

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

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**HEARINGS**  
BEFORE THE  
**SUBCOMMITTEE ON FEDERAL PROCUREMENT  
AND REGULATION**  
OF THE  
**JOINT ECONOMIC COMMITTEE**  
**CONGRESS OF THE UNITED STATES**  
EIGHTY-NINTH CONGRESS  
SECOND SESSION

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## DISCRIMINATORY OCEAN FREIGHT RATES AND THE BALANCE OF PAYMENTS

FRIDAY, MAY 6, 1966

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 S-407, the Capitol, Hon. Paul H. Douglas (chairman of the subcommittee) presiding.

Present: Senators Douglas and Jordan.

Also present: John R. Stark, deputy director; Thomas H. Boggs, Jr., consultant to the subcommittee; Donald A. Webster, minority economist, and Hamilton D. Gewehr, administrative clerk.

Chairman DOUGLAS. The committee will come to order.

I would like to make an opening statement which I hope will not be too long.

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,<sup>1</sup> that ocean freight rates discriminate against American exports resulting in unfair advantages to our foreign competitors and adverse effects on our balance of trade. 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 corresponding imports on 80 per cent of the sampled items. The same discrimination prevails on 70 per cent 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.

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 exporters were assessed fair rates. This belief is not unique with the members of the Joint Economic Committee. The Interagency Task Force, in its report early this year, recommended elimination of discriminatory ocean freight rates.

Representatives of the maritime labor unions have stated that these rates should be eliminated. The Chairman of the Federal Maritime Commission, the Maritime Administrator and the Secretary of Com-

<sup>1</sup> Published as S. Rept. 1, 89th Cong., 1st sess., Jan. 6, 1965. Available from Superintendent of Documents, U.S. Government Printing Office.

merce have all stated that these rates ought to be changed. Our late beloved President Kennedy and President Johnson have requested a change in these discriminatory rates. Finally, the National Export Expansion Council recently issued a report which stated that ocean freight rates were one of the principal drawbacks to the expansion of American foreign trade.

And I am going to ask unanimous consent that that report be printed in the record.

(The report referred to follows:)

OCEAN TRANSPORTATION, FREIGHT RATES, AND EXPORT EXPANSION

(By the Action Committee of the National Export Expansion Council, February 1966)

NATIONAL EXPORT EXPANSION COUNCIL ACTION COMMITTEE ON OCEAN TRANSPORTATION AND FREIGHT RATES IN RELATION TO EXPORT EXPANSION

Member	Title	Firm
Robert F. Dwyer (chairman).....	Proprietor.....	Dwyer Forest Products Co.
Dwayne O. Andreas.....	Executive vice president.	Farmers Union Grain Terminal Association.
Jack L. Camp.....	President.....	International Harvester Export Co.
Worth B. Fowler.....	do.....	American Mail Line.
Michael Fribourg.....	do.....	Continental Grain Co.
Eli Goldston.....	do.....	Eastern Gas & Fuel Association.
Werner P. Gullander.....	do.....	National Association of Manufacturers.
William B. Johnson.....	do.....	REA Express.
Mario E. Laracada.....	Manager.....	National Cash Register.
Adm. W. J. Marshall.....	President.....	The Bourbon Institute.
F. A. Mechling.....	do.....	A. L. Mechling Barge Lines.
William A. Muriale.....	Vice president.....	Bank of America.
Louis C. Purdey.....	Executive director.	Port of Toledo.
William L. Robinson.....	General traffic manager.	Sears, Roebuck & Co.
Clinton L. Sanders.....	President.....	Perkins Freight Lines.
George Shimrak.....	Foreign traffic manager.	Pennsylvania RR.
Joseph A. Sinclair.....	Director.....	Commerce & Industry Association of New York.
Jerome A. Siegel.....	Chairman.....	Titan Industrial Corp.
Lloyd Snedeker.....	President.....	Milton Snedeker Corp.
John J. Tennant.....	do.....	W. R. Chamberlin & Co.
Thomas M. Torrey.....	do.....	American Institute of Marine Underwriters.
Donald Watson.....	Vice president and general manager.	Weyerhaeuser Line.
Robert S. Weil.....	do.....	Weil Bros-Cotton, Inc.
Adm. John M. Will.....	Chairman.....	American Export Isbrandtsen Lines, Inc.
William G. Smith.....	Liaison officer.....	U.S. Department of Commerce.

FEBRUARY 3, 1966.

MR. CARL A. GERSTACKER,  
Chairman, National Export Expansion Council  
Department of Commerce, Washington, D.C.

DEAR MR. GERSTACKER: It gives me a great deal of pleasure to transmit to you the report of the Action Committee on Transportation and Freight Rates in Relation to Export Expansion.

Our report consists of 13 resolutions relating to U.S. transportation practices and policies which could, if implemented, help increase American exports by more than \$1 billion annually within the next five years.

The basic problem which underlies the findings and recommendations of the Action Committee is that the transportation system of the United States generally has not been geared to the necessities of international competition. The quest for international markets has not, in the past, been as intense among American businessmen as it has among the businessmen of other countries. Foreign businessmen and their governments have developed techniques of operation and coordination with their transportation agencies with the result that such agencies have served as effective instrumentalities of their countries'

trade policies. Understandably, our transportation industry has reflected American industry's preoccupation with the domestic market, and therefore, often has operated without special consideration for the international competitive problems of American business.

This basic situation is reflected in some of the specific problems which now confront American businessmen in competing for overseas markets.

#### OCEAN FREIGHT RATE DISPARITIES

There are disparities in ocean freight rates. In many instances, ocean freight rates on items outbound from the United States are two to three times as high as on the same or similar items inbound to the United States. This in effect serves as an extra tariff or tax on our exports and subsidy to foreign imports.

The ocean freight rate disparities also apply to third country situations. The per-ton mile costs of shipping from the United States to third countries in Latin America, Africa, or Asia are sometimes several times higher than the per-ton mile costs of shipping from our competitor countries to those same markets. Such disparities, of course, give our foreign competitors a significant advantage on many products in competing for these markets.

Therefore, we recommend that the Federal Maritime Commission use its full authority to correct unjustified disparities and unfair discrimination in ocean freight rates; that ocean carriers and U.S. shippers be urged to cooperate in developing rate schedules conducive to increased trade; and that American flag lines be requested to initiate within their conferences a review of import and export rates to achieve a better revenue equilibrium between the inbound and outbound rates.

#### INDIRECT MARITIME SUBSIDIES

A second major problem area involves the impact of indirect maritime subsidies, such as cargo preference requirements, upon the ability of the American shipper to compete in distant markets.

To the extent that American exporters are required to pay the subsidy through rates higher than those charged by foreign lines, they may be excluded from many markets, thereby defeating the objectives both of the export expansion effort and the maritime subsidy program. It is obvious that if the U.S. exporter cannot compete because of higher freight rates, his exclusion from the market also eliminates the subsidy to American shipping.

The existing requirement that 50 percent of the grain shipments to the Soviet Union and other Eastern European countries be carried in American ships illustrates this problem. As a result of this policy, the United States has been excluded from this market at a time when these countries have been buying heavily from other Free World nations.

In light of these considerations, it is recommended that the requirement that 50 percent of commercial shipments of certain surplus agricultural commodities to Eastern European countries must be transported in American-flag vessels be terminated. (As vice chairman of the National Export Expansion Council, I presented to President Johnson on January 7, 1966, the Council's views on this matter.)

Additionally, cargo preference is making it more difficult for certain United States industries to compete with imports in the domestic market and is thereby adversely affecting our balance of payments position. The Pacific Northwest forest products manufacturers, for example, are required to use American-flag ships in shipping to the East Coast, while their Canadian competitors enjoy the lower foreign shipping rates. The differential in shipping costs is largely responsible for the displacement of more than 1 billion board feet of American lumber on the American East Coast. The loss of this market to imported lumber affects our international payments situation by about \$100 million per year.

We recommend that the Administration seek to improve the competitive position of our coastwise maritime service so that it can lower rates to levels which might be charged by foreign-flag ships in this trade.

#### COAL RAIL-RATE DISPARITIES

In railroad transportation there are situations in which U.S. products destined for export pay a higher rail rate than those traveling between the same points but destined for domestic consumption. One of the commodities affected by such disparities is coal.

We recommend in this regard that the Federal Government use its good offices and authority to obtain from the coal-carrying railroads agreement to pass on to U.S. exporters in the form of lower freight rates those savings in transportation costs which are attributable to the increased efficiency of the exporters' operation so that the exporter in turn can use such lower costs to secure expanded foreign sales of coal.

The above recommendations are those which involve major issues of national policy. I have not attempted to list herein those recommendations which can and should be implemented by the National and Regional Export Expansion Councils, by private organizations, or those which involve only minor issues of departmental or agency policy. This is not to derogate the importance of these other recommendations set forth in the attached report. I believe the National and Regional Export Expansion Councils will wish to pursue these measures with all possible emphasis.

The 24 business leaders volunteering their services on the Action Committee represent exporters and most of the industries involved in transporting U.S. products to foreign markets. These include representatives from rail, truck, barge, and steamship lines; port authorities, freight forwarders, marine insurers, banks, and combination export managers.

Representatives from the Departments of Agriculture, Commerce and Interior, and the Interstate Commerce Commission made valuable contributions to the Committee's deliberations. The chairman of the Federal Maritime Commission, Admiral Harlee, contributed generously and substantially.

The views expressed in the report are, of course, those of the private businessmen serving on the Committee.

Twelve of the thirteen resolutions were adopted at a meeting of the Action Committee on December 14, with the recommendation on Containerization and Through Documentation being approved by mail on December 27. As chairman, I accepted the full report on January 10.

We believe this is a propitious time to achieve solutions to these and other transportation problems which have long been hampering the growth of American exports. As a result of the positive support the President has given to the Federal Maritime Commission, the Commission is making progress in its efforts to reduce some of the more important ocean freight disparities. In addition, the American-flag lines are demonstrating a renewed interest in working with shippers in the promotion of U.S. exports.

This desire to move ahead from the arguments and discords of the past, to solutions which will benefit both the exporter and the transportation industries is reflected by the agreement achieved in the Action Committee. We believe that the great majority of the American businessmen will support the Administration in its effort to achieve constructive solutions to these problems. We hope that our efforts have opened the door to further industry-government cooperation in improving the contributions which the transportation industry can make to expand exports.

