) p. 12.

[4] U.S. Maritime Commission, *Ocean Shipping Facts & Figures,* p. 70. 1947.

[5] U.S. Department of Commerce, Maritime Administration, *An Analysis of the Participation of U.S. and Foreign-Flag Ships in the Oceanborne Foreign Trade of the United States,* 1937, 1938, 1951-60 (Feb. 1962), Table I.

[6] *Ibid.*

[7] 46 *U.S.C.* Sec. 1171.

48-063 (Part I) O-65—20

From the foregoing table it is evident that the principal growth in dry cargo tonnage has been attributable to the steady increase in the import movement—most of which consists of unprocessed ores, the movement of which is controlled by the user and usually shipped on foreign-flag vessels owned or long-term chartered by such users. The other principal dry bulk imports are gypsum rock and sugar.

The exports of dry bulk cargo consist largely of grain, coal, phosphate rock and other fertilizer products. The effect of P.L. 480 which was enacted during the Fall of 1954 is evidenced by increased movements of grains and other Government-sponsored commodities, resulting in increased total exports during the later years.

Tanker Cargo

Aside from the abnormal export movement during the Suez crisis period, the growth of the tanker movements (almost entirely petroleum products) was represented by increased imports as is shown below:

TABLE 3

Movement of Bulk Cargo in Tanker Vessels

(In Millions of Long Tons)

	Exports	Imports	Total
1951	11.1	45.1	56.2
1952	10.9	50.8	61.7
1953	10.7	55.0	65.7
1954	8.3	56.5	64.8
1955	9.3	64.9	74.2
1956	15.5	79.6	95.1
1957	21.0	85.0	107.0
1958	9.8	94.6	104.4
1959	11.5	99.8	111.3
1960	15.1	100.9	116.0
1961	13.9	100.7	114.6
1962	13.0	107.2	120.2
1963	13.9	112.1	126.0

Source: U. S. Department of Commerce, Maritime Administration, An Analysis of the Participation of U. S. and Foreign-Flag Ships in the Oceanborne Foreign Trade of the United States (1962), pp. 6-7 (figures since 1960 from Maritime Administration).

Note: Above exports include dry cargo carried by tanker vessels which ranged between four and seven million tons in the years between 1960-3.

Commodities

In 1962, the last year for which commodity data is available, the total movements of bulk commodities consisted principally of the following (whether carried by liner, dry bulk or tanker vessels):

TABLE 4

Tonnage of Principal Bulk Cargoes

(In U. S. Oceanborne Foreign Trade, Year 1962)

	Thousands of Long Tons	% of Total
Exports		
Agricultural		
Wheat	13,962	
Corn	9,932	
Soybeans	3,926	
Sorghums	2,678	
Barley & Rye	2,411	
Animal Feeds	1,516	
Sub	34,425	14.36
Minerals and Products		
Bituminous Coal	24,942	
Iron & Steel Scrap	4,034	
Phosphate Rock	3,540	
Iron Ore	1,156	
Sulphur	1,486	
Coke	1.242	
Sub Total	36,400	15.18
Petroleum and Products	6,282	2.62
Imports		
Ores and Minerals		
Iron	28,984	
Aluminum (Bauxite)	11,791	
Other Ores	3,242	
Gypsum or Plaster Rock	4,770	
Sub Total	48,787	20.35
Agricultural		
Sugar	3,867	
Molasses	1,352	
Sub Total	5,219	2.18
Petroleum and Products	108,608	45.31
Total of Principal Cargoes	239,721	100.00

Source: See Appendix I.

Thus in contrast with the liner or common carrier trades which include many thousands of different commodities, the U.S. bulk trades consist of a small number of major cargoes, *the control of which is all important to the future prospects of a U.S. bulk carrier fleet.* This subject will be considered further in later sections of this report.

Status of U. S.-Flag Bulk Fleet

At the end of World War II the tanker fleets of the other maritime nations had been decimated and there was considerable employment for U.S.-flag war-built tankers, mostly T-2's. As late as 1950 we had 158 U.S.-flag tankers in the foreign trade with a deadweight capacity of 2,549,000 tons.[8] By 1964 this tanker fleet had dwindled to a mere 33 tankers of 745,000 dwt capacity,[9] largely obsolete and existing almost entirely on the carriage of cargo preference grain or military charters. In reality we no longer have a U.S.-flag foreign trade tanker fleet of any consequence.

The post war dry bulk cargo fleet presents a somewhat different but equally bleak picture. At the end of World War II there were large bulk movements of grain and other relief cargoes to our war-ravaged enemies and allies. The traditional foreign bulk fleets had not yet

[8] U.S. Department of Commerce, Maritime Administration, *Employment Report* (December, 1950).

[9] *Ibid.* (September, 1964).

been rebuilt which resulted in substantial employment for our war-built fleet consisting primarily of Liberty-type vessels.

In an effort to rebuild foreign merchant marines and to narrow the "dollar gap" the United States substantially aided in the reconstruction of foreign-flag fleets by selling to foreign buyers more than 1,000 war-built ships (mostly Liberties) at the same price and on the same terms at which they were made available to United States citizens. This fact coupled with the construction of new, larger and lower-cost foreign bulk carriers progressively diminished the employment opportunities of the U.S dry bulk fleet.

The U.S. bulk fleet carries only a very small percentage of our dry bulk cargoes, for example, 2.3 per cent in 1963. U.S.-flag participation in bulk carriage is discussed in detail on pp. 8 and 9. But the deficiency is not only in capacity. The qualitative defects of our dry bulk cargo fleet are serious. They are examined below.[10]

U. S. Government Bulk Fleet Policies

From time to time during the postwar years there have been re-examinations of government policies concerning our bulk fleet. Thus in 1947 the President's Advisory Committee on the Merchant Marine reviewed the subject. It recognized that there was some justification for a limited bulk fleet but concluded that public funds devoted to maintenance of a merchant marine could be spent to better advantage on the fast, high-quality ships required for liner operation.[11]

In 1950, the Senate Committee on Interstate and Foreign Commerce, under Senate Resolution 50, conducted the most intensive and comprehensive investigation of maritime matters that has been undertaken during the post war years. In its final report it concluded that:

> "Considering all factors, your subcommittee is of the opinion that aid to tramp shipping is worthy of consideration as a part of our national maritime policy provided that the aid be extended on terms and conditions that will not conflict with the successful operation of subsidized or unsubsidized berth service." [12]

In the early 1950's a number of bills intended to subsidize a tramp fleet on a long-term basis through amendment of the 1936 Act were introduced in the Congress, hearings were held, but the bills were never brought out of committee.[13]

During 1951 and 1952, the entire shipping industry, acting through the National Federation of American Shipping, supported proposals to amend the 1936 Act so as to remove the requirement in Title V that vessels built with shipyard subsidy must be operated on essential trade routes. The legislation would permit payment of construction subsidy for bulk carriers to be used in the foreign trade. This bill passed.[14] Thus, since 1952 the maritime agencies have had statutory authority to grant shipyard subsidy for bulk carriers. This authority has gone unused, however.

In April, 1954, the Department of Commerce released a comprehensive study report on maritime subsidy policy which included among its legislative recommendations the following with respect to tramp shipping: [15]

> "h. Aid to Tramps. The Department of Commerce should request legislation authorizing the Secretary of Commerce upon certification of national defense necessity by the Secretary of Defense to grant operating subsidy aid on a basis not to exceed parity with foreign competitors to ships engaged in tramp operations. Such aid should be subject to the development of an administratively feasible program and be granted only if: (1) the operator replaces or agrees to replace existing tramp ships in a manner which will assist the achievement of the construction program required for national defense; and (2) the other segments of the United States-flag fleet would not be adversely affected."

This study was not adopted as formal Government policy and neither the Department of Commerce nor the national administration sponsored legislation to effectuate this recommendation. Further, while Congress considered this report, enabling legislation was neither proposed nor enacted by it.

Other studies during more recent years have considered the problem of tramp shipping. However, the most recent authoritative study by the Maritime Evaluation Committee of the Business Council (the so-called MAREC Report) does not recommend direct subsidization of tramp shipping. Instead it proposes continuation of indirect support for our tramp vessels through the cargo preference program.[16] Other oblique references to bulk carriers are included in the MAREC recommendations on foreign-flag vessels under effective U.S. control.[17]

---

[10] See pp. 5-6, *infra*. This report does not consider, however, the plight of our overage Great Lakes bulk fleet which consists of about 270 ships, mostly ore carriers.

[11] Report, *President's Advisory Committee on the Merchant Marine* (1947) p. 49.

[12] U.S. Senate Committee on Interstate and Foreign Commerce, 81st Cong., Report No. 2494, p. 35. The term "berth services" is another term for "liner services."

[13] For example, H.R. 6719, 81st Congress, 2nd Sess. and S. 1829, 83rd Congress, 1st Sess.

[14] Act of July 17, 1952, 66 Stat. 760, 46 *U.S.C.* Sec. 1151.

[15] *Maritime Subsidy Policy—A Review of Maritime Subsidy Policy in Light of Present National Requirements for a Merchant Marine and a Shipbuilding Industry*, April, 1954, p. 123. Prepared by the Office of the Under Secretary of Commerce for Transportation and the Maritime Administration.

[16] The Maritime Evaluation Committee of the Business Council, *Final Report to the Secretary of Commerce*, January 23, 1963 (pp. 62-64).

[17] *Ibid.* pp. 13-14.

Administration

Probably because of national budgetary considerations, successive national administrations have elected neither to sponsor long-range tramp legislation nor to implement existing provisions of law permitting the construction of bulk carriers with the aid of shipyard subsidies under Title V and of guaranteed mortgage financing under Title XI of the 1936 Act.

At the present time, four applications requesting shipyard subsidy to aid in the construction of a total of nine bulk carriers are on file with the Maritime Administration. It would appear that there is no real prospect of action on these applications unless our national policy is changed.

In 1962, Secretary of Commerce Hodges affirmed denial by the Maritime Administration of construction subsidy for two bulk carriers which the Bethlehem Steel Company proposed to build in the United States basing his decision on:

1. Lack of specific appropriation authority;
2. Giving priority to liner vessels for limited ship construction appropriations;
3. Avoiding establishment of a precedent that could lead to very substantial Government expenditures;
4. The Defense Department's position that it would not support subsidization of bulk vessels if this resulted in reduction of liner construction;
5. Doubts whether subsidy now limited to common carriage should be extended to private carriage.

Preferential Rates

The principal form of aid to U.S.-flag bulk shipping has been provided through the so-called cargo preference program. The basic law, Public Law 664, (46 *U.S.C.* Sec. 1241 (b)), was enacted in 1954.[18] It provided that at least 50 per cent of the aid cargoes of the United States were to be carried by U.S.-flag vessels. The cargo rates were to be "fair and reasonable rates for United States-flag commercial vessels." In practice, because of higher U.S. vessel costs, during most of the ensuing years bulk cargo rates have been fixed at levels substantially above those available in the world market for the charter of foreign flag ships.

Implementation of this law and other related statutes and regulations of a similar nature[19] has maintained the movement of bulk cargoes under this program in U.S.-flag bulk vessels. Thus, in 1962, U.S. bulk cargo freighters carried over 3,728,000 tons of wheat, corn, rice, barley and rye.[20] U.S.-flag tankers carried a remarkable 1,555,000 tons of those dry cargoes in that year.[21] Virtually all of this was cargo obtained under the cargo preference laws. Without the support of this program our non-liner dry cargo fleet would virtually disappear. And, as indicated above, our few U.S. tankers in the foreign trade have become increasingly dependent on the carriage of dry bulk cargo under the cargo preference program.

[18] Prior to 1954 there were a number of cargo preference riders to the foreign aid acts. Thus, the first Economic Cooperation Act in 1948 required 50% of the commodities moving under it to be carried by U.S.-flag vessels.

[19] E.g., 7 *U.S.C.* Sec. 1691, *et seq.*; 15 *U.S.C.* 616 (a); 10 *U.S.C.* Sec. 2631; Public Resolution 17, March 1934.

[20] Maritime Administration (compiled from Bureau of Census statistics).

[21] *Ibid.*

THE U.S. AND FOREIGN BULK CARGO FLEETS—
A Quantitative and Qualitative Analysis

WORLD WIDE TRENDS

Before and during World War II the typical vessel in the world dry bulk cargo fleet was an old tramp freighter, frequently an obsolete liner-type vessel, with a speed of not more than 12 knots (and usually less) and a capacity of less than 10,000 dwt. Since the war and particularly in the past 10 years the picture has been changing dramatically. An increasing number of the dry bulk vessels of the world are very large vessels of relatively high shaft horsepower and of modern design. Thus today a typical, new foreign-flag dry bulk carrier built primarily for the tramping trade would have a deadweight capacity of 25,000 to 35,000 tons and a speed of 14-16 knots. A number of these vessels have automated engine rooms and other mechanization features and hence have crews in the 30 to 35 men range, or even less.

For the carriage of industrial-type dry bulk cargoes in a regular, raw material supply system such as for the carriage of iron ore to a steel company's plants, even larger type vessels are being built and operated under foreign-flag. These new bulk carriers typically range from 50,000 up to 75,000 tons deadweight. An example of a bulk cargo vessel in this category is a modern ore carrier, the LONG BEACH MARU, owned by Daido Kaium Kaisha and delivered by Mitsubishi Shipbuilding & Engineering Co., Ltd. in December, 1963. This vessel has a deadweight capacity of 53,000 tons, is 705 feet long, has a beam of 103 feet and a service speed of 16.6 knots. It carries iron ore on a regular basis from Long Beach, California to Wayakama, Japan. The vessel has extensive automation and has a crew of 36 men (without the radio operators and doctor required by Japanese law, the crew would be 33 men).[22]

Another type of bulk carrier that is becoming more common today is the large ore/oil carrier. An example of this kind of vessel is the SS SAN JUAN PROSPECTOR, an American-owned Liberian flag vessel, manned by a Japanese crew. This steam turbine vessel, built in 1962, has a dwt capacity of over 71,000 tons, a speed of 16.5 knots, is 835 feet long and 106 feet in beam. It carries iron ore from South America to Japan, then goes in ballast to the Persian Gulf where it loads crude oil for San Francisco. The vessel then proceeds from San Francisco in ballast for South America. The longest scheduled port time for the discharge or loading of a full load is three days for oil and 1¾ days for ore.

[22] For further description of this vessel see *Maritime Engineering Log*, January 1964, p. 22E.