(Signed) ROBERT F. DWYER.

#### EQUALIZATION OF COAL RAILROAD FREIGHT RATES FOR EXPORT AND DOMESTIC SHIPMENTS

##### A. RESOLUTION

1. Whereas, coal producers, coal handling railroads, and coal exporters have a strong and mutual interest in maximizing U.S. exports of coal;

2. Whereas, coal exports currently contribute \$500 million to the U.S. balance of payments and have the potential for making a substantial additional contribution to our balance of payments;

It is resolved that the Secretary of the Interior in cooperation with the Department of Commerce and other appropriate Federal agencies enter into discussions with representatives of the coal carrying railroads with the aim of developing procedures that will assure that savings on systems costs are reflected in coal freight rate reductions when such reductions can contribute to expanded foreign sales of coal.

## B. BACKGROUND DATA

Rail rates on Appalachian coal shipped to Norfolk, the principal coal-handling port on the East Coast, are higher on coal sold abroad than on intra-coastal shipments to domestic industries.

For example, New York City purchaser pays \$3.38 per ton for transportation from the mines to Norfolk. However, if this same coal were bound for export the rate would be \$4.08 per ton, or 20 percent more than the domestic rate cited.

The higher rail rate levied on export-bound shipments has deterred the growth of this important trade. European coal-buying agencies have indicated a reluctance to increase their coal purchasing commitments in the U.S. as long as this disparity exists.

Recognizing that this rate structure adversely affects the competitiveness of U.S. coal in markets abroad, the Action Committee is urging that the Secretary of Interior and the officials of other concerned Federal agencies should discuss this question with the coal-hauling railroads.

If export coal can be handled in "unit trains," with a minimum of car demurrage, these economies could be shared with the coal shipper who has arranged for this more efficient use of the rail equipment.

If export coal rail rates were reduced to the rate for domestic coal shipments, it is estimated that U.S. coal exports could be increased from the current level of \$500 million a year to \$1 billion annually within five years.

## FIFTY-FIFTY REQUIREMENT ON COMMERCIAL SALES TO BLOC COUNTRIES

## A. RESOLUTION

1. Whereas, the requirement that 50 percent of the commercial shipments of certain agricultural commodities exported to Eastern European countries be transported in American-flag vessels constitutes a serious impediment to export expansion;

2. Whereas, the long-range export potential of such agricultural products in these Eastern European countries is significant;

3. Whereas, the shipping cost differential is such as to preclude these sales under the present fifty-fifty requirement;

It IS RESOLVED that the 50 percent American-flag shipping requirement be removed from commercial sales of surplus agricultural commodities so that American agricultural exports can be competitive in the Eastern European markets.

## B. BACKGROUND DATA

While the United States is competitive in the wheat markets of the Free World, and provides some 20 to 25 percent of its requirements, it has not been competitive on commercial sales to the Soviet Union and the European Bloc countries because of the U.S. Export Control requirement that 50 percent of the wheat be shipped in American-flag vessels.

Typically, rates on U.S.-flag ships carrying wheat to Soviet Bloc ports are \$6 to \$8 per ton more than the world shipping rate. On a 50/50 basis this represents a surcharge of from \$3 to \$4 per ton, or 8 to 10 cents per bushel.

This year, the Bloc countries are buying large quantities of wheat in the world market. The Soviet Union has already purchased some 9.8 million tons for shipment in the fiscal year ending July 1, 1966, and the Eastern European countries, with the exception of Poland, have contracted for 4 million tons.

In addition, leaders in the U.S. grain industry believe the Bloc nations might purchase from 1¾ million to 2¾ million more tons of wheat this year over and above that already contracted for.

[In tons]

Soviet Union.....	1, 000, 000-2, 000, 000
Czechoslovakia.....	250, 000
Hungary.....	250, 000
East Germany.....	250, 000
Total.....	1, 750, 000-2, 750, 000

Because the other major wheat exporting nations have almost exhausted their supplies, nearly all of the Bloc's unfilled requirement could represent additional sales if U.S. grain dealers were able to sell at world prices in Eastern Europe.

The 50/50 requirement precludes this. It has been made clear that the Bloc countries are unwilling to pay these premiums.

If the U.S. is to capitalize upon this market, however, it is essential that the American-flag shipping requirement be waived promptly because the Bloc nations' need to buy additional grain decreases as they restrict consumption with the approach of the new crop year.

This question will also be pertinent next year. It is now estimated that in fiscal 1967 the Soviet Union will be in the market for 3 to 4 million tons of wheat and that the Eastern European countries will be buying some 4 million tons, adding up to 7 to 8 million tons.

If the U.S. could compete in the Bloc, it could sell from 1½ to 2 million tons in this market during fiscal 1967. This projection reflecting the U.S. share of commercial sales within the Free World.

---

## COASTAL SHIPPING

### A. RESOLUTION

1. Whereas, this Action Committee is aware of the cost differential problems pertaining to the maintenance of the coastal shipping segment of a strong American merchant marine;

2. Whereas, cabotage laws can impede certain industries, such as the U.S. Northwest lumber and timber products industry, in competing with imports in the U.S. market;

It is resolved that the President, in formulating a revised national maritime policy, give full consideration to this problem.

### B. BACKGROUND DATA

The statutory requirement limiting commerce between U.S. ports to American-flag ships may impose an extra cost upon the shipper. In addition, this restriction can be self-defeating when the relatively high U.S. shipping rates make it impossible for American companies to compete with foreign producers having lower transportation costs.

This is illustrated by the \$100 million annual loss in lumber sales to the East Coast by Pacific Northwest mills because their shipping costs are substantially higher than those borne by British Columbia producers. The shipping lines as well as the mills are penalized in this situation.

Other examples may be provided by low-value, high tonnage, commodities, such as fertilizers, where these restrictions benefit neither the shipper nor the coastal maritime industry. In addition, it should be noted that the application of these laws to Puerto Rico and Hawaii has also resulted in increased imports at the expense of the U.S. product sales.

These coastal shipping restrictions are making it more difficult for some U.S. industries to compete with imported products and are thereby reducing the U.S. trade surplus. Thus, a revised national maritime policy should aim to improve the competitive position of coastal shipping so that it can lower rates on bulk commodities to levels competitive with rates charged by foreign-flag ships servicing the U.S. market.

---

## OCEAN FREIGHT RATE DISPARITIES

### A. RESOLUTION

1. Whereas, there exist significant disparities in certain ocean freight rates both on reciprocal trades between United States and foreign ports and on commodities moving from the United States to foreign ports in competition with similar commodities moving from other industrialized countries to those same foreign ports;

2. Whereas, insofar as has been determined to date, certain of these disparities do not appear to be justified either by the volume or value of the commodities shipped or by other transportation factors;

3. Whereas, these particular disparities may constitute a serious impediment to the penetration of overseas markets by American exporters of the products or commodities involved;

4. Whereas, certain analyses indicate that as a result of such disparities a disproportionately large share of the revenue of the round-trip voyages is imposed on American exports which, in effect, represents an extra charge on exports and a subsidy for foreign producers selling in the U.S. market and in third country markets;

It is resolved that—

(a) The Federal Maritime Commission continue to use its good offices and full authority to take steps to correct unjustified disparities and unfair discrimination in ocean freight rates;

(b) Ocean carriers and U.S. shippers cooperate to the extent possible in developing rate schedules conducive to increased trade and increased ocean cargo movement; and

(c) American-flag lines initiate within their conferences a review of general import and export rates to achieve a better revenue equilibrium between the inbound and outbound rates.

#### B. BACKGROUND DATA

Comparative ocean freight rates on U.S. outbound and inbound shipments as well as rates for products moving to third countries have received considerable attention as Government and business have sought to expand exports in recent years. Inquiries have been conducted in the Congress by the Joint Economic Committee, the House Merchant Marine and Fisheries Committee, and within the Administration by the Federal Maritime Commission and the U.S. Department of Commerce.

These studies have illustrated how ocean freight rate disparities often tend to limit exports and subsidize imports. They have also shown that for many products the freight rate differentials are a minor factor in the final delivered cost.

As a result of this attention and the strong efforts being made by the Federal Maritime Commission to correct such disparities, considerable progress has already been made in the past two years.

The Action Committee's resolution recognizes that the primary interest of the American-flag lines lies in taking the leadership in correcting such disparities. The resolution also asks these lines to take steps within their conferences to achieve a greater equalization of freight rates both inbound and outbound as well as rates to third countries.

### IRON AND STEEL SHIPPING RATE ADJUSTMENT PROCEDURES

#### A. RESOLUTION

1. Whereas, in many countries U.S. iron and steel products are often priced above competitive imports, partly because of high ocean transportation costs;

2. Whereas, some shippers of such items have considerable difficulty negotiating shipping rate adjustments with sufficient speed to be competitive in such markets;

It is resolved that the shipping conferences and American-flag steamship lines:

(a) Review export rates for U.S. iron and steel products, and

(b) Establish procedures to expedite and facilitate rate adjustments which will permit the U.S. products to be competitive when it can be shown that the ocean transportation costs are controlling.

#### B. BACKGROUND DATA

For several years relatively low-cost foreign iron and steel products have captured foreign markets previously served by U.S. iron and steel exports and have increasingly penetrated U.S. markets. Furthermore, U.S. export shipping rates on iron and steel products are frequently higher than import rates for the same products. Therefore, freight rate disparities are often an additional obstacle to exporting U.S. iron and steel products.

As the efficiency of the U.S. iron and steel industry increases and the quality of production improves through significant technological advances, such as that provided by improved oxygen furnaces, opportunities for exports of U.S. iron and steel products will increase. In 1964 these exports were about \$600,000,000.

The resolution asks that the shipping conferences and the American-flag steamship lines expedite consideration of ocean freight rate adjustments where lower ocean freight rates can be instrumental in assuring export markets for U.S. iron and steel products.

The potential dollar value of increased exports of U.S. iron and steel products is difficult to estimate, but the Government and industry should support these efforts to build such exports.