An even greater technical revolution has taken place in the world tanker fleet. In the immediate postwar period, a typical large tanker was the U.S. war-built T-2 tanker. This vessel has a deadweight capacity of 16,500 tons, is 523 feet in length, 68 feet in beam, and has a nominal speed of 14 knots. As the years have passed since the end of World War II, the size of tankers has increased enormously and, except for vessels built for special situations, virtually all tankers being built today are in sizes in excess of 35,000 dwt and most of them in excess of 50,000 dwt. Thus, on May 1, 1964, Japanese yards, the principal builder of tankers today, had under construction 121 tankers of 7,358,900 total tons deadweight. This is an average vessel size of over 60,000 dwt.[23]

A good example of this new breed of tanker is the recently completed KIRISHIMA MARU. This vessel has a deadweight capacity of 100,880 tons, a speed, at normal power under full load, of 16.8 knots, an overall length of 859 feet, and a beam of 132 feet. The vessel is equipped with an automated engine room and many other mechanized features. It is manned with a 35-man crew, including three crew members not found on U.S. vessels, but required by Japanese law (a doctor, and a 2nd and 3rd wireless operator).[24]

THE U. S. BULK FLEET

Dry Bulk Vessels

The U.S.-flag dry bulk cargo fleet actively engaged in foreign trade currently numbers about 85 vessels.[25] Of these U.S.-flag dry bulk vessels, 63 are old, obsolete Liberty vessels[26] which have a deadweight capacity of only 10,500 tons, a speed of about 11 knots and a typical crew of 37-42 men. This small fleet is in contrast to a total of 1,726 dry bulk carrier vessels of over 23 million dwt throughout the world.[27]

In recent years under the Vessel Exchange Act of 1960,[28] 18 Liberty vessels have been turned in to the

[23] CASL Review of Maritime Policy, J. J. Henry Co., Project #237-114, 1964-5. See also Exhibit III in the Appendix.

[24] A more detailed description of this vessel can be found in *Japan Shipping & Shipbuilding*, Vol. IX, No. 10, January, 1965.

[25] U.S. Maritime Administration, *Dry Cargo Service and Area Report*, (Sept. 1964). The total fleet numbers 134 ships, of which 115 were active, including charters.

[26] Maritime Administration.

[27] Maritime Administration.

[28] 46 *U.S.C.* Sec. 1160(i).

U.S. Government in exchange for more efficient vessels such as Victory and C-type vessels.[29] But even these are all war-built vessels of small capacity and are relatively inefficient dry bulk vessels as compared with today's modern bulk carriers. The U.S.-flag dry bulk cargo fleet on any basis is woefully deficient in quantity and quality.

Tankers

The U.S.-flag, privately owned tanker fleet at the end of 1963 consisted of 384 vessels[30] of 7,792,000 dwt. Of these vessels all but approximately 30 are engaged either in the protected domestic trades, are laid up, or are chartered to the U.S. Military Sea Transportation Service.[31] With their high operating and capital costs the only way in which most of these few U.S.-flag foreign trade tankers can survive today is by carrying dry bulk cargoes under the cargo preference program. Most of the vessels in this fleet are obsolete in size and speed as well as age. Our foreign trade tanker fleet has, in short, virtually ceased to exist.

THE U.S. OWNED PANHONLIB FLEET

A phenomenon of the post-war period has been the substantial growth of the U.S.-owned foreign flag fleet, among which are vessels owned by U.S. corporations or their owned or controlled foreign subsidiaries and registered under the flags of Panama, Honduras and Liberia (PanHonLib). In 1963 there were approximately 145 non-liner dry cargo vessels of 2,721,000 dwt and 264 tankers of 8,429,000 dwt owned by U.S. capital but registered under these PanHonLib flags and manned almost entirely by non-U.S. citizen crews.[32] The U.S. companies which are the ultimate owners of these vessels usually hold them through wholly-owned foreign corporations. These companies normally are incorporated in countries where there is no income tax payable by a corporation except on income arising from actual business activity in the incorporating country itself. Thus, the shipping income of such corporations is normally not subject to tax until such time as it is brought into this country by the parent company as dividend or other income.[33]

Such vessels can, under the laws of the registering country, engage any type of crew they wish both as to size and nationality.[34] This fact together with the tax advantages and freedom from regulation, has made the PanHonLib vessel an attractive method for U.S. business to meet its ocean transportation needs.

Most of these U.S.-owned PanHonLib vessels are treated by the U.S. Navy as under "effective U.S. control," i.e., as vessels the Navy believes "can reasonably be expected to be made available to the United States in time of national emergency."[35] Thus, in October, 1964, the Navy listed 80 bulk and ore carriers of 2,431,000 dwt and 169 tankers of 9,344,000 dwt as being EUSC ("effective U.S. control") vessels.[36]

The U.S.-owned PanHonLib fleet carries a substantial quantity of the dry bulk and tanker cargo moving in the U.S. foreign trade. In a study made of 1960 cargo movements, it was shown that EUSC vessels carried 54.5 per cent of the total proprietary industrial dry bulk cargoes (largely ore and Bauxite imports) in our foreign trade, 7.5 per cent of the remaining dry bulk cargo traffic and 35 per cent of our tanker cargo.[37]

The U.S.-owned PanHonLib bulk fleet is a far more modern fleet than the U.S.-flag bulk fleet. Many new, large bulk carriers and tankers being built in Japan today are for foreign-flag operation by U.S.-owned companies. About 60 per cent of the dry bulk cargo vessels and 75 per cent of the tankers of the PanHonLib fleet are under 10 years of age.[38] And 62 per cent of the bulk cargo vessels have speeds of over 14 knots while 70 per cent of the tankers have speeds of 16 knots or over.[39]

U.S. maritime labor has recognized that these vessels carry a significant portion of the oceangoing U.S. foreign trade but employ few U.S. seamen, mostly officers. A few years ago U.S. seagoing unions attempted to organize the foreign seamen on such vessels. This activity was curtailed, however, when early in 1963 the U.S. Supreme Court ruled in the case of *McCulloch v. Marineros de Honduras*, 372 U.S. 10 (1963), that this organizing activity was not covered by the National Labor Relations Act, though the vessel in question was owned by a subsidiary of a U. S. corporation.

---

[29] Maritime Administration. Some of the vessels received in exchange will not be used in bulk cargo operations, however.

[30] U.S. Maritime Administration, Office of Statistics, Ship Data Branch.

[31] U.S. Maritime Administration, *Employment Report*, (December, 1964) p. 5.

[32] U.S. Department of Commerce, Maritime Administration, *Ships Registered Under the Honduran, Liberian and Panamanian Flags*, (June, 1963) pp. 1, 11. It should be pointed out that not all PanHonLib vessels are U.S. owned. Possibly two-thirds of the vessels registered under these flags are not owned by U.S. interests. U.S. Department of Commerce, Maritime Administration, *Changing Patterns in U.S. Trade and Shipping Capacity*, 1964, p. 10.

[33] See p. 15, *infra*.

[34] Many of the U.S.-owned tanker vessels, for example, have had Italian crews with U.S. officers. A number of the newer bulk vessels have Japanese crews. Many other variations exist.

[35] U.S. Military Sea Transportation Service, *Annex to Merchant Ship Register*, Oct. 1964.

[36] Maritime Administration. See also *Changing Patterns, op. cit.* p. 10.

[37] Maritime Administration, *An Analysis of the Ships Under "Effective U.S. Control"* (1962) Table 2. See also *Changing Patterns, op. cit.*, Table 8.

[38] See MSTS, *Annex to Merchant Ship Register* (Oct., 1964). *cf. Changing Patterns, op. cit.*, p. 11.

[39] *Ibid.*

FOREIGN NATIONAL BULK CARGO FLEETS

There were 1,726 dry bulk cargo vessels and 3,436 tankers in the world fleet in 1963. Less than 10 per cent of these were U.S.-flag vessels, including our domestic trade vessels.[40] The distribution of this fleet among the maritime countries of the world appears in the Appendix as Exhibit II.

In a recent study of singledeck dry bulk cargo vessels of 10,000 dwt or larger, it is reported that on January 1, 1964, there were 920 such vessels in the world fleet with a total deadweight capacity of 19,514,000 tons.[41] On that date there were on order in the world shipyards 181 such ships of a deadweight capacity of 5,857,000 tons.[42] During 1963 that fleet had a net growth of 164 vessels totaling 4.5 million dwt. This world dry bulk carrier fleet (as defined above) is very modern—over 63 per cent of its vessels have been built in the past five years.[43] Of the dry cargo carriers on order on January 1, 1964, more than 75 per cent have a deadweight capacity of over 25,000 tons. The average speed of these vessels on order at that time was 15.4 knots and over 30 per cent of the vessels being built were of a speed of 16 knots or more.[44]

[40] U.S. Maritime Administration, Office of Statistics, Ship Data Branch.

[41] Fearnley & Egers Research Department, Oslo, Norway, *World Bulk Carrier Report*, January 1, 1964.

[42] *Ibid.* p. 8.

[43] *Ibid.* p. 4.

[44] *Ibid.* p. 6.

The five leading flags of registry of such dry bulk carrier vessels as of January 1, 1964 were the following:

TABLE 5

Country	No.	1,000 t. dw.	% of World
All Dry Bulk Carriers			
Liberia	141	3972	20.4
Norway	184	3784	19.4
UK	102	1809	9 3
Japan	70	1571	8 1
Greece	59	1392	7 1
Ore Carriers			
Liberia	58	2145	28.7
Norway	37	855	11.4
UK	54	925	12.4
Japan	47	1188	15.9
Greece	8	274	3.7
Other Bulk Carriers			
Liberia	83	1827	15.2
Norway	147	2929	24.3
UK	48	884	7.4
Japan	23	383	3.2
Greece	51	1118	9.3

Source: Fearnley & Egers, World Bulk Carrier Report, op. cit

A further indication of the trend of the world bulk carrier and tanker fleet can be seen from the record of the vessels of these types delivered by the shipyards of Japan in 1964. Exhibit III in the Appendix lists all bulk carriers and tankers over 10,000 dwt launched in 1964 by the 24 major shipyards of Japan, the principal center for construction of these types of vessels.

THE NATIONAL INTEREST IN A U.S.-FLAG BULK FLEET

In deciding what policy the United States should adopt concerning long-term financial support of a U.S.-flag bulk fleet, a careful review must be made of the need for such a fleet. Some of the more common reasons given for encouraging the development of a bulk fleet are reviewed here.

CARGO PARTICIPATION GOALS

It has long been a goal of U.S. Merchant Marine policy to achieve the carriage of "a substantial portion of the waterborne export and import foreign commerce of the United States." [45] Usually when this subject is discussed, the participation of the U.S. Merchant Marine in the carriage of U.S. exports and imports is measured by the *tons of cargo* it has carried. Thus, the Maritime Administration in determining the adequacy of service on an essential trade route for the purpose of awarding subsidy to a new operator under Section 605(c) of the 1936 Act has traditionally measured adequacy of service in terms of cargo tonnage carried.[46]

The goal for adequate service is usually expressed as 50 per cent of the cargo tonnage available to the type of ship in question.[47]

During 1963, U.S.-flag vessels carried only 8.5 per cent of the total dry and liquid, liner and bulk commercial cargo tonnage in the foreign trade of the United States when measured on strictly a tonnage basis.[48]

If the tonnage of the common carrier liner service carryings is removed the figures then become:

	1963 (In millions of long tons)		
	U. S. Flag	Total	% of Total
Non-Liners			
Dry cargo carriers	7.2	139.5	5.2%
Tankers	5.6	126.0	4.4%
TOTAL	12.8	265.5	4.8%

Source: U. S. Department of Commerce, Maritime Administration Office of Statistics.

A tonnage approach to appraising the success of our Merchant Marine in carrying the cargoes of our country is an erroneous over-simplification, at least in judging the economic significance of our participation. It completely overlooks the *value* of the cargo carried and the *foreign exchange* earned or saved. The carriage of a ton of ore worth a few dollars should not be equated with a ton of machinery worth thousands of dollars in determining the degree of value in our participation in the carriage of our trade. From nearly every economic standpoint, value would appear to be a better measure of the success of a national merchant marine. Looking at the problem from this point of view, the figures on the percentage of cargo carried by our merchant fleet look quite different .

This can be illustrated by the following facts. Bulk cargo, dry and liquid, accounted for approximately 85 percent of *the tonnage* of our total foreign commerce in 1962. From the standpoint of the *value* of the cargo, however, *this bulk cargo was only 20 per cent of the total value of all the U.S. foreign commerce of that year.*[49] The non-bulk liner cargoes such as finished manufactured goods are the most significant and valuable cargoes in our foreign trade. It is obvious, however, that if bulk cargo tonnage is lumped together with valuable liner cargo tonnage in appraising the merchant marine's participation in cargo carriage a highly distorted picture is given.

As indicated above, liner-type cargoes currently approximate about 80 per cent of the value of the entire foreign trade of the United States. The predominant value of these liner-type cargoes provided the underly-

[45] Section 101, Merchant Marine Act, 1936 (46 *U.S.C.* Sec. 1101).

[46] See, e.g., *Prudential Steamship Corp.—Subsidy, Route 10,* 5 F.M.B. 758, 761 (1959); *Gulf & So. Amer. SS Co.—Service Extension, Route 31,* 5 F.M.B. 747, 753-54 (1959); *Isbrandtsen Co., Inc.*—Subsidy, *E/B Round the World,* 5 F.M.B. 448, 455-56 (1958); *Arnold Bernstein Line, Inc.*—Subsidy, Route 8, 5 F.M.B. 46, 50 (1956); *American President Lines—Calls, Round-the-World Service,* 4 F.M.B. 681, 694 (1955); *Grace Line, Inc.—Service of Port-au-Prince* 6 F.M.B. 278 (1961); *Lykes Bros. S.S.Co. et al—Service Extension, Route 21,* 6 F.M.B. 195 (1961).

[47] *Atlantic Express Lines of America, Inc.,* 2 SRR at 732-3 (Secretary of Commerce, 1963). Since the operating subsidy provisions of the 1936 Act cover only liner vessels, only liner carryings are examined in these cases.

[48] U.S. Department of Commerce, Maritime Administration, Office of Statistics.

[49] Committee of American Steamship Lines, *Progress of the U.S. Liner Fleet Under the Merchant Marine Act, 1936* (Dec. 1964), p. 6.

ing rationale for the development of the 1936 Act as a liner Act.

In the liner trade, cargo revenues provide a good basis for measuring market penetration and here the American liners have done well—almost 37 per cent of the total liner carriage in 1962.[50]

Thus a meaningful statistical assessment of our foreign trade would summarize the carryings of each of the sectors, as follows:[51]

Carryings by U.S. Vessels	Year of 1962 % of Movement
Cargo liners based on % of cargo liner revenues—exclusive of military	37.0%
Bulk Carriers—based on long-tons	
Dry	6.2%
Tankers	4.2%

Two facts are clear in all of this. The *first* is that *the U.S.-flag liner fleet is capturing a very respectable percentage of the liner movement.* The *second* equally clear fact is that *the U.S.-bulk fleet carries very little of the bulk cargoes imported and exported by our country.*

BALANCE OF PAYMENTS

A major reason often advanced in support of expanding our bulk cargo fleet is that it would improve our critical balance of payments problem. The United States, in recent years, has experienced a chronic deficit in its balance of foreign exchange payments. For example, the 1964 deficit totaled nearly $3 billion. This compares to a 1963 deficit of $3.3 billion.

The present U. S. flag merchant fleet has made a substantial contribution toward meeting our foreign exchange needs by collecting foreign exchange for freight and passage from foreign shippers and passengers and by conserving dollars when U. S. citizens ship or travel. It is estimated that in 1962, the last year for which complete data is available, this figure amounted to $920 million after deducting all foreign disbursements for stevedoring, foreign port charges, and the like. The maritime industry ranked third behind the aircraft and auto manufacturing industries in earnings in the foreign trade.[52] Most of these foreign trade earnings are by U. S. liner vessels because they carry a high percentage of the most valuable cargoes which command higher freight rates.[53]

As already described, most of the U.S. bulk cargo imports and exports are carried on foreign flag vessels. Though the ocean freight rates per ton of such cargo are very low, thus reducing the effect this segment of shipping has on the balance of payments, the consequences are still significant, however.

In the world bulk trades, the contract terms, methods of payment and repatriation of funds are extremely varied and in the case of the United States, the balance of payments problem is even more complicated by the existence of a large foreign-flag fleet owned by U. S. capital including many of the industrial users. Under these circumstances, it is impossible to fix with any precision the extent of improvement which the existence of an expanded U.S.-bulk fleet would have on our balance of payments in the near-term future. For example, U. S. oil companies owning foreign-flag tankers may reflect little or no transportation charges in U. S. dollars, prefering to use foreign currency for this purpose. Exact figures on the balance of payment earnings of a U. S. bulk cargo fleet are difficult to estimate because of the wide variation in bulk carrier operations and financial arrangements. Nevertheless, it does seem plain that a successful U.S. bulk fleet would contribute materially to the long-term U. S. balance of payments position.

MANPOWER NEEDS

An important goal of our Government's program for the support of its merchant marine has been the maintenance of a trained pool of U. S. citizen seagoing personnel. The shrinking size of our merchant fleet together with technological improvements in newly constructed vessels, is reducing employment opportunities of American seamen. Normal attrition, early retirement and the moderate growth of some segments of the merchant fleet will take care of much of the effect of this process on the seamen presently in the maritime labor pool. But a U. S. flag bulk carrier fleet would help maintain an active pool of trained U. S. citizen seamen with maritime skills and experience, which is an important element of strength for a great nation in a troubled world.

STRATEGIC AND MILITARY CONSIDERATIONS

The United States has, since the days of the 1930's, become a substantial importer of vast quantities of raw materials that are essential to the operation of its huge industrial complex. Where before World War II the import of iron ore was a rarity, for example, the United States now imports an annual total of 29 million tons of iron ore (exclusive of that moving across the Great Lakes).[54] Twelve million tons of aluminum ore and concentrates and 109 million tons of petroleum are imported annually.

There are, of course, many strategic material imports such as tungsten, chrome and manganese ores which are essential to our production. These are stockpiled under our Federal stockpile program[55] to provide a three-year supply. But these more exotic ores move in relatively small quantities[56] so that our present bulk

[50] *Ibid.*, p. 7.

[51] *Ibid.*, p. 7.

[52] For detailed discussion see CASL, *Progress of U.S. Liner Fleet, op. cit.*, p. 25 and Exhibit XVII thereof.

[53] *Ibid.*

[54] U.S. Bureau of the Census.

[55] 50 *U.S.C.* Sec. 98, *et seq.*

[56] For example, in 1962, Manganese ore—1.6 million tons; chrome ore—800,000 tons.

fleet augmented by our U.S.-flag liner fleet [57] could meet any needs for import of such commodities, should our stockpile of such materials prove inadequate in an emergency. Therefore, it would not appear that there is any strategic need for a large U.S.-flag bulk fleet to carry these special types of cargo.

The principal defense concern, then, is with the commodities which we import in large quantities—iron ore, aluminum ores and concentrates and bulk petroleum, principally crude oil. In all of these categories, even if the foreign-flag bulk carriers and tankers presently carrying these commodities to our ports became, under emergency circumstances, unavailable for their carriage, it is believed that this country has an adequate reserve supply for an extended emergency period. Thus, in 1963, of the total crude oil consumed in the United States, only 13 per cent was shipped in from foreign sources,[58] and domestic production of petroleum is severely restricted in most states. There are substantial iron ore deposits in this country, though much of it of a lower grade than imported ores. Canadian ore would continue to move. There would probably be, however, a serious dislocation of supply of these raw materials before we could bring into production low grade ore deposits. alter oil field production, realign domestic transportation to carry this new burden, and meet the other problems this situation would create.

Another element of the strategic problem is the question of the dependability of the U.S.-owned PanHonLib fleet, many of the units of which are owned or long-term chartered by oil, steel and aluminum companies. A crucial issue in determining the strategic need for a bulk carrier fleet is whether these vessels could be depended upon in a crisis.

The U. S. Navy's program of designating PanHonLib vessels that they deem "under effective U. S. control" is largely based on a degree of reliance on such vessels and their crews. Whether or not such reliance is justified is difficult for CASL to determine. It is obvious, however, that U. S. citizen crews will be far more dependable in time of war or national emergency than the polyglot crews of the PanHonLib fleet. In his 1963 report to the Senate Interstate and Foreign Commerce Committee on the merchant fleet,[59] Vice Admiral Sylvester, Deputy Chief of Naval Operations (Logistics) had this to say about the "effective control" concept:

> "The additional sealift resources listed consist of certain foreign-registered merchant ships considered as being under 'effective U.S. control' for emergency use. The term 'effective U.S. control' applies to selected American-owned ships which have been registered by their owners under the so-called 'flags of convenience' (Panama, Liberia, and Honduras).
>
> "In many cases, contracts have been made or assurances provided by the owners of these ships, with the Maritime Administration, to make their ships available in time of national emergency upon call of the Maritime Administration.
>
> "Additional considerations, such as absence of operational control restrictions in the laws of Panama, Liberia, and Honduras, the lack of shipping requirements on the part of these nations, the probability that they will remain neutral in the event of war, precedents established in World War II when all American-owned ships under Panamanian and Honduran flags were assimilated into the U. S. war effort, and related considerations pertaining to protection of shipping, war risk insurance and ship warrants tend to assure the availability of these ships for emergency use by the U. S. The Departments of Defense and Commerce consider that such ships can be reasonably expected to be available and are therefore under 'effective U. S. control.' "

On the other hand, the Navy does not rely on vessels of NATO nations that comprise a large percentage of the vessels carrying our U. S. bulk cargoes. The Sylvester report states:

> "In an emergency situation involving the NATO alliance, some reliance might be put on NATO nations to assist in providing our emergency shipping needs. It is probable however that the total combined shipping requirements of the NATO nations will exceed the total shipping capabilities available. Additionally, some delay is to be expected before allocation of shipping on an international basis can be fully effective. Of utmost significance is the fact that the interests of the United States are global, and emergencies may well arise wherein our interests would not be identical with those of our European Allies.
>
> "In an emergency situation not involving the NATO Alliance, privately owned shipping under the flags of NATO nations and other free world nations could possibly be chartered. Charter rates and insurance costs would in all probability be very high."

Another aspect of the question of the strategic need for a U. S. flag bulk fleet is the use of such vessels as military auxiliaries. The modern dry cargo bulk carriers are not attractive vessels as military auxiliaries. They are of a relatively low speed (16 knots as compared with the 20 to 23 knot speed of the modern U. S. flag liner vessels). An equally serious deficiency is the fact that

[57] Which in turn can be supplemented by break-out of vessels in our Government reserve fleet.

[58] U.S. Department of Interior. Bureau of Mines. *Mineral Yearbook.*

[59] *Congressional Information Bureau.* (Vol. 67, No. 98—Cargo) pp. 1-8.

such vessels as they are now built do not have any decks other than the weather deck. Since they carry cargoes that are normally loaded and discharged by shoreside equipment such as suction pipes, conveyers, cranes and the like, the dry bulk vessels usually have only rudimentary cargo gear and are particularly deficient in heavy lift gear so necessary to move modern military equipment. Thus, they are not efficient carriers of the liner-type cargoes that are carried by military auxiliaries and which require the multi-deck arrangement and cargo handling gear of the modern liner-type vessel.[60] Nor would such vessels lend themselves to personnel carriage.

One important military auxiliary function which dry bulk vessels can perform is to provide dependable transportation of bulk agricultural products to feed and thereby stabilize a hungry country in which our military is operating.

The military auxiliary function of tankers is, of course, much clearer. Our modern military operations on sea, in the air and on the ground require prodigious amounts of liquid bulk petroleum products. While the Navy has some capability of its own in this regard, any extensive air, sea or land warfare of a conventional, non-nuclear type would require the support of a substantial nucleus of civilian-owned tankers. There are a considerable number of modern tankers in the U. S. domestic trades which can be used to help meet the military needs. While the recent rapid growth of pipeline transportation between U. S. coastal areas would, in an emergency, permit some of these vessels to be diverted to military use,[61] it is unlikely that a sufficient number of modern U. S. tankers will be available to meet both military and industrial needs under war or emergency conditions.

[60] The present U.S.-flag tramp fleet does include Victory and C-type vessels which are liner-type vessels and therefore have continuing value as military auxiliaries. These ships are, however, mostly war-built and the duress of operating under emergency or war-time conditions will limit their reliability.

In any case, insofar as any future construction is concerned, if the Department of Defense clearly specifies the design criteria which it would like included in dry bulk carrier vessels, it is possible that some of the defense deficiencies of these bulk carriers may be overcome—at least in part. It will not be feasible to go very far in this respect, however, without making the vessels uncompetitive.

SUMMARY

Government support of a new bulk cargo fleet is clearly justifiable on the basis of long-term improvements in:

A. U. S.-flag cargo participation in the bulk trades
B. Balance of payments
C. Availability of trained citizen manpower

Insofar as strategic and military factors are concerned, the issue appears to turn on the reliability of the "effective control" fleet. It is clear that the existence of a modern, U. S. owned and citizen-manned fleet would enhance both the strategic and military potential of the United States, and that a national bulk fleet should be a part of the paraphernalia of a great power in today's world.

[61] *Congressional Information Bureau*, op. cit., p. 6. It is interesting to note that the Navy prefers for its use tankers of a speed of 20 knots or more and of a deadweight capacity of from 17,000 dwt to 35,000 dwt. These ships are faster and smaller than most of the commercial tankers being built today.

THE BASIC GOVERNMENT SUPPORT NEEDED TO CREATE A VIABLE U.S.-FLAG BULK CARGO FLEET

It is the purpose of this portion of the study to review the support needed to create a strong and healthy U. S.-flag bulk cargo fleet if such a policy were to be adopted.

THE CAPITAL COST PROBLEM

One of the principal hurdles to the development of a U. S.-bulk cargo fleet is the high cost of constructing vessels in United States shipyards. U. S. law presently permits vessels built in foreign yards to be registered under the U. S.-flag,[62] but these vessels are under serious handicap. They can carry no U. S. Government cargo for three years after transfer [63] and they are permanently barred from the U. S. domestic trades.[64] These barriers have operated to prevent foreign construction of tankers and dry bulk cargo vessels for operation under U. S.-flag for, as will be more fully developed below,[65] a new U. S.-flag tanker or dry bulk cargo vessel with its higher operating costs, cannot survive without operating subsidy unless it carries Government cargoes at rates higher than the world rate for bulk cargoes, or engages in the domestic trade.

Construction, in United States yards, of bulk vessels to be operated in foreign trade under U. S.-flag, has not been feasible because of the high cost of such construction. The Committee of American Steamship Lines has recently had a study made for it by the well known New York naval architects, J. J. Henry Co., Inc., of two large bulk carrier vessels of 25,000 dwt and 55,000 dwt. Their study of U.S. and Japanese ship construction costs leads them to conclude that it would cost more than twice as much to build such vessels in U. S. yards today than in the Japanese yards.[66]

Because of such construction cost differentials, no bulk cargo vessels are being built in U. S. yards for foreign trade operation. The Henry study reports that in the period from March, 1961 to May 1, 1964, *no* dry bulk cargo vessels were built in U. S. shipyards and only 14 tankers, totaling 693,900 tons deadweight, were built, all for domestic trade or military charter use. During this same period, the study advises, Japanese yards built 84 dry bulk carriers with a total deadweight capacity of 2,628,700 tons, and had 73 such vessels, of 2,577,000 dwt under construction on May 1, 1964. And in that period, Japan built 112 tankers, of 4,843,200 tons deadweight, with 121 tankers, of 7,358,900 dwt under construction on May 1, 1964.

A shipowner who might now want to build a new bulk cargo vessel to operate under the U. S.-flag cannot find economic grounds for proceeding. If he builds abroad he meets heavy obstacles to economic operation of the vessel by being foreclosed from carriage of military and aid cargoes for a prolonged period and by being permanently excluded from carrying domestic cargoes.[67] If he builds in the United States, his capital costs, as compared with those of his foreign competitors, will be prohibitively high. Putting operating costs aside, it is clear that a necessary first step, therefore, if a U. S.-flag bulk cargo capability is to be expanded, is the solution of this construction cost problem. The choices are clear—either the barriers to full and free utilization under U. S.-flag of foreign-built vessels would have to be removed to permit foreign construction of such vessels, or a shipyard subsidy program would have to be undertaken to make up the substantial difference between U. S. and foreign shipbuilding costs. The Committee of American Steamship Lines does not advocate a foreign construction program. The decision involves many matters of national import, however, and should be decided by the Executive Department and the Congress.

CONSTRUCTION SUBSIDY FOR BULK CARGO VESSELS

The Merchant Marine Act, as amended in 1952, already permits the payment of construction subsidy on non-liner vessels.[68] But this authority has never been utilized by the Maritime Administration [69] and has only

[62] 46 *U.S.C.* Sec. 11.
[63] 46 *U.S.C.* Sec. 1241 (b).
[64] 46 *U.S.C.* Sec. 11.
[65] See p. 13, *infra*.
[66] This differential would narrow somewhat if U.S. yards had a substantial volume of construction of this kind. The Japanese yards build large numbers of bulk carriers and tankers, many of which are of repeat design, thereby resulting in an almost "off the shelf" operation. Tanker construction differentials would probably be lower by one or two per cent.