---

PUBLIC LAW 480—AUTHORIZATIONS CIF INSTEAD OF FOB

A. RESOLUTION

1. Whereas, the U.S. Department of Agriculture's P.L. 480 sales agreements with foreign countries for surplus agricultural commodities and the resulting purchase authorizations provide only for the purchase of bulk grain FOB-U.S. port and not CIF-foreign port, as is customary for most of the export grain business;

2. Whereas, the issuance of these purchase authorizations on a CIF basis would permit more efficient use of grain terminal facilities and shipping, and thereby facilitate additional grain sales;

3. Whereas, such issuance would also permit U.S. insurance companies to compete for this business;

It is resolved that the Secretary of Commerce request the Secretary of Agriculture to authorize the issuance of P.L. 480 grain purchase authorizations on a CIF basis or other terms, and thereby permit the shipper to control the service aspects of the shipment when possible.

B. BACKGROUND DATA

P.L. 480 sales of surplus agricultural commodities by the Department of Agriculture provide for FOB terms so that buyers will have to pay for shipping, insurance, and other delivery services. Representatives of the grain and insurance companies contend that our grain exports and insurance sales could be increased, if the terms were on a CIF basis. Agriculture officials contend the change would increase Government costs, since the present arrangement requires the buyer to pay delivery costs.

Direct marine insurance business amounting to several million dollars annually is presently lost to U.S. firms on P.L. 480 grain sales because the foreign buyers arrange for their domestic firms or other foreign firms to handle the insurance. Shipping inefficiencies resulting from loading grain at times stipulated by the buyer do not permit the most efficient grain loading operations, and result in increased shipping costs. This in turn, reduces the amount of grain which can be sold under Department of Agriculture Purchase Authorizations.

This resolution calls attention to these problems and seeks corrective measures, which could result in greater deliveries of grain and in increased U.S. marine insurance sales which would benefit the balance of payments.

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EXPORTING ON A CIF BASIS

A. RESOLUTION

1. Whereas, by selling exports FOB-U.S. plant or FAS-U.S. port instead of CIF-foreign port, U.S. producers are possibly curtailing their export markets, because the foreign buyers may have difficulties arranging for U.S. transportation and shipping;

2. Whereas, the shipment of such exports on a CIF basis to foreign ports will expand U.S. exports because the foreign buyer will know before purchase the delivered cost and will have no problems arranging for delivery;

3. Whereas, this arrangement permits the exporter to select U.S. banking, insurance, and carrier firms;

4. Whereas, exporting on a CIF basis can contribute to the U.S. balance of payments posture;

It is resolved that all concerned private interests, with governmental assistance, develop an educational program to promote the sale of U.S. exports on a CIF basis.

B. BACKGROUND DATA

When a U. S. company sells domestically, FOB terms are readily acceptable since the buyer is as knowledgeable as the seller in arranging for transportation and other aspects of delivery. When selling abroad, however, the exporter may



find that foreign buyers are unfamiliar with arranging for transportation (especially in the United States) and are reluctant to take on this chore. Thus selling exports on FOB basis frequently reduces the attractiveness of purchasing in the U.S. market, and therefore impedes export sales. These difficulties can be avoided by selling exports on a CIF basis. In addition, exports quoted on CIF terms provide the foreign purchaser with total delivered costs which FOB terms fail to provide. A balance of payments benefit is also derived from CIF sales as U.S. exporters will tend to arrange for U.S. firms to handle transportation and insurance rather than having foreign firms provide these services.

To the extent that the resolution results in increased U.S. export sales on a CIF basis, exports will be increased and our balance of payments improved.

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#### SHIPPER-CARRIER CONSULTATIVE MACHINERY

##### A. RESOLUTION

1. Whereas, if shippers can cooperate in negotiating with shipping conferences, there may be a reduction in costs and improvement in service, thus increasing exports through greater foreign market penetration;

It is resolved that the anti-trust laws be reviewed and, if necessary, amendments be sought to assure shippers of their right to negotiate collectively with the ocean carriers.

##### B. BACKGROUND DATA

Anti-trust laws apparently prevent shippers from acting collectively in negotiating rates with shipping conferences. However, under the supervision of the Federal Maritime Commission, shipping lines can cooperate in establishing uniform rates and practices. This resolution recommends that such differences in the bargaining positions of shippers and carriers be eliminated.

The potential increase in exports resulting from such a change cannot be estimated, as different groups of shippers face different ocean freight rate problems. However, in certain cases shippers acting collectively in rate negotiations with shipping conferences should be able to obtain rates sufficiently favorable as to significantly lower the net sales price of U.S. exports and thus stimulate export expansion.

If exemption to existing anti-trust laws is required in order to enable shippers to act collectively in rate negotiations, the Federal Maritime Commission would appear to be the logical federal agency to administer such an exemption.

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#### PROMOTION OF EXPORTING

##### A. RESOLUTION

1. Whereas, a number of organizations are working to increase the efficiency of transportation and other organizations have the objective of increasing U.S. foreign trade;

2. Whereas, U.S. firms exporting for the first time need expert guidance and information;

3. Whereas, recent investigations of ocean freight rate questions have revealed that new exporters or firms entering a new export market need more information than is currently available;

4. Whereas, improved sources of information will help expand exports through more responsive ratemaking and shipping practices, as well as by helping to reduce delivery costs of exports;

It is resolved that—

(a) The Department of Commerce and the Federal Maritime Commission not only continue but expand their program of educating shippers about their rights and responsibilities in exporting, such as the distribution of privately and Government prepared publications concerned with shipper education and export possibilities;

(b) Action Committee members take the leadership within their organizations, such as carrier and shipper groups, financial institutions, freight forwarders, combination export managers, insurance companies, port authorities, and other organizations involved in exporting, to expand and improve their

educational programs to help new exporters, especially by preparing and distributing booklets or other information concerning their services for exporters, and

(c) The National and Regional Export Expansion Councils coordinate such educational programs and help distribute such booklets or other information.

#### B. BACKGROUND DATA

Numerous organizations, such as the Regional Export Expansion Councils (REECs), the National Association of Manufacturers, and the Committee of American Steamship Lines (CASL), are actively engaged in export promotion programs. Certain of these programs have met with only limited success, however. It is the consensus of the Action Committee that these organizations should increase their export promotion efforts and that such activities should be coordinated by the REECs.

Potential exporters are often not aware of the contribution which the various trade associations, industries, and companies can make to their exporting. The members of the Action Committee have committed themselves to obtain agreement from their respective trade organizations to prepare pamphlets describing the assistance which those organizations can provide new or potential exporters. Such pamphlets have already been published by the insurance industry and the Committee of American Steamship Lines.

Action Committee members representing the following industries have agreed to seek preparation of the above described pamphlets from their respective industry organizations: railroads, trucks, barges, port authorities, freight forwarders, combination export managers, and banking. In addition, the Committee believes that the Commerce Department should expand its activities in the field of "exporter education."

### USE OF AMERICAN-FLAG SHIPS

#### A. RESOLUTION

1. Whereas, American-flag steamship lines offer services equal or superior to those provided by foreign-flag lines in shipping conferences that serve the United States;

2. Whereas, when American exporters employ American-flag steamship lines, they may benefit from the efforts of the cargo promotion staffs of such lines to develop new export markets and deepen the penetration of existing markets;

3. Whereas, the employment of American-flag ships makes an important contribution to our balance of payments;

It is resolved that the President request the National and Regional Export Expansion Councils, private organizations involved in the servicing of U.S. exports, and appropriate government agencies to promote the greater use of American-flag ships.

#### B. BACKGROUND DATA

American-flag steamship lines are aggressively promoting the use of their vessels but other industries concerned with handling and promoting exports have not been fully supporting these efforts.

In addition to recommending that the President urge private and governmental groups to promote a greater use of American-flag ships, the Action Committee also called on its members to have their trade associations and businesses support the use of American-flag ships, and thereby benefit the nation's balance of payments.

### MARITIME SUBSIDIES

#### A. RESOLUTION

1. Whereas, certain industries in the United States that serve international markets, such as shipping, have costs that render them non-competitive with like industries located in foreign countries;

2. Whereas, the continuance of such industries is in the public interest for reasons of national security and convenience and necessity;

3. Whereas, some form of special financial arrangement must be employed to permit such industries to carry on their operations;

4. Whereas, direct subsidies are preferable to indirect subsidies or hidden arrangements for the support of such industries, so that the shipper does not risk having his products eliminated from the market because of the higher freight costs he has to absorb;

It is resolved that the President propose legislation to pay direct maritime subsidies to American-flag steamship operators to cover wage differentials and other higher United States operating costs found to impair the competitive ability of American-flag shipping in lieu of some present indirect subsidies.

#### B. BACKGROUND DATA

Hidden support for the maritime industry prevents the public from evaluating whether the higher costs paid by shippers are worth the benefits obtained.

Recognizing this problem, the Action Committee supports the principle of eliminating indirect or hidden financial support in the maritime industry. Specifically, an operating differential subsidy, such as that now paid to liner operators, would replace the system of differentials paid by the Department of Agriculture and other agencies for the shipment of bulk commodities on American-flag tramp ships under present cargo preference requirements.

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### STANDARDIZED EXPORT DOCUMENTATION

#### A. RESOLUTION

1. Whereas, the use of simplified and standardized documents can reduce the costs of exporting;

2. Whereas, a Standard Export Format has been developed under the auspices of the National Facilitation Committee;

3. Whereas, major shipping associations have endorsed this format and are promoting its widespread use;

It is resolved that—

(a) The National Export Expansion Council endorse the Standard Export Format, and

(b) The Regional Export Expansion Councils encourage all shippers and transportation industry representatives to convert their documents to that format.

#### B. BACKGROUND DATA

The Government's National Facilitation Committee has worked with industry in preparing a Standard Export Format which can be used for all of the basic export documents. The Action Committee reviewed and endorsed this format and pledges that each member will work to expedite its adoption.

Widespread use of the Standard Export Format will result in reduced document preparation costs and handling expenses. Such savings will make it easier for U.S. exporters to be more competitive in world markets. It should also make the prospects of exporting more attractive because it eliminates many of the complications of document preparation for export shipments.