[67] 46 *U.S.C.* Sec. 11.
[68] 46 *U.S.C.* Sec. 1151 *et seq.*
[69] See p. 4, *supra*, describing the refusal of the Secretary of Commerce to authorize payment of construction differential subsidy on the construction of bulk carriers by Bethlehem Steel Company.

rarely been requested because of the high, unsubsidized operating costs that would attach to such U. S. manned vessels after their entry into service.

Use of this construction-differential subsidy authority to encourage construction of a substantial new bulk cargo fleet would be costly.

The Henry study estimates the foreign (Japanese) and domestic costs of a 55,000 dwt ore carrier and a 25,000 dwt dry bulk carrier (that would be used for tramp operations carrying grain, ore, fertilizers and the like) to be as follows: [70]

TABLE 6

	Est. U.S. Cost	Est. Foreign Cost	Estimated Difference
25,000 dwt bulk carrier	$ 7,000,000	$3,400,000	$3,600,000
55,000 dwt ore carrier	13,000,000	5,900,000	7,100,000

Note: The above prices are based on production of vessels in four ship lots on a delivered basis with consistent financing.

Assuming the construction of 15 of the large ore carrier type and 35 of the 25,000 dwt type, the cost to the United States of such a subsidy program at the above price differential would be $232,500,000. This must be added to the cost of the present program of subsidizing the U. S. shipyards in the construction of the more essential U. S. liner fleet, which is running at a level of about $90 to $100 million annually. The only alternative to these expenditures would be to construct these vessels abroad and then to remove the restrictions on the use of such vessels under U.S.-flag.

THE OPERATING COST PROBLEM—THE NEED FOR OPERATING SUBSIDIES

One of the principal hurdles to the development of a viable U.S.-flag bulk fleet has been the high cost of operating vessels with U. S. citizen crews. The average annual cost, including base wages, fringe benefits, overtime pay and penalty pay of a West Coast liner crew today, for example, is approximately $12,000 per man.[71] These costs are over 80 percent higher than the cost of, for example, a Japanese crew. While the average cost would be somewhat lower on a bulk cargo vessel, these wage costs and other American operating costs are a burden which have made U.S.-flag bulk cargo operations impossible except where cargoes are carried at rates higher than the world market rate under our cargo and rate preference program. Any conventional, non-automated bulk cargo vessel carrying cargoes in the foreign trade at world market rates *must* either have a higher cargo rate or a Government operating subsidy equalizing these enormous crews cost disparities in order to survive. There are other operating costs, including (a) the cost of repairs, (b) hull and machinery insurance, and (c) protection and indemnity insurance for seamen's personal injury and illness claims, where a U. S.-flag operator is at a substantial disadvantage, but the principal operating cost disadvantage and the one with which we are primarily concerned here is that for crew expense.

Throughout the maritime world, rapid technological changes in the design and operation of new ocean-going vessels have permitted a substantial reduction in the size of vessel crews. A number of large vessels (principally Japanese-flag) that with conventional equipment and procedures would have had 48-55 crew men, now have 28-38 men aboard; [72] in fact, some industrial tankers are reportedly operating with as few as 22-23 men. This has been accomplished by mechanizing many of the functions now performed manually in the engine room and on deck,[73] by the reduction of maintenance work through better paint systems (inorganic zinc silicates), more reliable pumps, motors and other equipment, by improvement of shipboard procedures and other changes.

Reduced shipboard manning through mechanization and improved procedures is just getting under way in the United States. A number of new tankers in the domestic service have reduced crews as do some new mechanized East Coast and Gulf liners recently built under the 1936 Act.

One of the obvious questions raised by this technological revolution is whether crew costs will be reduced sufficiently to eliminate the need for operating subsidy support if the U. S. Government decides to embark on a program to develop a U. S.-flag bulk fleet. A study of the economics of bulk vessels inevitably leads to the conclusion that at present levels of shipboard automation,

---

[70] The assumed vessel characteristics were:

	25,000 dwt	55,000 dwt
Length between perps. (approx.)	577 ft.	758 ft.
Beam (approx.)	80.6 ft.	106 ft.
Depth (approx.)	45.5 ft.	58.1 ft.
Draft (approx.)	30.5 ft.	37.1 ft.
Sea speed loaded (approx.)	15.5 kts.	15.9 kts.
Propelling machinery-automated	Steam	Steam
Maximum continuous output	12,000 H.P.	20,250 H.P.
Cu. ft./dwt	48.3	48.3

[71] Pacific Maritime Association.

[72] A few typical foreign examples of semi-automated vessels that recently have been reported in the shipping trade papers are:

Flag	Vessel Name	Vessel Type	Dwt	Manning Total
Japan	MISSISSIPPI MARU	Cargoliner	12,000	28
Japan	TENRYUSAN MARU	Tanker	66,244	33
Japan	MEITETSU MARU	Tanker	60,059	34
Japan	ONOE MARU	Ore Carrier	48,500	33
Japan	YASUKAWA MARU	Ore Carrier	50,800	32
Liberia	RALPH O. RHODES	Tanker	48,567	31

[73] Including centralization of control and surveillance of propulsion plant by remote plant and auxiliary controls and instrumentation; bridge control of engines; data loggers; automatic bilge sounding; and constant tension mooring winches. Many of these technological changes are being included in new liner vessels being constructed for the CASL companies.

operating subsidies to equalize crew and other vessel operating costs would still be necessary for any bulk cargo vessel operating in the foreign trade and carrying cargo at world market rates.

This conclusion will become even more valid as more and more foreign flag vessels are manned with reduced crews and that process reduces (or slows the increase of) world bulk cargo freight rates. In short, to be successful it is clear that U. S.-flag bulk cargo vessels competing in the world market will need *both* reduced crews *and* Government subsidies of wages and other items.

The cost of providing operating-differential subsidy for a bulk cargo fleet would, of course, depend upon the number of ships operating and the degree of automation installed.[74] Thus, a fleet of fifty bulk cargo vessels manned with an average crew of only 29 men would, at prevailing U. S. sea-going wage, overtime pay and fringe benefit levels, cost approximately $14,000,000 per year.[75] To this must be added further amounts for differential payments on insurance costs and for repair and subsistence, assuming these vessels would be required to be repaired in U. S. repair yards. It is estimated that this would increase the total annual operating subsidy cost to about $17,000,000.

The United States Government must reach a policy decision on the advisability of extending its operating-differential subsidy program, now applicable only to the liner segment of our merchant fleet, to a U. S.-flag dry bulk carrier and tanker program. The cost for operating subsidies, even with vessel automation, will not be huge but will be substantial. Estimates of the final operating subsidy cost are problematical turning on the outcome of labor-management negotiations on manning and compensation for men working on such vessels, the selected foreign competition and other factors.

On the basis of the estimates made herein, the total subsidy cost to the United States to support programs for a fleet of 50 or alternatively, for 100 bulk carriers in the foreign trade would approximate the following (all at present cost levels):

TABLE 7

Subsidy Cost for 50 Bulk Carrier Program

1. Shipyard Subsidy	
15—55,000 dwt vessels	$ 106,500,000
35—25,000 dwt vessels	126,000,000
	$ 232,500,000
2. Operating Subsidy (50 vessels, 25 years, present costs, 29 man crew)	$ 425,000,000
Total	$ 657,500,000

Subsidy Cost for 100 Bulk Carrier Program

1. Shipyard Subsidy	
30—55,000 dwt vessels	$ 213,000,000
70—25,000 dwt vessels	252,000,000
	$465,000,000
2. Operating subsidy (100 vessels, 25 years, present costs, 29 man crew)	$ 850,000,000
	$1,315,000,000

(Future escalation of vessel construction prices, seagoing wages and other subsidizable vessel costs will increase the foregoing totals.)

Cargo preference rate subsidies now paid to aging war built U. S. tramps could be gradually phased out concurrently with the growth of the new bulk fleet. These savings would probably come close to meeting the annual cost of the program and make the effect on the national budget relatively small—barring substantial increases in wage or construction subsidies.

It would appear prudent, if any new policy is contemplated for subsidizing a U.S.-flag bulk cargo fleet, for the Government to assure itself, before undertaking this extension of its subsidy support program, that the manning of both the subsidized liner fleet and the new bulk fleet will be at levels appropriate for modern, mechanized vessels. To be consistent with collective bargaining principles, such assurances would have to be worked out by voluntary agreements arising after joint Government-labor-management discussions on the subject.

EFFECT OF BULK FLEET SUBSIDIZATION ON OVERALL MERCHANT MARINE POLICY

Whatever course is followed with respect to the subsidization of a bulk fleet, the temptation to try to pay for such a plan by arbitrary or experimental reductions in the present liner support program would be most unwise. The paramount importance of the U. S.-flag liner fleet from the standpoint of its use as a defense auxiliary, as a source of earnings in the foreign trade and as a carrier of the cargo of greatest value to our economy and trade has been demonstrated. While the liner program has been highly successful, the shipowners operating under it have had no bonanza,[76] and any significant change in the liner support program could seriously jeopardize the continued strength of this one viable segment of our merchant marine and result both in a cessation of new construction and a flight of capital from the industry.

[74] The operating subsidies presently paid under the 1936 Act are based on a comparison of the U.S. costs of an operator with those of his principal foreign competition on the particular essential trade route on which he is operating. Since bulk vessels by their very nature do not normally operate on regular trade routes, some other techniques for computing subsidy will have to be developed. The choice would probably be between averaging foreign bulk cargo vessel costs or, as in the computation of construction subsidy under Section 502(b) of the 1936 Act (46 *U.S.C.* Sec. 1152(b)), choosing the predominant low cost foreign bulk fleet and determining the differential based on those costs. In view of the substantial obstacles a U.S.-flag bulk fleet will encounter (see p. 15, *infra*), it would appear desirable to adopt the latter policy.

[75] 29 (men) x 50 (vessels) x $12,000 x .80 (differential) = $13,920,000. This formula uses 80 per cent as the wage differential based on the approximate present wage subsidy cost per man on liner vessels competing with Japanese-manned vessels.

[76] See CASL, *Progress of the U.S. Liner Fleet, op. cit.*, p. 19 and exhibits VIII through XIII therein showing the comparatively low earnings of the U.S. subsidized liner operators as compared with other U.S. industry.

POTENTIAL DETERRENTS TO DEVELOPMENT OF A U. S.-FLAG BULK FLEET

This study has described the serious problems of U. S.-flag operation for bulk cargo vessels today arising from high U. S. shipbuilding and repair costs and the high cost of using U. S. citizen crews. A shipyard subsidy program permitting U. S.-flag vessels to be built and repaired at foreign cost levels and providing for a subsidy to make up the difference in crew and other vessel costs of foreign competitors would overcome some of the principal obstacles to U S.-flag operation. There are, however, other practical impediments which should be considered in any thorough review of our bulk cargo fleet policies.

SHIP CONSTRUCTION DETERRENTS

Higher U. S. Standards

Though a bulk cargo fleet program may provide for construction at foreign cost (either by providing subsidy for U. S. construction or by permitting foreign construction), there are still other deterrents to U. S.-flag vessel operation in connection with the construction of vessels that should be considered. One of these is the higher standards required in the case of construction of vessels to be placed under U. S.-flag registry as compared with the standards prescribed for registry in other countries. It is difficult to put a price tag on the cost of these higher standards but any of these higher requirements which are not necessary or realistic should be eliminated.

Higher Financing Costs

Another deterrent to construction in U. S. shipyards arises from differences in the financing of vessels while under construction. Many foreign governments underwrite liberal credit terms to encourage construction of vessels in their national yards. It is common in Japan, for example, for shipyards to require progress payments totaling only 20 percent of the vessel's cost during the period of construction.[77] The shipyards of other foreign shipbuilding countries are, with the help of their governments, following this pattern. By contrast the standard form of MARAD shipbuilding contract in the United States requires the owner to finance the shipyard for 95% of the owner's contract price (on a percentage of completion) and to fund the full contract price shortly after delivery. This is a serious cost disability which may add $200,000 or more to the capital cost of constructing a vessel in U. S. shipyards.

TAX ADVANTAGES OF FOREIGN-FLAG OPERATION

In addition to lower wage and construction costs, the foreign flag bulk carrier is greatly advantaged by avoiding payment of U. S. income taxes. This additional cost advantage in many cases would be sufficient to decide whether commercial cargo would be carried by an American-flag or foreign-flag bulk carrier. Bulk freight rates are highly sensitive. A bulk ship is either full or it is empty—the rate is either low enough to gain the entire cargo or the business goes elsewhere. If the U. S.-flag bulk carrier is to survive, it is axiomatic that his income tax costs as well as wage and construction costs must be equalized. The existence of the PanHonLib fleet is adequate testimony to the tax advantages afforded the operators of those vessels.

LABOR-MANAGEMENT RELATIONS

A most important deterrent to development of a successful U. S. bulk fleet is the concern of most U.S. corporations familiar with U.S. maritime labor problems over the stability of labor-management relations in the maritime industry. It is unfortunate that this industry has had over the years a substantial number of work stoppages and threatened work stoppages, some of which have been the result of bitter inter-union jurisdictional disputes. It would appear that unless steps are taken to improve this labor-management climate, many U.S. owners of foreign-flag and flag of convenience bulk cargo vessels will be reluctant to replace them or supplement their marine operations with U.S. manned vessels. An even more difficult problem exists with respect to U.S. industries which are substantial importers of bulk cargoes and own PanHonLib vessels for carriage of a part of such cargo. The labor difficulties presented by this situation and its effect on the development of a U.S. bulk fleet are discussed at p. 17 hereof.

GOVERNMENT REGULATION

The U. S. and foreign corporations presently operating foreign-flag bulk cargo vessels are not confronted with anti-trust or other interference by any government in its shipping business affairs. They may build vessels *when* they want, build the *kind* of vessels they desire and from whom and on such terms as they are able to negotiate, operate the vessels *wherever* they wish, carry the *kind* of cargo they want and enter into any other lawful business, shipping or otherwise, in which they wish to engage. That is in marked contrast to the comprehensive and restrictive regulation which applies to the operators presently receiving subsidy under the 1936 Act. They are told when to build their replacement ships and to some degree what kind of vessels to build. They must ask for competitive bids. They cannot operate any foreign-flag vessels or engage in any non-shipping business without approval. Their dividend policy is controlled. They must buy all their supplies whenever feasible in the United States. And they must keep extensive financial records and make periodic detailed, in fact elaborate, financial reports to the Government.

[77] See *Economic Policies and Practices, Paper No. 6, Subsidies to Shipping by Eleven Countries,* Joint Economic Committee, U.S. Congress, 88 Cong., 2d sess.

CARGO POTENTIALLY AVAILABLE TO A U. S.-FLAG BULK CARGO FLEET

From a superficial analysis of the total bulk cargo moving in the export and import trade of the United States, it appears that an unlimited quantity of such cargo may be available for a new U. S.-flag bulk carrier and tanker fleet. Thus, in 1963, there were 139 million tons of non-liner dry cargo and 126 million tons of bulk liquid cargo that moved in the foreign trade of the United States,[78] with only a small percentage moving in U. S.-flag vessels.[79]

But a *caveat* must be expressed at this point. Much of this cargo, for a variety of reasons, would not be available for U. S.-flag carriage. In the first place, many maritime countries exercise strong control—direct or indirect—over the commercial cargoes that are subject to the routing instructions of their shippers and consignees. For example, much of the coal and iron ore export cargo of this country is controlled by the foreign steel mills and other industrial users importing such cargoes. In Japan, for example, these mills are all related directly or indirectly to Japanese shipping interests and much of this cargo is routed on Japanese vessels.

To save foreign exchange Japan and many other maritime countries make vigorous efforts to carry a substantial part of their import bulk cargo in their own vessels. With their business structured without the restraints of the anti-trust laws, control of cargoes is far more extensive in such countries than here. Since the foreign purchaser may buy on his own terms, he generally specifies cargo on an F.O.B. basis and provides the national or other foreign flag vessels to lift the cargo; *much bulk cargo, particularly commercial bulk export cargo, would not be available to U. S.-flag vessels.*

Export agricultural products (grains, soybeans and similar commodities) are another substantial bulk movement (about 34 million tons in 1962). Because of the cargo preference laws, a considerable percentage of this cargo already moves on U. S. flag vessels (over 25 per cent of the total). Presumably, the new bulk carriers would lift this tonnage and perhaps increase the grain tonnage carried on American ships, but the market is limited.[80]

Different but equally important problems exist on the import side. The principal dry bulk cargo imports are sugar (3 million tons),[81] gypsum (4.8 million tons), iron ore (29 million tons) and aluminum ores (12 million tons).[82] As will be noted these products are the basic raw materials of some of our largest American industries. In order to be certain of a regular supply of these essential raw materials, these industries have in many instances acquired foreign-flag vessels to carry these cargoes either by ownership or long-term charter. Frequently, the vessels have been especially built to fit the particular needs of the transportation system of which they are a part. Though the figures aren't complete, some idea of the extent of this problem can be determined by the following data showing the industrial carriage of some of our leading dry bulk import commodities in 1962:

TABLE 8

(In 1000 Long Tons)

Commodity	Total	Controlled Industrial Carriage
Gypsum	4,770	4,136
Iron Ore	28,984	19,493
Aluminum Ores	11,791	8,345
Total	45,545	31,974

Thus, as Table 8 indicates, of the 62 million tons of dry bulk cargo imports in 1962 at least 32 million tons were carried by foreign vessels already owned or long-term chartered by the owners of the cargo. Necessarily this segment of our bulk cargo business will be slow to move to U. S.-flag carriage. This is particularly true when one considers that these are mostly PanHonLib vessels, 60 percent of which were, in 1964, under 10 years of age.[83]

Petroleum products are a classic example of this problem. In 1962 about 109 million tons of our bulk liquid imports were petroleum products. A very high percentage of this cargo was carried by vessels owned or long-term chartered by the importing oil companies.

One other aspect of the problem of the availability of commercial cargo to a new U. S.-flag bulk fleet should be touched upon. The new breed of dry bulk carrier and tanker has a very large deadweight capacity. 100,000 dwt tankers and 55,000 dwt dry bulk carriers are becoming more common. They also operate at much faster speeds than the old bulk vessels. Assuming 8

[78] See p. 8, *supra*.
[79] In 1963, 5.1 per cent of dry bulk cargo and 4.4 per cent of liquid bulk cargo. See *Changing Patterns, op. cit.*, p. 14.
[80] The other principal dry bulk exports in addition to grains are coal (24 million tons), phosphate rock (4 million tons), scrap iron (4 million tons), soybeans (4 million tons). 1962 Bureau of Census figures.

[81] 1962 Bureau of Census figures.
[82] *Ibid.*
[83] See p. 6, *supra*.

voyages a year and full one direction loads, five 100,000 dwt tankers could carry about 4 per cent of the total petroleum imports of 1962. In the case of dry-bulk cargo, ten 55,000 dwt bulk carriers operating at one-way full capacity on ten voyages each a year could move 5,500,000 tons, or about 4 per cent of the total dry bulk cargo that moved in and out of the United States in 1962. With today's large vessels either owned or employed under long-term charter, tailored to meet particular user requirements, with fast sea speeds, quick port turnarounds, the comparatively short hauls involved in moving most of our ore imports and the very large amount of cargo that can be carried by relatively few vessels, large-scale entry into this import bulk trade will be difficult.

Finally, it must be remembered that a very substantial amount of foreign-flag bulk cargo vessel tonnage is being built at this time. Though the U. S. bulk cargo movement appears to be growing, so is the world tonnage that will be competing to carry it. This factor, too, must be considered when gauging how many such vessels can be absorbed over what period of time.

To sum up on this point, if a bulk cargo fleet is to be created, government aid should be predicated on prudent determinations of the economic feasibility of such vessels based on employment by commercial operators who are familiar with the market and have specific and preferably long-term use for the vessels. The vessels should not be built by the Government in large numbers and "dumped" on the market in a short time. Given completely competitive conditions and looking at a medium or long-range period, a considerable number of U. S.-flag bulk cargo vessels can find profitable commercial employment. But the market is not limitless and there are impediments to short-range commercial employment. Prudence in this area will be necessary to prevent over-tonnaging of the market available to the U. S.-flag vessels.

U. S. GOVERNMENT ASSISTANCE IN DEVELOPMENT OF THE MARKET

The problem of absorbing an expanded U. S.-flag bulk fleet into the bulk carriage market can be considerably eased if the Government were to undertake a vigorous program to encourage U. S. industries which are large users of bulk cargo transportation to utilize U. S.-flag vessels. The balance of payments and the advantage to our overall economy of building in U. S. shipyards and hiring U. S. citizens as crewmen are persuasive arguments that could induce U. S. industry to participate in such a program. There is little possibility of success in such an effort, however, if the cost of transportation offered by the U. S.-flag carriers is not equal to those available to industry from foreign-flag carriers and if uninterrupted service cannot be guaranteed.

LABOR STABILITY

A principal deterrent to the expanded use of any new U. S.-flag bulk carriers lies in the deep-running controversy between labor and the user industry over the PanHonLib ships. The oft-repeated position of labor is that these ships should be organized directly or by affiliates of American labor unions and preferably revert to U. S. registry. The industrial owners or users of these vessels have strongly and consistently opposed these labor positions and the resultant conflict has been open, forceful and at times explosive.

Manifestly, even with cost equalization of U. S. bulk carriers, it would be difficult to persuade U. S. industrial interests to employ such carriers if they felt such action might impair labor relations of their owned or chartered foreign-flag ships and weaken their economic ability to resist pressure by posing the potential threat of seagoing labor interference with scheduled imports of raw materials.

CASL has no solutions for this difficult problem but is convinced that it *must* be settled if there is to be any *realistic possibility* of obtaining sizeable quantities of essential import cargo for U. S. bulk carriers. Initiation of any substantially expanded program of government aid to bulk carriers without long-range settlement of these differences would be foolhardy.

To sum up:

1. Import bulk cargo is essential to support a fleet of any size.
2. Under present conditions, because of deep-running differences between U. S. seagoing unions and the owners and users of PanHonLib ships, it is not likely that sizeable quantities of this cargo will be available to new U. S. bulk carriers.
3. Accordingly, it is a primary prerequisite that these differences and resultant problems be settled and that machinery be established to arbitrate future disputes between labor and the carrier/user group.
4. Without access to this market, the bulk carrier fleet will be forced to exist on government controlled cargo and movements of spot cargo—which adds greatly to the hazards of the venture and severely restricts the size of the bulk cargo fleet.

CARGO PREFERENCE

The cargo preference program covering Government-generated cargoes can also provide substantial amounts of cargo to a U. S. bulk fleet. In 1962, non-liner dry cargo vessels *of all flags* carried nearly 12 million tons of such cargo.[84] Of this, U. S.-flag non-liner vessels carried about half of the cargo or 6 million tons.[85] As the older vessels of our present tramp fleet are phased out, a new bulk fleet could begin to carry this tonnage. This represents a substantial potential source of cargo for the U. S. dry bulk fleet and an area where the government can appropriately act without violation of the freedom of the sea concept.

[84] U.S. Department of Commerce, Maritime Administration. *Contribution of Federal Aid Programs to the Oceanborne Foreign Trade of the United States*, 1959-1962 (April, 1964) p. 5.
[85] *Ibid*, p. 6.

48-063 (Part I) O-65—21

It has been suggested from time to time that the cargo preference program should be eliminated. Without going into the matter in detail here,[86] it should be pointed out that it would make the task of early development of a modern U. S. bulk carrier fleet infinitely more difficult if the present equal participation of U. S.-flag vessels in the carrying of cargo is dropped. The need for a *rate* preference for new bulk vessels should be diminished and probably eliminated after their costs of operations are better known. Regardless of rate preference, however, there would appear to be no reason whatsoever to deprive U. S.-flag vessels of a preference in carrying half or more of our Government-generated cargoes.

It has also been suggested that the United States, in order to build up a U. S.-flag tanker fleet in foreign trade, should require that a fixed percentage of all *commercial* petroleum imports be required by law to move in U. S.-flag tankers.[87] This requirement would be enforced in connection with the import quota program which controls, in order to protect domestic producers, the amount of petroleum imports. While such a plan would obviously provide a ready-made market for a U. S.-flag tanker fleet, the pros and cons of this subject, including the possibility of foreign retaliation, have been ably argued by labor and by interests representing the PanHonLib fleets and needs no further exposition here.

In this connection consideration should be given to the possible use of tax incentives or tax credits to importers or exporters utilizing U. S. flag ships.

[86] The Committee of American Steamship Lines will shortly publish a detailed study of the cargo preference program.

[87] *Position of the SIU of North America, AFL-CIO, Before the Maritime Advisory Committee* (Aug. 10, 1964) pp. 42-52.

ADDITIONAL INCENTIVES NEEDED FOR A U. S.-FLAG BULK CARGO FLEET

As has been indicated, the principal disadvantages of a U. S.-flag bulk cargo vessel operation include the high cost of U. S. vessel construction and repair and the high crew and other operating costs of such vessels. If there is to be a long-range program designed to permit the establishment of a U. S.-bulk cargo fleet, the heart of the program would consist of measures to eliminate substantially these disadvantages. But as has been described above, there are many additional deterrents to the successful operation of such a fleet. It would be essential, therefore, in addition to meeting the vessel construction and operating cost problems, to furnish additional countervailing incentives to this bulk fleet including the following: [88]

TAX INCENTIVES

A program similar to that now applicable to the liner vessels should be employed whereby earnings invested in vessels would be tax-deferred for Federal income tax purposes.[89]

FINANCING AND MORTGAGE INSURANCE

The existing form of MARAD vessel construction contract should be revised so as to eliminate the requirement for 95% progress payments by the shipowner and substitute therefore the typical foreign financing systems. Further, the ship mortgage insurance provisions of the Merchant Marine Act [90] should be utilized to assist the participating operators in the financing of the construction of these vessels. Serious consideration should be given to providing a "no recourse" protection to the operators in the event of a default as is now available to passenger vessel operators.[91] The hazards of this new program are so great as to warrant providing that safeguard. If vessels in a bulk cargo vessel program were to be built by the Government and sold to the operators, (a course CASL does not favor) government mortgage loans under Section 502(c) of the 1936 Act (46 *U.S.C.* Sec. 1152(c)) should be utilized.

CARGO PREFERENCE

The laws of the United States provide a program for support of the merchant marine by giving preference to U. S.-flag vessels in the carriage of government controlled cargo. As indicated above, a new bulk fleet will be in serious need of cargoes. The preference given U. S.-flag vessels in the booking of Government-generated cargoes should be maintained and strengthened. Assuming full parity, rate preference as a form of long-term aid may be minimized or eliminated.

REPLACEMENT FLEXIBILITY

The operators who enter a bulk cargo vessel program should be required to replace their vessels in an orderly manner. But this program should avoid some of the mistakes of the replacement program under the present subsidized liner system.[92]

In the first place, the replacement obligation should be a flexible one instead of one providing a rigid date for new construction contracts to be signed. A maximum age for the vessel should be established, but the actual time of construction should be the choice of the operator based on technological change, ship price levels (both new and used) and cargo needs. The size, capacity and design of the replacement vessels should also be left to the vessel owner, so long as regulatory, classification society and similar requirements are met.

LABOR RELATIONS AND STABILITY

It will be imperative that labor and management work out a program for long-term labor peace, including manning, work rules and procedures for settlement of unresolved disputes (including those of a jurisdictional nature) before it can be expected that venture capital will be attracted to this program. This is an extremely important point. No one should expect a bulk cargo vessel program to succeed, even if all of the other aids and incentives referred to herein are adopted, unless seagoing labor relations are stabilized and continuity of service is assured. Additionally, as discussed above, settlement of differences between labor and owners or users of PanHonLib ships is a major requirement; alternatively some other means must be found to participate in the vital import market.

Labor acceptance of shipboard automation is another vital prerequisite of any bulk fleet program.

LIMITED GOVERNMENT REGULATION

The present subsidized liner program is overburdened with Government regulation. Though some restrictions are necessary, every effort should be made to minimize the controls over a new bulk cargo fleet.[93] If this is not done, the program will not attract the operators needed to own and run the fleet.

---

[88] Some of these incentives are available to the U.S.-flag liner fleet now supported under the 1936 Act. Those that are not should be, in most instances. Experience under that Act has shown deficiencies that should be corrected.

[89] See 46 *U.S.C.* Sec. 1177.

[90] 46 *U.S.C.* Sec. 1271, *et seq.*

[91] See 46 *U.S.C.* Sec. 1274 (a) (10).

[92] 46 *U.S.C.* Sec. 607.

[93] If such a program is adopted it would provide a singularly appropriate time to re-examine and revise the subsidy regulations applicable to the subsidized liner operators. If this were not done, the result would be discriminatory.

OBLIGATIONS THAT SHOULD BE INCLUDED IN A BULK CARGO FLEET PROGRAM

Should the United States decide to embark on a bulk cargo vessel program there are a few restrictions and obligations that should be included in the program in order to place it on a sound basis. These controls and limitations should be kept to the minimum, however. Some of the restrictions and obligations that should be included are:

REPLACEMENT OBLIGATIONS

In return for Government support, there should be a requirement applied to participants in such a program that vessels will be replaced in a flexible but orderly fashion.