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### CONTAINERIZATION AND THROUGH DOCUMENTATION

#### A. RESOLUTION

1. Whereas, the conventional method of transporting general cargo in export trade is on a break-bulk basis;

2. Whereas, certain ocean, rail, air, highway, and waterway carriers have programs and studies underway to utilize containers for the through movement of goods from American manufacturers to customers abroad;

3. Whereas, the unit-load principle of transportation promises substantial benefits to American exporters and carriers by way of lowered costs of transportation, packaging, documentation, and other cost factors as well as improved turn of goods at destination;

4. Whereas, the use of through documentation from inland point of origin to inland point of destination is a desirable concomitant of unitized or container-

ized export shipments because it should simplify export procedures and reduce time and expense involved;

It is resolved that—

(a) The President direct those agencies involved, such as the Departments of Commerce and the Treasury, Federal Maritime Commission, the Interstate Commerce Commission as well as the National and Regional Export Expansion Councils and the National Facilitation Committee, to lend their fullest support to the further development of unitized or containerized equipment, and the use of through documentation, and

(b) The President request U.S. industries and all service activities involved in exporting, particularly port authorities, to assist and support the development of this program.

#### B. BACKGROUND DATA

To promote economic and efficient transportation and distribution facilities, this resolution asks the Government and industry to support the development of cargo unitization and containerization and concomitantly to encourage the use of through documentation.

Through documentation from origin-to-destination should eliminate some of the paper work and establish the overall cost of delivering the product to the foreign customer.

With effective use of containers, it will be easier for many producers to export. Containerization should contribute materially to improving the competitive position of United States exports and to increasing the efficiency of the United States merchant marine.

#### *Analysis of resolutions*

[In millions]

Resolutions regarding—	Estimated annual impact of enacted resolutions on—		Simplifying export procedure
	Exports	Balance of payments	
Coal <sup>1</sup> .....	\$500	\$500	(2)
Wheat <sup>2</sup> .....	\$100-\$125	\$100-\$125	(2)
Coastal shipping.....	(2)	\$100	(2)
Ocean freight rate disparities <sup>4</sup> .....	(5)	(5)	(5)
Iron and steel <sup>5</sup> .....	(5)	(5)	(2)
Public Law 480 c.i.f. ....	(2)	(5)	(2)
Exporting c.i.f. ....	(5)	(5)	(2)
Shipper/carrier consultation.....	(5)	(5)	(2)
Export promotion.....	(5)	(5)	(5)
Use of American-flag ships.....	(2)	(5)	(2)
Maritime subsidies.....	(2)	(5)	(2)
Standardized export documentation.....	(5)	(2)	(5)
Containerization.....	(2)	(2)	(5)

<sup>1</sup> 5-year forecast.

<sup>2</sup> Not applicable.

<sup>3</sup> By August 1966—at least twice that amount estimated for future years.

<sup>4</sup> Cotton exports estimated to increase at half billion dollars in future years, taking into consideration recent legislative changes.

<sup>5</sup> Contribution to export increase cannot be estimated.

<sup>6</sup> Estimated increase in exports at half billion dollars in future years, provided there is continued modernization of U.S. steelmaking facilities.

Chairman DOUGLAS. Members of the Joint Economic Committee are still concerned about discriminatory rates and have instructed the Subcommittee on Federal Procurement and Regulation of which I am chairman to continue its investigation of this subject.

Last year the subcommittee held three series of hearings. Chairman John Harlee and other representatives of the Federal Maritime Commission indicated that the Commission was finally in a position to take action against foreign steamship lines and foreign governments to eliminate unfair rates in the United States-United Kingdom trade and perhaps on seven other major trade routes. We expect to hear a full report of the Commission's activities at the hearings today.

At this point I would like to praise Admiral Harllee. May I say that governmental administrators are commonly placed in a very difficult situation. Congress sets up the Commissions and then goes off and lets them operate, but the special interests affected commonly put great pressure upon these Commissions, and seek to infiltrate the Commissions and, if anyone stands up against them, to make it difficult for him, so that my own experience has been that, in general, regulatory commissions, after a few years, come to be controlled by the groups which they are supposed to regulate, and in times past, I think that has been the case with the Maritime Commission.

It is a great credit to Admiral Harllee, a distinguished PT boat commander, than which there was no tougher group of sailors, that he has shown the same intrepidity in dealing with these matters as he did in the naval service. And Admiral, as one who has been rather critical of administrative agencies, and as one who has not hesitated to condemn them when I felt they were derelict in their duty, I feel that I should praise you most highly, and I would like to recommend vitamins for you, and a program of exercise, so that you can keep up your energies; and let me also thank the Commissioners who have stood by you. You have a working majority at the moment, tenuous though it may be. If I could give you an award, I would, but all I can do is to lay some humble tributes and praise before you.

We have also received testimony from representatives of the Department of Commerce. Dr. Andrew Brimmer, former Assistant Secretary of Commerce for Economic Affairs, stated that ocean freight rates indeed do discriminate against American commerce and have a substantial adverse effect on our balance of trade. He further stated that, as a result of the Department's studies in this area, it would assist, in every way, the Federal Maritime Commission in seeking to eliminate inequitable rate structures.

However, Dr. Brimmer failed to indicate whether the Department of Commerce would eliminate or reduce subsidy payments to American-flag operators who charge discriminatory rates and who currently receive subsidies from the Department of Commerce. He indicated that we would have an answer to this question in the fall of 1965. Although we have not yet received an answer from the Department we expect one on May 19, 1966, when Under Secretary of Commerce Alan Boyd is scheduled to appear.

If there is any representative of the Department of Commerce in the room, let me say this question will be asked of the Under Secretary as to whether or not he is going to remove subsidies from lines which discriminate against American exports.

Last year the subcommittee began a separate but related investigation of the rates charged by U.S.-flag operators for the transportation of Government cargoes. In this area the subcommittee was concerned with the level of rates charged the U.S. Government and not with rate discrepancies. But members of the committee were convinced that these two issues were related. The high level of Government rates has encouraged many of our U.S.-flag steamship operators to abandon inbound cargoes to the United States in order to return from an overseas voyage as quickly as possible to once again load with high-paying Government cargoes. Once these rates are adjusted to fair and reasonable levels, Government cargoes will become less

attractive and more and more of our steamship operators will begin building inbound services and shifting some of the cost of operations from full voyage to the importers.

Last year we heard from representatives of the Department of Agriculture, the Agency for International Development, and the Department of Defense—the agencies responsible for the shipment of almost all Government cargoes. Representatives of the Department of Agriculture stated that there was no doubt that the rates charged by U.S.-flag ships for the transportation of agricultural commodities were excessively high. They further stated that these high rates were in fact a form of subsidy to the tramp fleet. The Department suggested that its cargo preference functions be shifted to the Department of Commerce, the agency responsible for the overall subsidy program, so that it could also administer this form of indirect subsidy and weigh its benefits against a direct type of subsidization.

When Under Secretary of Commerce Boyd appears, he is going to be asked the administration's position on this suggestion. I am going to ask Mr. Boggs to warn the Under Secretary in advance that these questions will be asked, that no evasion will be tolerated.

Representatives of the Agency for International Development stated that they were not in a position to determine whether or not the rates charged by U.S.-flag operators were, in fact, fair and reasonable. As a result of the subcommittee inquiry, they agreed to undertake an extensive study in conjunction with the Federal Maritime Commission.

I don't know whether that study has been completed or not. Mr. Boggs informs me that it will be completed by the 19th, and I serve notice on the AID that they will be asked to produce their evidence, and that it will be included in the committee hearing record, and be used by members of the committee when a final report on this subject is prepared.

(The following letter was subsequently submitted by AID:)

DEPARTMENT OF STATE,  
AGENCY FOR INTERNATIONAL DEVELOPMENT,  
OFFICE OF THE ADMINISTRATOR,  
Washington, D.C., June 1, 1966.

HON. PAUL H. DOUGLAS,  
United States Senate,  
Washington, D.C.

DEAR SENATOR DOUGLAS: Thank you for your letter requesting information on A.I.D. shipping activities for the Subcommittee on Federal Procurement and Regulation of the Joint Economic Committee.

The study of A.I.D.-financed cargo which the F.M.C. is conducting will not be completed for some time. In the fall of 1965 when we became aware of the time it would take to finish the F.M.C. study, A.I.D. undertook its own study through Foster Associates, an economic consulting firm with experience in transportation rates. This study—essentially an analysis of actual rates paid by A.I.D. during fiscal year 1965—will be finished in the near future. At that time, we will gladly furnish a copy of the Foster report to the Subcommittee.

We have given a good deal of thought to the problems of Agency responsibilities posed by the "fair and reasonable" standard of the Cargo Preference Act and the standard of the Shipping Act of 1916: "so unreasonably high \* \* \* as to be detrimental to the foreign commerce of the United States."

There are technical reasons which make it difficult for A.I.D. to proceed under the Cargo Preference Act with a formal determination that a rate charged by a U.S.-flag carrier is unreasonable. These difficulties, however, do not restrict possible A.I.D. efforts to negotiate with U.S.-flag carriers to lower rate levels for A.I.D.-financed commodities, to challenge high rates in administrative proceedings before the F.M.C. under the Shipping Act, to direct A.I.D. shippers to

transport goods with foreign-flag independent liners or tramps, or to refuse altogether to use A.I.D. funds to defray ocean transportation costs which A.I.D. regards too high. A.I.D. believes it has a responsibility to monitor rate levels and to insure the prudent expenditure of its funds for ocean transportation costs.

In this regard, A.I.D. expects that the reports by the F.M.C. and by Foster Associates will point out how A.I.D. can establish effective control mechanisms which will allow the Agency to exploit the foregoing or other available courses of action.

With respect to the responsibilities among agencies under the dual statutory scheme for testing reasonableness of rates, it appears that an allocation can perhaps be made: applications by the F.M.C. of the "so unreasonably high" standard of the Shipping Act; and application of the "fair and reasonable" standard of the Cargo Preference Act by the executive agency involved.

If A.I.D. believes a filed rate is "so unreasonably high," its proper recourse is to petition the F.M.C. However if A.I.D. believes a rate is merely "unreasonable" and not "so unreasonably high," it must be prepared to make a formal determination under the Cargo Preference Act. However, to determine that a rate is unreasonable under Cargo Preference, yet not so unreasonably high under the Shipping Act requires a degree of maritime analytical expertise which A.I.D. does not possess.