TRADING RESTRICTIONS

Bulk cargo vessels must have broad flexibility with respect to the trades in which they can operate and the cargoes they can carry. Such flexibility is the essence of the bulk cargo carriage business but must be administered so as to protect the ability of U. S. liner vessels to continue to participate in carriage of parcels of bulk cargo.

FINANCIAL QUALIFICATION OF PARTICIPANTS

To be certain that the program is carried out by operators who are financially sound and experienced in the shipping business, prudent standards should be established.

In the past there has been a considerable reluctance expressed about subsidizing vessels that are operated by industries as proprietary carriers.[94] The view is also sometimes expressed that these contracts should be widely spread.[95] We believe a bulk cargo vessel program should be open to all qualified ship-owners who are financially responsible. The program will not be a bonanza to anyone; on the contrary it will be hard to attract sound, prudent and well-financed business to the program. It gives no gifts to the participating companies but simply provides money with which to pay the U. S. seamen and shipyards the excess of their wages and prices over comparable foreign costs. There is no reason, therefore, to exclude steel companies, oil companies and the like from the program. In fact, all of the arguments in support of a U. S.-flag fleet, such as defense considerations, balance of payments, and protection of American commerce, apply with equal force to the vessels of such companies. Such proprietary vessels are an important part of some of the foreign bulk fleets. These U.S. industries control much of the bulk cargo of the United States. Their financial position will lend added strength to our merchant marine if they are permitted and elect to participate in the program.

MODERN VESSELS

Aside from necessary interim steps, the vessels receiving support under a bulk cargo vessel fleet program should be new and should be of advanced design so as to permit automation consistent with the levels found on the new foreign flag bulk vessels with which these vessels will compete. In other respects, however, the operators should be free to plan their vessel designs without restriction.

[94] See, for example, the decision of Secretary of Commerce Hodges denying construction-differential subsidy on proposed ore carriers of Bethlehem Steel Company, *Congressional Information Bureau*, February 16, 1962.

[95] See *Position of SIU of North America, AFL-CIO, Before the Maritime Advisory Committee* (Aug. 10, 1964), p. 12.

CONCLUSION

The decision whether or not to extend direct government aid on a long-term basis to the creation and maintenance of a modern bulk carrier fleet in the foreign trade is a matter which should be decided promptly at the highest Government level.

It is not a simple decision, involving budgetary and defense consideration, international relations, foreign exchange, seagoing labor and many other matters unique to the field of international shipping.

If the answer is in the affirmative, and there are many good reasons why this should be so, CASL will lend its complete support to the program.

CASL does urge, however, if such a program is adopted by the United States, that it be based on the time-proven "parity" principles of the 1936 Act which were developed after almost a century of costly, frustrating and humiliating prior attempts by the United States to create a substantial maritime establishment.

Extension of the time-proven methods of direct Government aid authorized by the 1936 Act, giving due regard to the comments included herein, may enable the creation of a modern bulk carrier fleet under U. S. registry. Even with a *full* measure of aid, the path will be difficult and this aid by itself will neither guarantee success nor solve the problem of obtaining sufficient commercial cargo to sustain long-range operations.

A bulk carrier fleet cannot rely too heavily on government controlled exports of agricultural products, even with market participation guaranteed by P. L. 480 or similar laws. The growing volume of import cargo, both liquid and dry, offers the prospect of an expanding commercial market in which the U. S. bulk carriers may participate *provided* industrial users of bulk cargoes can be assured of labor stability to meet scheduled deliveries and competitive transportation costs. Accordingly, in order to avoid program frustrations and waste of public funds, an important prerequisite to a long-range bulk carrier program is the development of a climate of full and complete cooperation and agreement between government, labor and management, together with implementing machinery, so that future disputes and impediments may be resolved in the national interest.

EXHIBIT I

Principal Dry and Liquid Bulk Cargo Commodities
Exported and Imported on Liner, Non-liner and Tanker Vessels
by the U. S. During 1962

(Thousands of Long Tons)

Commodity	Exports	Imports	Total
Corn	9,932	37	9,964
Barley and rye	2,411	23	2,434
Wheat	13,962	....	13,962
Grain sorghums	2,678	....	2,678
Animal Feeds	1,516	37	1,553
Soybeans	3,926	....	3,926
Logs	1,163	240	1,403
Anthracite coal	954	....	954
Bituminous coal	24,942	....	24,942
Coke	1,242	9	1,251
Gypsum or plaster rock	10	4,770	4,780
Sulphur	1,486	733	2,219
Iron ore	1,156	28,984	30,140
Iron and steel scrap	4,034	3	4,037
Phosphate rock	3,540	....	3,540
Sugar	....	3,867	3,867
Molasses	....	1,352	1,352
Manganese ore	11	1,933	1,944
Chrome ore	2	1,309	1,311
Aluminum ore	316	11,791	12,107
Lub oils and grease and other motor oil	2,313	....	2,313
Gasoline	314	560	874
Gas oil and distillate fuel oil	1,159	19,676	20,835
Petroleum crude	260	60,056	60,316
Jet fuels	20	1,711	1,731
Residual fuel oils	1,902	20,289	22,191
Petroleum asphalt	60	1,041	1,101
Petroleum products — nec	254	5,275	5,529

Source: U. S. Maritime Administration (compiled from Bureau of Census statistics).

EXHIBIT II

World Distribution of Bulk Carriers and Tanker Fleets, Individually by Major Maritime Nations and Grouped by All Others, as at December 31, 1963

	Bulk Carriers		Tankers		Total	
Country	No. of Ships	Deadweight tonnage (000)	No. of Ships	Deadweight tonnage (000)	No. of Ships	Deadweight tonnage (000)
United States	64	1,091	384	7,792	448	8,883
France	64	694	156	3,241	220	3,935
Germany	67	1,146	46	1,136	113	2,282
Greece	81	1,540	100	2,466	181	4,006
Italy	79	1,290	145	2,896	224	4,186
Japan	146	1,893	203	4,427	349	6,320
Liberia	179	4,309	385	12,337	564	16,646
Netherlands	27	440	101	2,538	128	2,978
Norway	203	3,878	482	10,901	685	14,779
Panama	31	358	144	3,367	175	3,725
Sweden	78	1,371	89	2,119	167	3,490
United Kingdom	281	2,573	521	11,747	802	14,320
Total — Major Maritime nations	1,300	20,583	2,756	64,967	4,056	85,550
All Other nations	426	3,249	680	9,923	1,106	13,172
Grand Total — All nations	1,726	23,832	3,436	74,090	5,162	98,722

Source: U.S. Maritime Administration, Office of Statistics, Ship Data Branch.

EXHIBIT III

VESSELS IN EXCESS OF 22,000 DWT LAUNCHED AT 24 MAJOR JAPANESE YARDS IN 1964

Ship's Name	Shipowners	Type	D/W	Speed
TOKYO OLYMPICS	Marfortuna Compania Naviera	Bulk Carrier	24,380	15.25
ANDROS	Marlista Compania Naviera	Bulk Carrier	24,380	15.25
HALCYON BREEZE	Caribbean Tankers Ltd.	Tanker	67,000	16.70
PRINCESS ANNE MARIE	Nueva Sevilla Compania Naviera	Tanker	65,000	15.75
RALPH B. JOHNSON	California Transport Corp.	Tanker	54,610	17.00
YAMAMIZU MARU	Yamashita-Shinnion Kisen	Tanker	96,500	16.50
INAYAMA	A/S Signy	Ore Carrier	78,900	15.70
OIGAWA MARU	Kawasaki Kisen/Tanyo Kaiun	Tanker	100,800	15.40
YAMAHATA MARU	Yamashita-Shinnihon Kisen	Coal Carrier	34,000	14.40
YOHO MARU	Iino Kaiun Kaisha	Tanker	85,700	15.80
ROSE	Maru Shipping Co.	Bulk Carrier	24,400	16.60
SUAN	Suan Shipping Co.	Bulk Carrier	24,400	16.60
MATSUSHIMA MARU NO. 3	Nippon Suisan Kaisha	Tanker	73,100	16.00
LOUISIANA GETTY	Tidemar Corp.	Ore-cum-oil car.	66,810	16.50
LENINAKAN	V/O "Sudoimport"	Tanker	35,000	17.00
RIRYC	Consttellation Shipping Co.	Bulk Carrier	45,000	16.50
OLYMPIC GLORY	Milford Navigation Co.	Tanker	65,300	16.10
LUTSK	V/O "Sudoimport"	Tanker	35,000	17.00
HEROIC	Roket Shipping Co.	Bulk Carrier	45,000	16.50
TASHIMA MARU	Nippon Yusen Kaisha	Tanker	89,000	15.25
LJUDINOVO	V/O "Sudoimport"	Tanker	35,000	17.00
FUGO MARU	Shinwa Kaiun Kaisha	Bulk Carrier	34,650	14.30
FARNMANOR	Garnne Akitieselskabet Glittre and Skibs A/S Marine	Tanker	69,170	16.00
LACONIC	Seahawk Shipping Co.	Tanker	53,000	16.00
OLYMPIC GARLAND	Seawell Marine Co.	Tanker	65,300	16.50
ERO	Isla Flagancia Compania Naviera	Bulk Carrier	33,510	14.70
CHERESTOS	Adriatic Shipping Corp.	Tanker	53,710	14.30
ASIA MARU NO. 2	Japan Line	Tanker	66,000	15.20
MILOS	Milos Shipping Co.	Tanker	64,500	16.10
KAIEI MARU	Japan Line	Tanker	66,000	15.20
SINCLAIR COLOMBIA	Sinclair Refining	Tanker	54,200	16.50
ANTE TOPIC	Temar Navigation Co.	Bulk Carrier	22,920	15.80
YASUKAWA MARU	Kawasaki Kisen Kaisha	Ore Carrier	51,610	14.00
TENRYUGAWA MARU	Kawasaki Kisen Kaisha	Tanker	69,500	15.50
YOSHINOKAWA MARU	Kawasaki Kisen Kaisha	Tanker	69,400	15.50
J. FRANK DRAKE	Afran Transport Co.	Tanker	47,800	16.50
MERMAID	Seabird Tankers Inc.	Tanker	66,200	16.25
SOLVEIG	Ocean Oil Trades	Tanker	53,300	16.75
SKAUGUM	Eikland Salamis, A/S Sandnaes	Tanker	67,820	16.25
NORTHERN JOY	Blue Star Finance Co.	Tanker	68,500	16.00
ATLANTIC ANTARES	Liberian Steamship Co.	Tanker	69,800	16.40
ATLANTIC PRINCE	Blue Star Finance Co.	Tanker	68,500	16.00
DEA MARIS	Gem Uavigation Co.	Tanker	55,000	15.80
ATLANTIC EMPRESS	Blue Star Finance Co.	Tanker	55,900	16.00
KIRISHIMA MARU	Terukuni Kaiun Kaisha	Tanker	96,500	16.50

Source: Japan Shipping and Shipbuilding, Vol. IX, No. 10, January, 1965

REPORT TO

THE CONGRESS OF THE UNITED STATES

UNNECESSARY TRANSPORTATION EXPENDITURES
FOR
PRIVATELY OWNED VEHICLES
TRANSSHIPPED BETWEEN UNITED STATES PORTS

DEPARTMENT OF DEFENSE

BY

THE COMPTROLLER GENERAL
OF THE UNITED STATES

MARCH 1965

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-154811

MAR 22 1965

To the President of the Senate and the
Speaker of the House of Representatives

In our review of shipments at Government expense of privately owned vehicles of personnel of the military departments, we found that the Department of Defense had incurred excess transportation costs in calendar years 1960 through 1963 estimated to be over $1 million to transship nearly 3,400 privately owned vehicles between continental United States ports after delivery from overseas, although the military regulations either specifically prohibit or apparently do not authorize such transshipments. These excess costs were incurred primarily because military authorities failed to (1) comply with the regulations of the military departments, (2) establish adequate management controls over the selection of destination ports, and (3) use through service from overseas ports to the destination ports.

From our examination of shipping documents at the Brooklyn Army Terminal, Brooklyn, New York, we found that 48 vehicles had been received from Labrador and Iceland and transshipped by the Brooklyn Army Terminal to other continental United States ports, such as the ports at New Orleans, Louisiana, and Oakland, California. The total cost to the Government for these unauthorized transshipments was $35,287, or an average cost of over $700 for each vehicle.

We found also that in many cases the ports--primarily west coast ports--to which the vehicles had been consigned on transshipment from Atlantic or Gulf coast ports were as far or farther from the servicemen's new duty stations as were the initial continental United States ports and apparently had been selected for the convenience of the servicemen, rather than in the best interest of the Government. For instance, an Air Force officer's 1929 Rolls Royce, shipped from England to New Orleans, was transshipped from New Orleans to Oakland at a cost of about $925, although his new duty station in Ohio was 2,396 miles from Oakland, but only 885 miles from New Orleans. The officer's leave address was Fullerton, California.

Our review also disclosed that, where through service was available from the overseas ports to the final continental United States port to

which the vehicles had been transshipped, direct shipments would have resulted in substantial savings to the Government in transportation costs. In a number of cases, we found that the vehicles were transshipped to the west coast on the same vessels which had delivered them to the initial continental United States port. For instance in August 1961, 17 vehicles were shipped aboard the SS "Green Mountain State" from Bremerhaven, Germany, to New Orleans, where they were unloaded. The vehicles were subsequently reloaded on the same vessel and transshipped to Oakland. Had these vehicles been routed through to Oakland from Bremerhaven, savings in unloading, loading, handling, and transportation costs approximating $4,600 would have been realized.

We were advised by the Department of Defense that it believed that our findings and conclusions were valid and that it concurred generally with our suggestions. In view of the corrective actions taken or proposed by the Department of Defense, we are making no recommendations at this time, but we will review the revised regulations of the military departments, when issued, and continue to periodically examine Department of Defense records covering shipments of privately owned vehicles.

We believe that this unnecessary expenditure of public funds and the anticipated substantial savings on future shipments of privately owned vehicles are of such significance as to warrant reporting to the Congress.

Copies of this report are being sent to the President of the United States; the Secretary of Defense; and the Secretaries of the Army, Navy, and Air Force.