During this past year A.I.D. relied upon F.M.C. rate surveillance under Section 17(b) (5) of the Shipping Act for relief from rate levels it regarded as too high. Accordingly, to facilitate such F.M.C. review, A.I.D., in July 1965, participated with the F.M.C. and other Government agencies in an attempt to stay a 10% rate increase proposed by liner conferences on shipments to Latin America. In November 1965, A.I.D. reviewed the reasonableness of certain U.S.-flag liner rates for the carriage of cement between Taiwan and Vietnam. Since rates between offshore destinations are not subject to Shipping Act filing requirements and to F.M.C. review, A.I.D. had no recourse to the F.M.C. for relief. A.I.D. made a rough evaluation of the rates under the Cargo Preference Act standards and imposed a rate ceiling beyond which it would not finance U.S.-flag freight. In the coming months A.I.D. expects as a result of the studies now being carried on by F.M.C. and Foster Associates to expand these and related rate surveillance activities.

If you desire further information on these matters, please let me know.

Sincerely yours,

WILLIAM S. GAUD,  
*Deputy Administrator.*

Chairman DOUGLAS. Representatives of Defense testified that they, too, were not convinced that the rates they were obtaining from U.S.-flag operators were in fact fair and reasonable. They indicated an extensive investigation of their procurement policy has been undertaken. This investigation led to the recent announcement by the Department of Defense that it would no longer purchase ocean transportation service on a collectively fixed price basis but would seek competitive bids. This is something that I have been urging on the Defense Department in connection with the purchase of commodities for years. Now I am delighted that it is going to be used in the contracts for ocean transportation.

The Department of Defense estimates that it will save as much as 25 percent—more than \$30 million a year—as a result of this new policy. The Secretary and his assistants are to be congratulated for this bold new policy. And so, too, is Admiral Donaho, of the MSTs, and I may say that he is another of the unsung heroes, because he stood out for competitive bidding and competitive awarding of contracts in the face of terrific pressure from the ocean shipping lines which were trying to get him fired. He stood his ground under as heavy a bombardment as the Japanese guns could have given, and he deserves the greatest credit, and so, too, does Secretary McNamara for backing him up.

At least in this area of ocean transportation service, unless the shipping companies are able to upset Admiral Donaho and Secretary McNamara, the benefits of competition are going to be realized. However, as a result of our current policy, the unsubsidized lines will be unfairly penalized.

The Department of Defense has stated it will procure ocean service from the line offering the lowest price. But, for example, if line A offers a rate of \$28 for vehicles shipped from New York to Hamburg, whereas line B offers \$24, the Department of Defense will accept the subsidized line rate; however, at least a quarter of the cost of the subsidized operator is paid by the Treasury in subsidy. In this example, the lowest rate appears to be the subsidized carrier, but in fact it represents the higher of the two in total cost to the U.S. Government.

It is my understanding that the Department of Commerce recognizes this competitive advantage in our domestic trades. For example, when a U.S.-flag ship sails from the Pacific Coast to Hawaii, it receives no subsidy from the Department of Commerce. This is true whether the ship is subsidized or unsubsidized on its other voyages. Subsidized carriers are required to reduce their subsidies by the percentage of domestic cargoes carried. A similar policy appears needed for defense cargoes as a result of the new procurement policy. Not only would this eliminate the unfair advantage these lines will have over their unsubsidized competitors if no action is taken, but it would appear sound because, as in the domestic trades, there is no foreign-flag competition for Defense Department cargoes.

We expect to hear this morning testimony from Deputy Assistant Secretary of Defense, Robert Moot, who together with Admiral Donaho are the two men most responsible for this new policy. Is Mr. Moot in the room?

Major SARRIS. I am Major Sarris, sir, from OSD. Mr. Moot will be here shortly.

Chairman DOUGLAS. Tell him that I want him to stand behind the admiral.

Major SARRIS. Yes, sir.

Chairman DOUGLAS. While Under Secretary Boyd will be asked to resolve the question of unfair subsidy treatment, Mr. Moot is expected to explain the Department's new policies and the possible effect of these policies on the U.S. taxpayer, the U.S. exporter, and the U.S. merchant marine.

Significant steps have been taken in the past 2 years—and I think this committee has played some part in them—which should eventually guarantee fair and reasonable rates to American exporters, both private and public. Appropriate changes must also be made in our promotional subsidy policies to keep in step with our new regulatory and procurement policies.

We are pleased to have this morning as our first witness, Adm. John Harlee, Chairman of the Federal Maritime Commission, who has done so much during the past 3 years to provide the type of regulation needed over shipping cartels to protect both American foreign commerce and the American merchant marine.

Senator Jordan?

Senator JORDAN. Mr. Chairman, before we hear Admiral Harlee, may I commend our distinguished chairman for the fine statement he



has presented. At times it appears that our efforts in this matter have been slow in producing results and without very substantial degree of progress, but apparently at long last we are on the verge of breaking through, I hope, and I want to commend the chairman.

Chairman DOUGLAS. I want to thank the Senator from Idaho for the completely cooperative attitude which he has always taken in this matter. He has been a bulwark of strength.

Admiral Harlee?

**STATEMENT OF REAR ADM. JOHN HARLEE, U.S. NAVY (RETIRED) CHAIRMAN, FEDERAL MARITIME COMMISSION; ACCOMPANIED BY ASHTON C. BARRETT, COMMISSIONER, FEDERAL MARITIME COMMISSION; EDWARD SCHMELTZER, MANAGING DIRECTOR; ROBERT BLACKWELL, CHIEF, BUREAU OF COMPLIANCE; AND LEE FULLER, SPECIAL ASSISTANT TO ADMIRAL HARLEE**

Admiral HARLEE. Mr. Chairman, Senator Jordan, I have with me this morning Commissioner Ashton Barrett; Mr. Edward Schmeltzer, our very able new Managing Director, filling the shoes of our very able former managing director, Timothy May; the Chief of our Bureau of Compliance, Mr. Robert Blackwell; and my special assistant, Mr. Lee Fuller.

I would like to first thank you, Mr. Chairman, for your very kind remarks on behalf of both myself and the Commission. I particularly appreciate those relating to the Navy, since my father spent a lifetime in the U.S. Marine Corps, which was your service.

This statement that we have distributed appears as if we are trying to do something by weight of papers, but I would like to mention that this is only really 27 pages of the statement, summarizing in the first 3½, and the rest are appendixes. I will then proceed with the statement.

It is an honor for me to report to you and to the distinguished members of this committee on behalf of our Commission.

The Federal Maritime Commission looks upon this report which it is making today as an accounting to the Congress of the Commission's activities in those matters in which this committee is interested.

It is my hope in detailing the work the Federal Maritime Commission has done since the attention of the Joint Economic Committee of the Congress has been focused upon it, that I will leave no doubt that we have been diligent and I feel, effective, in realistically regulating U.S. foreign commerce, as we are charged to do under the law; that this has promoted and encouraged our Nation's trade; and that the result has been of benefit to every element of the foreign trade community—to exporters, importers, independent ship operators, conference lines, ocean freight forwarders, and terminal operators.

First, Mr. Chairman, let me say to you that it is my sincere belief that the Congress of the United States in 1961, when it promulgated Public Laws 87-346 and 87-254, acted wisely for the welfare of the United States. Likewise, it is my sincere belief that the attention of the Joint Economic Committee in the area of freight rates has had a most salutary effect upon U.S. trade and commerce.

Further, the revitalization of the 1916 act and the attention of the Commission to the reasonable application of the 1916 statute has proved, beyond doubt, the far-seeing wisdom of the Congress when it called upon the Federal Maritime Commission to keep surveillance over conferences, to guard against monopolistic practices and anti-competitive activity which could be contrary to the welfare of the United States.

These remarks in these last two paragraphs may seem possibly to be a bit gratuitous, but there have been in the past some attacks on the amendments to the Shipping Act of 1916, on the 1961 amendment, and we do believe that these were very wise and proper amendments to the law.

Incidentally, those attacks were made before a congressional committee, as a matter of fact, on this additional legislation which provided for more teeth in the Shipping Act.

The benefits of which I speak can be concretely demonstrated and are most impressive.

U.S. trade and commerce, which from 1958 to 1960 had rough going, has since 1961 exhibited a strong, healthy, vigorous pattern of growth and is today at an all-time record high of \$48.7 billion.

Steamship lines, American and foreign, conference and nonconference, report increased earnings, increased carriage, increased capitalization, and increased dividends.

Chairman DOUGLAS. Now, Admiral, I think it is better if we clear these matters up as we go along, instead of postponing them.

Do you have figures on whether the lines are better off financially today than ever before, or has your staff gathered these figures?

Admiral HARLEE. Yes, we do, Mr. Chairman. I have a short paper that I can read, if you would like, and submit it to you.

Chairman DOUGLAS. I would appreciate it.

Admiral HARLEE. Earnings of U.S.-flag carriers. Based on financial data available to the Commission, the following are the total net earnings and earnings stated as a percentage of net worth for 11 leading American steamship companies. These are the ones which have data published.

Can you distribute to the committee copies of this, please? It may be more facile to follow these papers.

Chairman DOUGLAS. Go ahead.

Admiral HARLEE. In the year 1959, total earnings were some \$36 million with 5.2 percent, representing 5.2 percent of the net worth. In 1960, it was about \$26 million, representing 3.7 percent of net worth. In 1961, 24, about \$24 million, representing 3.3 percent; 1962, \$34.7 million—I am reading from the bottom up on this—representing 4.6 percent; 1963, about \$42 million, 5.3 percent of net worth, and in 1964 about \$53 million, 6.4 percent of net worth.

Chairman DOUGLAS. So that the total earnings have increased by almost \$17 million, or around 45 percent in these 5 years?

Admiral HARLEE. Yes.

Chairman DOUGLAS. So that the shipping lines haven't been hurt by the Harlee policy?

Admiral HARLEE. During the period of most intensive regulation, the actual earnings—I wouldn't call it the Harlee policy, Mr. Chairman, but the Commission policy—during the period of most intensive

regulation, however, there has been a more rapid increase in the earnings of the lines than before.

Now, of course, it must be stated that this is a cyclical industry, that there are other factors that affect it, and it must be acknowledged that there are other exotic industries such as electronics which will make a larger percentage of return on net worth, but the fact remains that despite the claims of many people that the regulations is financially ruining American merchant marine and the subsidized lines, the facts belie this.

These are the facts which are available to the public, published, actually, in Moody.

Chairman DOUGLAS. And while the east coast lines have declined in earnings in 1965, that was due to the strike. The west coast lines, which were not subject to the strike, did very well?

Admiral HARLEE. They did better than ever before in peacetime.

Chairman DOUGLAS. Thank you.

Admiral HARLEE. I will submit this paper for the record, Mr. Chairman.

(Document referred to follows:)

#### EARNINGS OF U.S.-FLAG CARRIERS

Based upon financial data available to the Commission, the following are the total net earnings and earnings stated as a percentage of net worth for 11 leading American steamship companies (American Export Lines, American Mail Lines, American President Lines, Delta Steamship Company, Matson Line, McLean, Moore-McCormack Lines, Pacific Far East Lines, Seatrain Lines, U.S. Lines, and Lykes Bros. Steamship Company):

Year	Amount	Percent of net worth
1964	\$53,264,000	6.4
1963	41,910,000	5.3
1962	34,706,000	4.6
1961	24,219,000	3.3
1960	25,998,000	3.7
1959	36,943,000	5.2

It is obvious from the foregoing data, that from 1959 to 1960, a period of very limited regulation, the earnings of these carriers dropped. From 1960 to 1961, a continuing period of limited regulation, carrier earnings remained about the same. However, beginning with 1961, the year when the new Federal Maritime Commission came into being, carrier profits began to rise. From 1961 to 1962, they increased by \$10,500,000, and 1962 to 1963, they increased by \$7,200,000. From 1963 to 1964, the period of most active regulation of the Federal Maritime Commission, earnings increased by \$11,300,000, a rate higher than any previous year. This clearly indicates that during our period of most intensive regulation the earnings of carriers have been greater than ever before. While we recognize that ocean shipping is a cyclical industry, and there are many factors which affect carrier earnings, such as strikes and the recent Viet Nam crisis, the foregoing figures indicate that our regulatory activities cannot be shown to have adversely affected the earnings of U.S. flag carriers. The contrary seems to be true.

While final year end figures for 1965 are not available for all of these carriers, our examination of the data which is available indicates that there was a down turn in the earnings of East and Gulf coast carriers in that year because of the months long strikes affecting U.S. flag operations from those coasts; but the earnings for West Coast carriers have continued to increase rapidly.

Senator JORDAN. Admiral, do you have any figures for 1965?

Admiral HARLEE. We have fragmentary figures for 1965, because all of the reports are not in as yet, but these figures do indicate clearly the same trend.

Senator JORDAN. The same trend?

Admiral HARLLEE. The same trend on the west coast. In the case of the east coast and the gulf, strikes of both the seamen and the long-shoremen which lasted for months, produced a distorted picture. But for the time that there was not a strike, they represent a picture of increased earnings.

The freight forwarder industry is vigorous, healthy, and prosperous (and I mention this because this was the subject of another statute passed by the Congress in 1961) and is rapidly emerging on a high professional plane as an integral service agency to U.S. foreign shipping and commerce.

Our piers and terminals are doing more business with far less controversy than at any other time in their history.

In the domestic offshore trades of the United States there is growth, new technology, and prosperity.

I would add one other thing to this financial picture. I have spoken of averages. Of course, there are some lines which have made a great deal more, and have compared with the exotic industries, and others that have not done so well. This applies, of course, both in the foreign trade and the domestic trade. These facts, Mr. Chairman, attest to the wisdom of the Merchant Marine and Fisheries Committee, of the Senate Commerce Committee, and of the Joint Economic Committee of the Congress in insisting that the regulatory laws be reasonably and equitably applied to U.S. trade and commerce as intended by those who wrote and approved the statutes.

Let me cite a few specifics.

We have instituted a proceeding on Government cargo rates which provided an opportunity for all sides to air their positions and at which the Department of Defense recently announced a new program for the movement of Government cargo, calculated to save the Department millions of dollars a year.

Chairman DOUGLAS. Now, Admiral, you say that you have instituted a proceeding on Government cargo rates. Government administrators for years have talked about "We have started" something. I seldom hear when they finish it. And I would like to know when you expect this proceeding to end. In England, when they don't want to do anything, when they want to sidetrack something, they appoint a Royal Commission. In this United States, when a regulatory body wants to delay action, its starts a proceeding.

Now I think you are of a different breed of administrator, but I would like to know if you can be definite on when you expect this proceeding to end.

Admiral HARLLEE. The hearings on the proceedings, which cover some 6,830 pages, we expect to end in the next week, or in the next 2 weeks. However, there are a number of motions which have been made by parties to the proceeding, which the Commission will have to consider in its judicial capacity, motions to discontinue the proceeding in view of the developments about which you spoke in the beginning, and other motions relating to the legality of the Department of Defense plans about which you spoke, which the Commission will be considering.

Chairman DOUGLAS. You mean they are fighting this idea of competitive bidding?

Admiral HARLLEE. It would appear that very definitely some of the parties are, and I think that you probably will hear from Mr. Moot about this. But the hearings themselves, the taking of evidence, will be concluded within the next couple of weeks. But let me say that even though this proceeding has not been completed, and has been going on for a long time, and actually started as a result of one of your earlier hearings, that some benefits have already accrued as a result of what has been brought to light in the hearings in terms of carriage of Government cargo. I am reluctant to discuss that particular matter—

Chairman DOUGLAS. Because you are acting in a judicial capacity?

Admiral HARLLEE. In further detail.

Chairman DOUGLAS. We will respect your judicial functions. But I can simply say that justice delayed is justice denied. This is an aphorism in the law courts. I think it applies before administrative tribunals, too.

Admiral HARLLEE. Yes, Mr. Chairman. I agree with you absolutely, and this is a matter of great concern to me, about this and all other matters. However, we are at a point not now of any great delay, but rather at a point of crisis, with two motions before us, and a third one, which is about to be made, and furthermore, a piece of legislation which is going to be considered by the Senate Committee on Commerce which would affect this matter, so it has reached a definite head, in four different ways.

If you would like some further details on what has occurred or benefits have accrued, or the situation here, I for that purpose brought with me two very able members of the staff who could properly discuss it without—

Chairman DOUGLAS. I won't ask you this question, because you have got to pass some judgments about it, but I think we are entitled to ask members of the staff, who are not in a judicial capacity, what they have been finding out about the level of rates on Government cargoes.

Mr. SCHMELTZER. Well, Mr. Chairman, this very week, our hearing in docket 65-13 has brought matters to a focus, and the hearing is one of the contributory factors, I am sure, in the Department of Defense decision to go to competitive bidding.

Chairman DOUGLAS. Yes, but that is general language. What did you find out about the level of rates on Government cargoes? Were they above ordinary rates, or equal to ordinary rates, or below shipping rates? And if you can't answer, will your associate answer?

Mr. BLACKWELL. I think the record will show that on most of the items that the military moves, the military rates are at least nominally below the commercial rates on cargo moving in the trade. We don't know whether this is a valid comparison to make, Mr. Chairman, inasmuch as some of these so-called commercial rates may be paper rates, under which no cargo moves. Therefore, it is a rather spurious comparison to make between a valid, viable military rate, and an unreasonably high commercial rate, under which nothing moves.

I think the—

Chairman DOUGLAS. Is it true that the only cargo which more than pays its way without subsidy is the military cargo?

Mr. BLACKWELL. That is apparently so, sir. We have just had an illustration in the Persian Gulf, where an American-flag conference

and an American-flag independent line attempted to institute a dual-rate system, one level of rates for American-flag ships, one level of rates for foreign-flag ships.

Chairman DOUGLAS. Which was the higher?

Mr. BLACKWELL. The American-flag ships, of course.

Chairman DOUGLAS. By how much?

Mr. BLACKWELL. By more than 30 percent, sir.

Chairman DOUGLAS. By more than 30 percent. What were they carrying?

Mr. BLACKWELL. The prime commodities moving in that trade are automobile vehicles, trucks, oil rigging equipment, and about six other specific commodities.

Chairman DOUGLAS. You mean they are charging the U.S. Government more than private parties?

Mr. BLACKWELL. Well, actually the tariffs would not indicate that on their face.

Chairman DOUGLAS. No, but in reality.

Mr. BLACKWELL. In reality, because it is mostly Government impelled cargo, and we moved with some rapidity on this just last week. The independent line Waterman took their rates out of their tariff; we have now a show-cause proceeding against the conference, which is comprised of Isthmian Line and Central Gulf, two American-flag operators.

Chairman DOUGLAS. Isthmian is the British carrier?

Mr. BLACKWELL. No. It is an American-flag line. No, sir, this is Isthmian Line.

Chairman DOUGLAS. I-s-m-a-y?

Mr. BLACKWELL. No, sir. I-s-t-h-m-i-a-n. These people apparently are not going to take their rates out. They are required to file a paper, I believe, on June 6, to the Commission, a memorandum of law as to why these rates should not be stricken as being beyond the purview of the organic agreement that the Commission has approved in that trade.

Chairman DOUGLAS. Thank you.

Admiral HARLLEE. On a lighter note, there is our old friend, the bourbon-versus-scotch controversy, in which we debated and re-debated the question of freight rates and disparities. I can report to you that after rate adjustments, a lot more bourbon is being sold in Europe despite the testimony, "that no matter what the freight rate Europeans wouldn't drink the stuff."

Chairman DOUGLAS. You mean that bourbon is moving into Scotland?

Admiral HARLLEE. I don't think it has quite reached Scotland yet, but it has gotten to London.

We have achieved through State Department diplomatic channels, an understanding with 10 European nations and Japan, for the exchange of information necessary to permit surveillance by the Federal Maritime Commission in the area of possible rate discriminations or prejudices.

Chairman DOUGLAS. Have you obtained such agreement from Great Britain?

Admiral HARLLEE. Yes, sir, we did, Mr. Chairman.

Chairman DOUGLAS. You have?

Admiral HARLLEE. Agreements to get the information. We have the information, but now with the information we are engaged in a formal proceeding to take action as a result of the information.