Comptroller General
of the United States

Contents

	Appendix	Page
INTRODUCTION		1
BACKGROUND		1
FINDINGS AND CONCLUSIONS		4
Excess costs of over $1 million incurred for unauthorized and unnecessary transshipping of privately owned vehicles between United States ports		4
POV transshipments were made that were not authorized		6
Transshipments made at Government expense although initial United States ports were closer to members' new duty stations		9
Failure to ship in through service resulted in excess costs		11
Agency comments and corrective actions		14
Conclusions		16
SCOPE OF REVIEW		17
APPENDIXES		
Principal management officials of the Department of Defense and the Departments of the Army, Navy, and Air Force responsible for administration of activities discussed in this report	I	21
Letter dated October 3, 1964, from the Assistant Secretary of Defense, Installations and Logistics, to the General Accounting Office	II	24

REPORT ON UNNECESSARY TRANSPORTATION EXPENDITURES FOR PRIVATELY OWNED VEHICLES TRANSSHIPPED BETWEEN UNITED STATES PORTS DEPARTMENT OF DEFENSE

INTRODUCTION

The General Accounting Office has made a selective review of shipments at Government expense of vehicles owned by service personnel of the military departments. Our review was made pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67). The review was directed primarily to the transshipment of privately owned vehicles between ports in the continental United States after they had been received from overseas. The scope of our review is shown on page 17.

BACKGROUND

When a member of the Armed Forces is ordered to make a permanent change of station, one motor vehicle owned by him may be transported to his new station at the expense of the United States (1) on a vessel owned by the United States or (2) by privately owned American shipping services (10 U.S.C. 2634).

Military personnel who are authorized to ship privately owned vehicles (POVs) at Government expense must deliver their vehicles at their own expense to the loading ports or terminals and designate the destination ports to which the vehicles are to be shipped. The military regulations, however, prescribe no controls to assure that the destination port designated by a service member affords the most economical transportation cost to the Government in

relation to the member's new duty station. The military authorities at the loading ports assume responsibility for selecting the vessels and routings, loading the vehicles aboard the vessels, and transporting the vehicles. Military authorities at the destination ports arrange for unloading the vehicles and notifying the owners that their vehicles are available.

The military departments have not considered the legislation to be a blanket entitlement for all military personnel to have their POVs shipped at Government expense regardless of cost, and they have issued regulations which seem designed to limit the Government's cost for shipping the POVs. However, the separate services have issued regulations which are not uniform.

For instance, the regulations issued by both the Army (Army Regulations (AR) No. 55-76) and the Air Force (Air Force Manual (AFM) No. 75-4) authorize ocean transportation between continental United States (CONUS) ports on the one hand and ports overseas on the other hand and specifically prohibit intercoastal water transportation between CONUS ports. The regulations issued by the Navy (Bureau of Supplies and Accounts (BuSandA) Manual, volume 5, part 58300) authorize transocean shipments of POVs but do not specifically prohibit transshipments by intercoastal water transportation. AFM 75-4 provides that POVs to be returned to the United States from overseas be shipped to the Army terminal specified by the owner (sponsor) to which direct water transportation is available. Except where the duty station of the owner is changed prior to delivery of his POV to him at the initial CONUS port, AFM 75-4 specifically prohibits transshipment of a POV to another CONUS port unless authorized by Headquarters, United States Air Force (USAF).

The apparent intent of the Air Force is to place prudent limitations on costs to the Government by avoiding the expense of

multiple handlings of the POVs at the initial CONUS ports and the high cost of intercoastal and coastwise water transportation. Both AR 55-76 and the BuSandA Manual are silent concerning the transshipment of POVs although, as indicated above, AR 55-76 specifically prohibits intercoastal water transportation between CONUS ports.

The military regulations also limit the military personnel authorized to make such POV shipments to officers, warrant officers, and enlisted men in grade E-4 (with 4 years' service) and higher grades. All inland transportation is at the personal expense of the owners.

A list of the principal management officials of the Department of Defense and the Departments of the Army, Navy, and Air Force responsible for administration of activities discussed in this report is included as appendix I.

FINDINGS AND CONCLUSIONS

EXCESS COSTS OF OVER $1 MILLION INCURRED FOR UNAUTHORIZED AND UNNECESSARY TRANSSHIPPING OF PRIVATELY OWNED VEHICLES BETWEEN UNITED STATES PORTS

In calendar years 1960 through 1963, the Department of Defense (DOD) incurred excess transportation costs estimated to be over $1 million to transship nearly 3,400 POVs between CONUS ports after delivery from overseas, although the provisions of the military regulations either specifically prohibit or apparently do not authorize such transshipments. If proper destination ports and routings had been selected, the transshipments would have been unnecessary to effect delivery to the owners.

Most of these POVs were first shipped from the European area to CONUS ports on the Atlantic or Gulf coast and then transshipped to other CONUS ports, primarily west coast ports. The high intercoastal transportation rates usually resulted in transportation charges exceeding the transocean charges. In some cases POVs were transshipped twice between CONUS ports. Our examination into selected transshipments showed that in many cases the CONUS ports to which the POVs had been consigned on transshipment were as far or farther from the servicemen's new duty stations as were the initial CONUS ports and apparently had been selected for the convenience of the servicemen, rather than in the best interest of the Government. In most cases where the final CONUS ports were the proper ports for delivery to the owners, the POVs could have been shipped in through service from the overseas ports at substantial savings over the cost of transshipping between CONUS ports.

We estimate that the Government incurred total transshipping and rehandling costs of about $1.5 million for the POVs identified

as having been transshipped between CONUS ports during the 4 years ended December 31, 1963. Our review showed that, where through service was available, direct shipment of POVs from the overseas ports to the final CONUS ports to which they had been transshipped would have saved the Government over $1 million during the period covered by our review, or an average saving of about $250,000 a year.

During our review we identified almost 3,400 transshipments of POVs which had been made between CONUS ports. These transshipments included about 1,700 POVs shipped on regular commercial vessels from New Orleans, Louisiana, in calendar years 1960 through 1963 and from Brooklyn, New York, in calendar years 1961 through 1963, which we identified in a review of Government bills of lading at the New Orleans Army Terminal and at the Brooklyn Army Terminal, and about 1,700 POVs shipped on Government-owned vessels and commercial vessels operated under charter or contract with the Government in calendar years 1960 through 1963, which we identified in a review of Military Sea Transportation Service (MSTS) reports.

The costs for transshipping POVs between CONUS ports, including estimated port handling costs, are summarized in the following table by calendar year.

	1960		1961		1962		1963		Total	
	POVs	Cost	POVs	Cost	POVs	Cost	POVs	Cost	POVs	Cost
By commercial vessels from:										
New Orleans to Pacific coast ports	444	$225,000	523	$257,000	271	$124,000	242	$121,000	1,480	$ 727,000
Brooklyn to Gulf coast ports	- [a]	-	15	5,000	41	12,000	8	2,000	64	19,000
Brooklyn to Pacific coast ports	- [a]	-	52	37,000	46	33,000	45	33,000	143	103,000
Total	444	225,000	590	299,000	358	169,000	295	156,000	1,687	849,000
By Government vessels between:										
Atlantic and CONUS ports	144	59,000	290	126,000	324	132,000	249	99,000	1,007	416,000
California and CONUS ports	98	32,000	150	45,000	76	24,000	189	61,000	513	162,000
Gulf and CONUS ports	44	18,000	30	11,000	62	23,000	31	12,000	167	64,000
Total	286	109,000	470	182,000	462	179,000	469	172,000	1,687	642,000
Total	730	$334,000	1,060	$481,000	820	$348,000	764	$328,000	3,374	$1,491,000

[a] Records of shipments for this year were not readily available and were therefore not examined.

48-063 (Part I) O-65—22

The above costs were incurred primarily because military authorities failed to (1) comply with the regulations of the military departments, (2) establish adequate management controls over the selection of destination ports, and (3) use through service from overseas ports to destination ports.

<u>POV transshipments were made that were not authorized</u>

We found that transshipments of POVs had been made between CONUS ports, notwithstanding the provisions of the military regulations which specifically prohibit or apparently do not authorize transshipments of POVs by intercoastal transportation.

Responsible officials at the Brooklyn, New Orleans, and Oakland (California) Army Terminals stated that their authorization for making transshipments of POVs by intercoastal and coastwise water transportation was a routine Department of the Army message issued by the Chief of Transportation and distributed to overseas commanders and to CONUS Army terminals on September 5, 1956. This message states that "notwithstanding provisions of regulations or previous instructions, terminal commands are authorized to transship POVs when transshipment is necessary to effect delivery to the ultimate destination port." We could find no record that the Department of the Air Force or Navy had been advised of these instructions, nor could we find any record that the Chief of Transportation had the authority to supersede or suspend the military regulations in the circumstances involved.

The approximately 1,700 POVs transshipped by intercoastal and coastwise ocean transportation on Government bills of lading are summarized in the following table according to the service affiliations of the owners. The additional POVs (about 1,700) we

identified in our review of MSTS records are not included in this table because MSTS statistics do not show the service affiliations of the owners.

	POVs				
	1960	1961	1962	1963	Total
Air Force	229	361	238	221	1,049
Army	201	221	92	38	552
Navy and Marine	13	8	27	19	67
Unidentified	1	-	1	17	19
Total	444	590	358	295	1,687

Most of the POVs shown in the above table were shipped to CONUS by military personnel in continental Europe and the United Kingdom. Military authorities in CONUS stated that, when these POVs were received at CONUS ports, the ocean manifests prepared at the initial overseas ports from which the POVs were shipped contained transshipping instructions in the form of notations such as "For transshipment to Oakland." Headquarters, USAF, had authorized the transshipment of a very small number of POVs of its members, but the CONUS Army transportation officers and Air Force water traffic coordinating officers could not relate these authorizations to any of the POVs of its members--60 percent of the total POVs in the above table--although such authorization was required by the regulations of the Air Force.

Our review also disclosed that many of the transshipments by intercoastal water transportation of Air Force members' POVs were made from or to CONUS ports not authorized in AFM 75-4.

Attachment 34 to AFM 75-4 lists the CONUS terminals responsible for receiving POVs from various areas of the world. Under

that regulation, an Air Force member being transferred from Labrador or Iceland to the United States has the option of shipping a POV to either the Brooklyn or Hampton Roads (Virginia) Army Terminal, where he is expected to take delivery. No other ports are listed to which POVs may be shipped from Labrador and Iceland. Shipping documents at the Brooklyn Army Terminal showed that 48 POVs had been received from these areas during the 4-year period we reviewed and had been transshipped by the Brooklyn Army Terminal to other CONUS ports, such as the ports at New Orleans and Oakland, at a total cost to the Government for the unauthorized transshipments of $35,287, including handling costs, or an average cost of over $700 for each POV.

Some Air Force members being transferred from CONUS to Guam had delivered their POVs to the port at New Orleans, even though that port was not one of the ports designated by the regulations to accept POVs for that destination. At New Orleans we identified 33 POVs which had been accepted for shipment to Guam and, since there was no direct steamship service to Guam, these POVs were shipped to Oakland for subsequent transshipment. The cost to the Government for shipping these POVs from the unauthorized port of New Orleans to Oakland was about $20,000, or approximately $600 for each POV.

Responsible officials in Headquarters, USAF, said that requests for and approvals of authorizations to transship POVs were rare. They were unaware that POVs of Air Force members were being transshipped without such authorizations, and they stated that military port officials in Europe had no authority to direct the intercoastal transshipments of POVs of Air Force members.

Although Headquarters, USAF, may not have been aware of these intercoastal transshipments of POVs, it is the Air Force policy to attempt to exercise control over Air Force cargo moving through CONUS Army terminals by the use of Air Force Logistics Control Groups assigned to each of the terminals. Personnel of the control groups at the New Orleans and Brooklyn Army Terminals, from which the bulk of the POVs of Air Force members were transshipped, stated, however, that they were unaware that POVs of Air Force members were being transshipped through those terminals. This would indicate that the control groups lacked the type of controls and liaison with Army terminal officials essential to assuring that POVs of Air Force members were being shipped in accordance with the regulations.

Further, although transshipments of POVs of Air Force members were unauthorized, Air Force disbursing officers at Wright-Patterson Air Force Base, Ohio, have reimbursed MSTS for these transshipments over a period of years without question, even though MSTS bills submitted to Wright-Patterson identified the shipments as POVs being transshipped between CONUS ports.

Transshipments made at Government expense although initial United States ports were closer to members' new duty stations

The regulations of the several military departments name various CONUS ports which will handle POVs. At the time of our review, a service member overseas was permitted to designate any one of these ports as the destination port, when arranging with the overseas port authorities for the shipment of his POV, and neither the member nor the overseas port authorities were at that time required to assure that the port designated would afford the most economical transportation cost to the Government in relation to the member's new duty station.

For the purpose of evaluating the location of new duty stations in CONUS in relation to the initial CONUS ports, we were able to obtain copies of the permanent-change-of-station orders for the owners of 185 POVs transshipped between CONUS ports after arrival from overseas ports. In each of 44 cases, or 24 percent of the total, the initial CONUS port at which the POV arrived from overseas was either closer to or not significantly farther from the owner's new duty station than was the CONUS port to which the POV had been consigned on transshipment.

In most of these 44 cases, the expensive transshipments were apparently for the convenience of the owners, since their POVs were transshipped to ports closer to the members' home or leave addresses rather than to ports nearest to their new duty stations. For instance:

1. An airman's 1949 DeSoto, shipped from Casablanca, Morocco, to New Orleans, at an approximate cost of $340, was transshipped from New orleans to Oakland at an additional cost of over $600, including port handling costs, although the airman's new duty station was Custer Air Force Station, Michigan. Custer Air Force Station is approximately 2,344 miles from Oakland, but only 1,036 miles from New Orleans. The airman's orders showed that his leave address en route to his new duty station was Sacramento, California, suggesting that the expense of transshipment was incurred to enable the airman to enjoy the convenience of his automobile while in a leave status.

2. An Air Force officer's 1929 Rolls Royce, shipped from England to New Orleans for about $400, was transshipped from New Orleans to Oakland at an approximate cost of $925, including port handling costs, although his new duty station was Clinton County Air Force Base, Ohio. Clinton County Air Force Base, Ohio, is about 2,396 miles from Oakland, but only 885 miles from New Orleans. The officer's leave address was Fullerton, California.

3. An Army captain's 1961 Morris, shipped from La Pallice, France, to New Orleans at an approximate cost of $150, was transshipped from New Orleans to Oakland for about $270, including port handling costs, although his new duty station was Fort Polk, Louisiana, which is only 232 miles from New Orleans, but about 2,037 miles from Oakland. The captain's orders show that his leave address was Morro Bay, California.

4. An Army sergeant's 1957 Plymouth, shipped from Bremerhaven, Germany, to New Orleans for about $350, was transshipped from New Orleans to Oakland at an approximate cost of $600, including the port handling costs, although his new duty station was White Sands Missile Range, New Mexico. This post is about 1,151 miles from Oakland and 1,161 miles from New Orleans. The sergeant's orders show that his leave address en route to his new duty station was in the State of Oregon.