Chairman DOUGLAS. Didn't the British pass a law prohibiting this?

Admiral HARLLEE. Yes, they did, but that was actually subsequent to our obtaining of the information, but the law is permissive. The law can be applied or not. And we have worked out diplomatic negotiations in cooperation with the State Department.

Chairman DOUGLAS. Have you found the State Department cooperative?

Admiral HARLLEE. I have found it 100 percent perfectly cooperative.

Chairman DOUGLAS. Well, I think we ought to give them a brass medal. This is a startling change of policy on the part of the State Department.

Admiral HARLLEE. They may be up to a silver medal, Mr. Chairman.

Chairman DOUGLAS. In the past, the State Department has viewed foreign nations as their clients, whom they would protect, and if, as you say, they have started in working for American interests in these matters, they deserve the greatest commendation; there is more joy in heaven over one sinner that repents than 99 righteous who remain in the fold.

If you can identify the people who changed their policies in this respect, I think the Senator from Idaho and I would send them a special letter of praise.

Admiral HARLLEE. Well, I could identify them, and I will say that with their cooperation and assistance, we have been able to effectuate proper regulations and safeguarding of American interests without any undue or improper effects in other matters.

Here again the support of the Joint Economic Committee has been of inestimable help. We have achieved, with the conferences, new records in the proper accommodation and handling of meritorious shipper claims and requests. Again we must credit the committees of the Congress for standing firm in this area.

Chairman DOUGLAS. Well, this committee, I think, will always stand firm and support them.

Admiral HARLLEE. The U.S. Government will be saved huge sums of money in insisting that the conference charge the State Department, the Department of Agriculture, and other U.S. Government agencies, the low negotiated military rate in the movement of personal and household goods.

Now this is rather an interesting point, in that these household goods, many of them, moved by van lines by means of low bids.

Our regulatory attention to the problem of shipping to Vietnam will be of help to the military effort. Here we have insisted that assessment, through surcharges, of war risk insurance charges, crew bonuses, and seaman and ship insurance be kept down to a realistic level. We have achieved a reduction in this area from \$7.50 to \$5.50 per ton.

Chairman DOUGLAS. Now this is going to save tens of millions of dollars, is it not?

Admiral HARLLEE. It ultimately will, Mr. Chairman.

We have found appearances of discrimination in the rate field against American interests in the Persian Gulf and have been successful in getting one carrier to eliminate these apparently discriminatory rates, which was covered by Mr. Blackwell earlier.

In the field of freight tariffs we have eliminated thousands of paper rates and are succeeding in having tariffs on file which are readable, understandable, available, and meaningful to persons who desire to enter the export-import field.

We have prepared a "Shippers' Guide" to help shippers and ship operators understand the rule of the Federal Maritime Commission in relation to their own roles in achieving fair and equitable rate charges.

This may seem very elementary, but it isn't the case in most foreign countries, and wasn't the case in the United States before the last couple of years.

Chairman DOUGLAS. If my memory serves me right, this was recommended by our committee.

Admiral HARLLEE. Yes, it was, Mr. Chairman.

We have prepared a "Shippers' Guide," and I have with me some advance copies which have been distributed to you of this guideline.

Chairman DOUGLAS. Unless there is objection, that will be included in the record. I understand it is to be released on Monday. That will be included in the record as of Monday.

(Document referred to follows:)

#### OCEAN FREIGHT RATE GUIDELINES FOR SHIPPERS—MAY 1966

##### FOREWORD

President Johnson has stated that it is the policy of this Government to assist U.S. businessmen in expanding their exports in the marketplaces of the world. The Department of Commerce plays a vital role in this endeavor, offering a wide range of services to current and potential exporters.

While the United States is the world's leading foreign trader, its exports account for a smaller percentage of its gross national product than is the case for many other countries. This export figure can be increased. In many markets abroad there is a demand for United States products. But it is essential for American exporters to make their goods available at prices that are competitive with those of suppliers from other countries. In this situation, the cost of transporting U.S. goods to these markets may be of great importance.

This booklet is designed to acquaint exporters with the manner in which ocean freight rates are established by shipping lines and conferences of such lines. It further describes the more important factors that appear to influence the level of rates, lists the steps which should be taken by an exporter in seeking ocean freight rate adjustments and outlines the general procedures followed by conferences of shipping lines and by independent carriers in evaluating requests for rate adjustments. The booklet also describes how an exporter who is not satisfied with the action taken regarding a rate or related matter can request assistance from the Federal Maritime Commission.

JOHN T. CONNOR,  
*Secretary of Commerce.*

The Federal Maritime Commission, an independent agency and an arm of Congress, is responsible for administering the regulatory statutes which affect the relationships among common carriers by water that are engaged in the foreign commerce of the United States and the relationships between those carriers and the shipping public.

While the Commission is not authorized to fix rates and charges in the foreign commerce of the United States and cannot suspend a properly filed rate, it can investigate and correct rates or practice which are unjustly discriminatory, preferential, or detrimental to the commerce of the United States. It acts as a forum for settling disputes between carriers and their customers, either formally or informally as the occasion demands. It is in this context that this booklet



may be particularly beneficial to those who may be uninitiated in the complexities of ocean transportation and international commerce.

Excessive rates or discriminatory practices could seriously impede our Export Expansion Program, and the Commission must evaluate allegations regarding such rates or practices to insure that both shippers and carriers receive fair and impartial treatment under law. On this basis, and recognizing that like exporters, the carriers are also entitled to a reasonable profit, the Commission exercises its fullest authority only in those instances in which breaches of legal responsibilities are proved. In most disputes over rates and practices the Commission offers its good offices to assist in negotiations between the carriers it regulates and the public that uses the services of those carriers.

Shippers can be assured of the full cooperation of the Federal Maritime Commission in their attempts to obtain competitive freight rates. Our efforts, consistent with laws under which we operate, will be devoted to the task of assisting individual shippers to obtain rates that will enable them to compete more effectively with their foreign counterparts. By doing this we hope to encourage American businessmen to export more and thus contribute to the success of President Johnson's Export Expansion Program.

JOHN HARLLEE,  
*Rear Admiral, U.S. Navy (Retired),*  
*Chairman, Federal Maritime Commission.*

## PART 1

### OCEAN FREIGHT RATES AND STEAMSHIP CONFERENCES

#### OCEAN FREIGHT RATES

Ocean freight rates can play an important role in the businessman's decision to enter the export field. The Department of Commerce is the agency primarily responsible for our Government's export expansion program. The Federal Maritime Commission is the agency responsible for the regulation of our foreign waterborne commerce. Both feel that a better understanding of the factors which influence the establishment of ocean freight rates will aid the businessman in determining his ability to export.

Ocean freight rates are generally published on a commodity basis, with different commodities being charged different rates for movement between the same points. Hundreds and sometimes thousands of rates are published by each steamship line or conference of steamship lines, so that for almost every item offered for carriage a specific rate may be available. Items for which no specific rates are established are assigned a general cargo rate. Rates may be quoted on the basis of weight of the commodity, or space occupied, or a combination of both. These schedules showing the charges for transporting individual commodities are referred to as tariffs.

The ocean freight rates applicable to United States foreign trade are for the most part established by steamship conferences. A knowledge of how and why such conferences were formed and why they are permitted to fix rates in United States foreign trade may prove beneficial to the businessman in his ocean freight rate negotiations with the steamship conferences.

#### STEAMSHIP CONFERENCES

The changover in the last half of the 19th Century from sailing to steam-powered ships brought about a new era for the ocean transportation industry that ultimately gave rise to the steamship conference system of today. In the days of sailing ships, cargo vessels generally departed only when full, and departure and arrival dates were unpredictable. The changeover to steam-propelled ships and an increase in ocean borne commerce permitted lines to provide swifter service on regular schedules. The changeover also brought about such a substantial increase in the number of ships available that the supply of cargo space was often greater than the demand, causing a period of intense competition among shipping lines. During this period, ocean freight rates fell, some shipping companies had to cease operations, and others began to join together to form associations known as shipping conferences.

The conferences, then as now, were formed to eliminate freight rate competition among the member lines, to standardize shipping practices, and to provide regularly scheduled service between designated ports.

According to available records the first steamship conference was formed in 1875 by the steamship lines engaged in the outbound trade from the United Kingdom to Calcutta. Thereafter, the conference system spread rapidly, so that by the time the operations and practices of the conferences came under governmental scrutiny, both in the United States and abroad, the system was firmly established on most of the world's trade routes. At the present time there are approximately 110 conferences in the ocean trade of the United States. (Listed in Appendix A.)

An investigation of the shipping conferences begun by the Congress in 1912 led to passage of the Shipping Act of 1916. This Act established the pattern of United States regulation of the ocean transportation industry. The Act exempted certain anticompetitive agreements of the steamship conferences from our antitrust laws, when such agreements were filed with and approved by a designated Government agency. At the present time this authority is vested by the Congress in the Federal Maritime Commission, an independent regulatory agency.

*Advantages Offered the Exporter by Conferences.*—Two principal advantages for the exporter that are generally attributed to the conference system are regularity of sailings and rate stability.

In establishing the sailing schedules of their member lines, conferences undertake to provide exporters with frequent sailings at regular intervals between specific ports. This regularity of sailings makes it possible for an exporter to plan the size and frequency of his shipments with a high degree of expectancy that his shipping needs will be met.

By eliminating rate competition and controlling the number of ships that operate on specific trade routes, conferences are able to offer extended periods of stable rates. This rate stability is usually in the long-term interest of those who export on a regular basis. Fluctuating rates introduce unpredictability into the process of pricing a commodity in export markets.

*Disadvantages Associated with the Conference System.*—In contrast to any advantages which may be offered the exporter by the conferences, the two principal disadvantages associated with the conference system are elimination of competition and exclusive patronage arrangements.

The elimination of price competition among conference members is the most frequently mentioned disadvantage of the conference system for exporters. Critics of the system feel that the level of ocean freight rates is probably higher than it would be if the forces of competition were freely at play.