Failure to ship in through service resulted in excess costs

The POVs transshipped to the west coast CONUS ports from Brooklyn and New Orleans at high intercoastal transportation rates could have been shipped direct from Europe to the west coast in through service at substantially lower MSTS contract rates. During our review we identified at least 15 vessels a year that had sailed from Europe to west coast ports in calendar years 1961 through 1963 on which MSTS contract rates were available.

For instance we found that, although no fewer than 16 such vessels had sailed during 1961, 497 POVs had been shipped from Europe to New Orleans and transshipped to the west coast during that year. Had these POVs been shipped on these through vessels direct to the west coast, the total transocean costs from the overseas ports would have been increased from about $93,000 for delivery to New Orleans to about $170,000 for delivery to the west coast, or an increase of about $77,000, but the total transshipping costs

eliminated thereby would have been about $230,000. Thus, the Government would have saved $153,000 in transportation and handling costs in that one year, if deliveries to the west coast were, in fact, in the best interests of the Government. As pointed out in the preceding sections, however, in many cases the transshipments were for the convenience of the POV owners and not in the best interest of the Government.

In a number of cases, we found that the POVs were transshipped to the west coast on the same vessels which had delivered them to the initial CONUS port.

For instance in August 1961, 17 POVs were shipped aboard the SS "Green Mountain State" from Bremerhaven, Germany, to New Orleans where they were unloaded. The Army terminal then issued Government bills of lading to transship the POVs to Oakland, and the POVs were reloaded aboard the same vessel, the SS "Green Mountain State" and transshipped to Oakland. The additional transportation cost to Oakland of $5,393 added to the transportation costs from Bremerhaven to New Orleans of $2,912 brought the total transportation costs to $8,305. Had the military port officials in Bremerhaven routed those POVs direct to Oakland from Bremerhaven, the transportation costs would have been $5,438, or a saving of $2,867 in shipping charges alone. Furthermore, the Government incurred additional unloading, loading, and handling costs approximating $1,800 at New Orleans to transship these vehicles on the same vessel.

In another case we found that seven POVs had not been removed from the delivering vessel at New Orleans prior to transshipment to Oakland. Again, the fact that the military port authorities at Southhampton, England, had designated New Orleans, rather than

Oakland, as the destination, resulted in the New Orleans port's issuing a bill of lading for transshipment to Oakland on the same vessel at a transportation cost of $800 more than the cost from Europe direct to Oakland. A notation on the bill of lading in this case indicated that these POVs were to be transshipped at Oakland to still another port which was not identified. Additional handling and transportation charges would be incurred for the second transshipment.

Military transportation officials alleged that vehicles are frequently transshipped at CONUS ports in order to avoid the inconvenience to the service members of having their vehicles delayed overseas until through vessels are available. We found, however, that MSTS contract through vessels were sailing from European ports with such frequency that delays in excess of 1 month would be unusual and the average delay should not be over 2 weeks.

In several cases we found that the transshipment actually had delayed delivery of the POVs because they had been unloaded from a through vessel to Oakland and transshipped to Oakland at additional costs on a different vessel at a later date. For instance, four POVs were unloaded at New Orleans from the SS "Aloha State," which then sailed to Oakland, arriving on February 14, 1961. These same POVs were later loaded on the SS "Palmetto State," which arrived in Oakland on March 16, 1961. Removal of these POVs from a through vessel resulted not only in delayed deliveries but also in additional transportation, unloading, loading, and handling costs approximating $600.

48-063 (Part I) O-65—23

AGENCY COMMENTS AND CORRECTIVE ACTIONS

During our review we discussed our findings with responsible officials in the Directorate of Transportation for the Air Force, the Office of Chief of Transportation and the Supply and Maintenance Command of the Army, and the Bureau of Supplies and Accounts of the Navy.

After our discussion with Air Force officials, the Air Force took steps to discontinue the intercoastal shipment of POVs of Air Force members. On November 8, 1963, the Air Force dispatched messages to overseas and CONUS commanders, port and terminal authorities, and others having jurisdiction over POV shipments, defining the management problem involved and calling attention to the Air Force regulations which prohibit transshipment of a POV to another CONUS port unless authorized by Headquarters, USAF. In the same message the Air Force also directed its management and control officials at the ports to monitor all Air Force POV shipments and transshipments.

Subsequent to discussion of our findings with Army officials, the Army instituted an immediate investigation of the role of its terminal and port commands in POV shipments. The Army also revised its message of September 5, 1956 (see p. 6), to provide that direct ocean service be used to ship POVs to the CONUS destination ports designated by the member and that, if direct ocean service is not available, authorization be obtained from the Office of Chief of Transportation for transshipment of the POV between CONUS ports.

Navy representatives stated that intercoastal transshipments of POVs of Navy members were not authorized and that the Navy had instituted an investigation of controls over shipments of POVs of Navy members.

We also brought our findings to the attention of the Secretary of Defense and suggested that he (1) direct the military departments to revise their regulations governing POV shipments so that the regulations will be uniform throughout the Department of Defense, (2) delegate to overseas military port authorities the responsibility for assuring that the destination ports servicemen designate will afford the most economical transportation costs to the Government in relation to the members' new duty stations, and (3) instruct the Secretaries of the military departments to consider, when making personnel evaluations and management assignments, the manner in which individuals responsible for administering the POV program have discharged their duties and responsibilities. The Assistant Secretary of Defense (Installations and Logistics) advised us by letter dated October 3, 1964 (appendix II), that the Department believed that our findings and conclusions were valid and that it concurred generally with our suggestions. The Assistant Secretary stated that:

> "As to your first suggestion relative to uniform regulations, this matter has been brought to the attention of the Per Diem, Travel and Transportation Allowance Committee in order that the Committee may review the revised regulations which are now being developed by the Military Departments.
>
> "As to the second recommendation that responsibility be placed on military port authorities to ensure that POV delivery ports provide the most economical service, we concur with the intent of this recommendation and intend to monitor the activities of the Military Departments in placing this responsibility with the appropriate military authorities.
>
> "As to your third suggestion, the manner in which individuals in the Department of Defense discharge their responsibilities and perform any of their duties, including

the movement of POV's, is considered when personnel evaluations and management assignments are made."

CONCLUSIONS

We believe that the Government will realize substantial savings in the cost of transporting POVs if, as we have suggested, the military departments revise their regulations and require military port authorities to establish controls over the selection of destination ports. The amount of savings to the Government will depend, however, on compliance with the regulations and the effectiveness of the controls in eliminating unnecessary transshipments of POVs. In view of the actions taken or proposed, we are making no recommendations at this time, but we will review the revised regulations, when issued, and continue to periodically examine DOD records covering shipments of POVs.

SCOPE OF REVIEW

Our review of transshipments of POVs between CONUS ports included a study of the activities of selected CONUS Army terminals and the MSTS and the management organizations in the Army, Navy, and the Air Force responsible for the regulatory, administrative, and disbursing functions concerning POVs.

We also examined into selected payments to ocean carriers for the transportation of POVs, for which vouchers had been forwarded to this Office for audit.

The following military organizations and installations were visited during our review:

United States Army Supply and Maintenance Command, Washington, D.C.
Chief of Transportation, United States Army, Washington, D.C.
United States Army Terminal Command, Atlantic, Brooklyn, New York.
Brooklyn Army Terminal, Brooklyn, New York.
United States Army Terminal Command, Gulf, New Orleans Army Terminal, Louisiana.
Philadelphia Outport, United States Army Terminal Command, Atlantic, Philadelphia, Pennsylvania.
Oakland Army Terminal, Oakland, California.
Directorate of Transportation, United States Air Force, Washington, D.C.
Bureau of Supplies and Accounts, United States Navy, Washington, D.C.
Naval Supply Center, Oakland, California.
Naval Headquarters Support Activity, New Orleans, Louisiana.
Military Sea Transportation Service, Washington, D.C.

APPENDIXES

APPENDIX I

PRINCIPAL MANAGEMENT OFFICIALS
OF THE DEPARTMENT OF DEFENSE
AND THE DEPARTMENTS OF THE ARMY, NAVY, AND AIR FORCE
RESPONSIBLE FOR ADMINISTRATION OF ACTIVITIES
DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
DEPARTMENT OF DEFENSE		
SECRETARY OF DEFENSE:		
Robert S. McNamara	Jan. 1961	Present
Thomas S. Gates, Jr.	Dec. 1959	Jan. 1961
ASSISTANT SECRETARY OF DEFENSE (INSTALLATIONS AND LOGISTICS):		
Thomas D. Morris	Jan. 1961	Present
DEPUTY ASSISTANT SECRETARY OF DEFENSE (SUPPLY AND SERVICES):		
Paul H. Riley	Jan. 1961	Present
DEPARTMENT OF THE ARMY		
SECRETARY OF THE ARMY:		
Stephen Ailes	Jan. 1964	Present
Cyrus R. Vance	July 1962	Jan. 1964
Elvis J. Stahr, Jr.	Jan. 1961	June 1962
Wilber M. Brucker	July 1955	Jan. 1961
DEPUTY CHIEF OF STAFF (LOGISTICS):		
Lt. Gen. L. J. Lincoln	Aug. 1964	Present
Lt. Gen. R. W. Colglazier, Jr.	July 1959	July 1964
CHIEF OF TRANSPORTATION:		
Maj. Gen. William N. Redling	Sept. 1964	Present
Maj. Gen. Edward W. Sawyer	June 1963	June 1964
Maj. Gen. Rush B. Lincoln, Jr.	March 1962	June 1963

PRINCIPAL MANAGEMENT OFFICIALS

OF THE DEPARTMENT OF DEFENSE

AND THE DEPARTMENTS OF THE ARMY, NAVY, AND AIR FORCE

RESPONSIBLE FOR ADMINISTRATION OF ACTIVITIES

DISCUSSED IN THIS REPORT (continued)

	Tenure of office	
	From	To
DEPARTMENT OF THE ARMY (continued)		
CHIEF OF TRANSPORTATION (continued):		
Maj. Gen. Frank S. Besson, Jr.	March 1958	March 1962
Maj. Gen. Paul F. Yount	May 1956	March 1958
COMMANDING GENERAL, U.S. ARMY MATERIEL COMMAND:		
Gen. Frank S. Besson, Jr.	July 1962	Present
COMMANDING GENERAL, U.S. ARMY SUPPLY AND MAINTENANCE COMMAND:		
Maj. Gen. Jean E. Engler	April 1964	Present
Lt. Gen. August Schomburg	May 1962	March 1964
DEPARTMENT OF THE NAVY		
SECRETARY OF THE NAVY:		
Paul H. Nitze	Nov. 1963	Present
Fred Korth	Jan. 1962	Nov. 1963
John B. Connally	Jan. 1961	Dec. 1961
William B. Franke	June 1959	Jan. 1961
CHIEF, BUREAU OF SUPPLIES AND ACCOUNTS:		
Rear Adm. John W. Crumpacker	May 1961	Present
Rear Adm. James W. Boundy	Aug. 1958	May 1961

PRINCIPAL MANAGEMENT OFFICIALS

OF THE DEPARTMENT OF DEFENSE

AND THE DEPARTMENTS OF THE ARMY, NAVY, AND AIR FORCE

RESPONSIBLE FOR ADMINISTRATION OF ACTIVITIES

DISCUSSED IN THIS REPORT (continued)

	Tenure of office	
	From	To
DEPARTMENT OF THE NAVY (continued)		
ASSISTANT CHIEF FOR TRANSPORTATION AND FACILITIES:		
Rear Adm. Harry J. P. Foley	July 1964	Present
Rear Adm. O. P. Lattu	Aug. 1961	June 1964
Capt. T. A. Brown	Sept. 1960	Aug. 1961
Capt. G. T. Pollich	May 1959	Sept. 1960
DEPARTMENT OF THE AIR FORCE		
SECRETARY OF THE AIR FORCE:		
Eugene M. Zuckert	Jan. 1961	Present
Dudley C. Sharp	Dec. 1959	Jan. 1961
DEPUTY CHIEF OF STAFF, SYSTEMS AND LOGISTICS:		
Lt. Gen. T. P. Gerrity	July 1962	Present
Lt. Gen. M. E. Bradley, Jr.	June 1959	June 1962
DIRECTOR OF TRANSPORTATION:		
Maj. Gen. R. T. Coiner, Jr.	Nov. 1963	Present
Brig. Gen. E. W. Hampton	July 1961	Oct. 1963
Brig. Gen. E. C. Hedlund	Aug. 1959	June 1961

ASSISTANT SECRETARY OF DEFENSE
WASHINGTON, D.C. 20301

INSTALLATIONS AND LOGISTICS

TS

3 OCT 1964

Honorable Joseph Campbell
Comptroller General of the United States
General Accounting Office
Washington, D. C. 20548

Dear Mr. Campbell:

This is in regard to your draft report of August 5, 1964, on a review of shipments of privately-owned vehicles (POV's) of personnel of the Department of Defense.

Your report indicates that the Department of Defense spent about $1.5 million for unauthorized and misrouted POV shipments during the four-year period covered by your review. You indicate that these excess costs were incurred because the responsible military authorities failed to (1) comply with the regulations of the individual military services, (2) provide management controls to assure that the destination ports selected by servicemen for their POV's were those to which the most economical transportation was available to the new duty stations, and (3) use direct ocean transportation from origin to destination to avoid the expensive costs of intercoastal steamship service.

Your report also indicates that the Military Departments have already taken steps to exercise a greater control over transhipment of POV's. You state a belief that actions already taken by the Military Services to control intercoastal shipments of POV's will result in significant savings. You suggest that, in addition, the Secretary of Defense (1) establish uniform regulations, similar to those currently in effect for the Air Force, for the guidance of military personnel concerning the authorizations and limitations on intercoastal shipments of POV's, (2) place on military port authorities the responsibility for assuring that the destination ports specified by service personnel for delivery of their POV's are the ports providing the most economical service to the service members' new stations, and (3) instruct the Secretaries of the several services to consider, when making personnel evaluations and management assignments, the manner in which individuals responsible for administering POV shipments have discharged their responsibilities and performed their duties.

We believe that the findings and conclusions of your draft report are valid and we concur generally in the suggestions that you make.

As to your first suggestion relative to uniform regulations, this matter has been brought to the attention of the Per Diem, Travel and Transportation Allowance Committee in order that the Committee may review the revised regulations which are now being developed by the Military Departments.

As to the second recommendation that responsibility be placed on military port authorities to ensure that POV delivery ports provide the most economical service, we concur with the intent of this recommendation and intend to monitor the activities of the Military Departments in placing this responsibility with the appropriate military authorities.

As to your third suggestion, the manner in which individuals in the Department of Defense discharge their responsibilities and perform any of their duties, including the movement of POV's, is considered when personnel evaluations and management assignments are made.

Sincerely,

THOMAS D. MORRIS
Assistant Secretary of Defense
Installations and Logistics