Exclusive patronage arrangements, such as the dual rate contract in the United States and deferred rebating (See Appendix D) in foreign countries, serve to reduce the choice available to exporters when services are actually or potentially available from independent liner operators. The dual rate contract refers to a contractual arrangement whereby an exporter, in exchange for committing all or a fixed portion of his shipment to the vessels of a given conference, is granted a rate that may be as much as 15 percent below the published tariff rate that applies to exporters who do not sign exclusive patronage contracts.

#### INDEPENDENT LINER OPERATORS

In some trades there are carriers that are not members of a conference and that operate as common carriers with regular, fixed schedules between given ports. These independent liners, which are distinct from the non-scheduled unregulated tramp vessels that seek cargo in any port in which it is offered, usually publish rates that are lower than those of the conference. If a conference has instituted a dual rate contract system to counteract the competition of independent liners, the exporter should determine whether his service needs can best be met by patronizing the independent carrier or by becoming a signatory party to a dual rate contract.

#### PART 2

#### THE FEDERAL MARITIME COMMISSION

The Federal Maritime Commission was established on August 12, 1961, as a successor to the Federal Maritime Board to administer the regulatory provisions of the Shipping Act, 1916. The regulatory provisions may be generally categorized in two ways: those designed to regulate the activities of competing carriers; and those which regulate common carrier treatment of the shipping public. In this booklet we concern ourselves with the latter.

Two types of statutory provisions regulate common carrier conduct as it affects the shipping public. One type deals with the regulation of ocean freight rates, and the other relates to regulation of discriminatory or preferential practices.

#### REGULATION OF OCEAN FREIGHT RATES

Steamship lines or conferences of steamship lines serving United States for eign trade as common carriers are required by the Shipping Act to file their tariffs with the Federal Maritime Commission. The Act also requires that only those rates on file with the Commission can be charged. The Act provides the Commission with the authority to disapprove any rate which, after hearing, it finds to be so unreasonably high or low as to be detrimental to the commerce of the United States. In addition, the Act prohibits rates which are unjustly discriminatory between shippers or ports, or unjustly prejudicial to exporters of the United States as compared with their foreign competitors.

Every common carrier and conference engaged in the foreign commerce of the United States is required by law to maintain and keep open to public inspection all tariffs published by it or to which it is a party. Thus, shippers can readily inspect, at the carrier's or his agent's place of business, all applicable rates and charges.

Tariffs are also available for public inspection at the Commission's Washington, D.C., office (See Appendix C), and may be purchased at a reasonable price from carriers or conferences.

The tariff publication and the inspection provisions of the Shipping Act are designed to insure that shippers are adequately informed with respect to transportation rates and charges. Shippers should protect their interests by taking full advantage of the availability of such tariff information. The user of common carrier services is legally presumed to know the applicable rate for the service and that the carrier must charge the applicable tariff rate. Shippers are advised to make certain that the rate they use in computing their cost is the proper rate.

The Federal Maritime Commission has no authority to summarily suspend or disapprove any rate in the foreign commerce of the United States. Before a rate can be disapproved, it must be found, after public hearing, to be "so unreasonably high or low" as to be detrimental to the commerce of the United States, or unjustly discriminatory between shippers or ports or unjustly prejudicial to exporters of the United States as compared with their foreign competitors.

The Shipping Act provides for the use by any carrier or conference of carriers in the foreign commerce of the United States of a dual rate contract system which offers lower rates to shippers who agree to give all or a fixed portion of their shipments to the carrier or conference. These dual rate contracts must be approved by the Commission and must be available to all shippers under equal terms and conditions. The Act sets forth certain standards with respect to the terms and conditions of these contracts. Insofar as rates are concerned, the Act requires that the contract rate shall not be more than 15 percent lower than the ordinary rate.

The law requires the filing with and approval by the Federal Maritime Commission of every anti-competitive agreement (including conference agreements), arrangement, or understanding between common carriers and/or between other persons subject to the Act and makes unlawful any such agreement not so filed and approved. Once approved, these agreements may not be modified without the approval of the Commission.

#### REGULATION OF DISCRIMINATORY PRACTICES

The Shipping Act prohibits any common carrier or conference from refusing any shipper space accommodation, or resorting to other discriminatory or unfair methods, because that shipped has utilized the services of another carrier or for "any other reason." The Act further prohibits any carrier or conference from making unfair or unjustly discriminatory contracts with any shipper based on the volume of freight offered, or to unfairly treat or discriminate against any shipper with respect to: space accommodations; the loading and landing of freight in proper condition; and the adjustment and settlement of claims. In addition, the Act prohibits such discriminatory practice by carriers and conferences as deferred rebates and fighting ships. (See Appendix D).

Carriers and conferences are also prohibited from according any person, locality, or description of traffic any undue or unreasonable preference or advantage,

or from subjecting any person, locality or description of traffic to undue or unreasonable prejudice or disadvantage.

It is unlawful under the Act for any common carrier to permit shippers to obtain service for less than the rates and charges in force and effect by means of false billing, weighing, classification, report of weight or by "any other unjust or unfair device or means." It is also unlawful for any shipper to obtain or attempt to obtain transportation at rates less than those on file with the Commission.

In the event any carrier or shipper is believed to be in violation of the above provisions, the Commission is authorized to investigate the matter and if violations are found to issue appropriate cease and desist orders.

### PART 3

#### PRINCIPAL FACTORS IN OCEAN CARRIER RATEMAKING

There appears to the businessman to be an element of mystery in the establishment of ocean freight rates. It has always been difficult to identify clearly all of the factors that go into ratemaking or to weigh those identified as to their significance. Department of Commerce and Federal Maritime Commission studies have shown, however, that conference rates or prices are primarily based on demand, in which the ability and willingness of exporters to pay a given rate are highly important factors.

#### DEMAND FACTORS

The theory underlying a pricing system based upon demand is that each commodity should be charged the rate that allows it to move in the volume that will yield the maximum revenue for the carriers. A rate is expected to return revenue in excess of the direct costs of carrying the specific commodity, but the margins above these costs will vary between commodities as a result of the differences in the rates which each commodity can bear. The principal factors which seem to influence this "value of service to the shipper" approach to ratemaking are: (1) value of the commodity; (2) volume of movement; and (3) competition.

*Value of Commodity.*—The relationship of the ocean freight rate to the value of the commodity to be exported may be significant as a guide to the "reasonableness" of the rate, i.e., whether the rate permits the movement of the commodity. It is often assumed that the lower a rate is relative to the value of a commodity, the easier it is for the exporter to absorb the rate or pass it on to the purchaser. For example, if it costs \$1.20 to ship a case of bourbon containing 12 bottles, the transportation cost is only 10 cents for a bottle that may retail at \$5. The per ton rate may be high relative to tonnage rates applicable to other commodities, but will be only a small fraction of the retail value. Such comparisons are frequently made for ratemaking purposes, and the general rule of thumb in the conferences is that a rate that is no more than 10–15% of wholesale value is reasonable.

*Volume of Movement.*—This factor is affected by both the carrier's cost of providing the service and the exporter's demand for the service. The revenue potential of any rate is the product of the rate multiplied by the volume in which cargo will move at that rate. The desirable rate is the rate at which cargo moves in such volume as to yield the maximum net revenue (revenue in excess of direct costs). Rates higher than the desirable rate are unsatisfactory for both a carrier and its customers; lower rates are unsatisfactory for the carrier. It is difficult to estimate the desirable rate, but such estimates are attempted by relating rates and volumes on the basis of accumulated evidence, primarily the statistics regarding past movements of the commodity. For example, carriers generally request the proponent of a rate reduction to indicate the volume in which he believes he can move goods at the reduced rate. If his estimate does not indicate that the volume of movement of that commodity will be increased, and if substantial quantities have been moving at the existing rate, this may be considered by the carriers as evidence that the existing rate does not require change.

The foregoing comments have to do with the aggregate volume in which all exporters ship a given commodity. However, the size of individual shipments is also significant because it has a bearing on handling costs. Although loading and unloading costs vary according to the amount of cargo handled, they usually do not increase in direct proportion to the increase in the size of shipments. For example, in many instances it will not cost a carrier twice as much to handle a shipment of 20 tons as it costs to handle a shipment of 10 tons.

*Competition.*—The competitive situation facing the customers of a conference line often imposes a limit on a commodity rate. To be effective, a rate must be less than the margin between the manufactured cost of the goods and the delivered price at which the goods must be sold at destination; otherwise, the goods will not be exported. Thus, the price relationships between the goods sold by American exporters and competitive goods from other sources must be considered by a conference when setting rates.

The competitive situation facing the conference also influences ratemaking. The conference's customers may have other shipping alternatives: (1) via a competing mode, e.g., air freight; (2) via other ocean routes to the same destination; or (3) via nonconference carriers. Even where none of these alternatives is presently open to exporters the possibility of their use must be taken into account, because one or more of the alternatives may be opened if the conference rates exceed a certain level.

The competitive situation in the sale of exporters' goods and the availability of transportation services thus are the effective determinants of the demand for conference services. The former determines the ability of exporters to pay a given rate for conference service, while the latter determines their willingness to pay such a rate.

#### COSTS OF SHIP OPERATION

The costs of ship operation also play a role in ratemaking, particularly with regard to the minimum rate that may be charged for a given commodity. These costs may be broken down into three categories: (1) the direct costs of receiving, loading and discharging cargoes, e.g., warehousing, stevedoring, and claims for loss or damage; (2) vessel operating costs, e.g., fuel, stores, and wages; and (3) overhead, e.g., administrative expenses and capital costs. Only the first of these categories entails costs which are directly related to the handling of specific cargoes; the rest are vessel operating costs and overhead that are not directly allocable to the lifting of particular commodities and that do not vary substantially with the volume of cargo carried.

The full costs of operation over a period of time have an impact on rates, since the relation between total revenue and full cost determines the steamship company's profit and affects its ability to maintain service in a trade at a given level of rates. However, in regard to the establishment of individual commodity rates, the fully allocated costs are not a prime consideration in ratemaking. The direct costs, on the other hand, are significant in that they establish a floor below which rates will rarely be reduced. If a rate does not cover at least handling costs, there is little incentive to carry the cargo.

#### TRANSPORTATION CHARACTERISTICS

In addition to both the principal demand factors and the foregoing cost factor, the conferences also consider the transportation characteristics of the commodity as an important element in the ratemaking process. The transportation characteristics relate to the density of the commodity, i.e., the relationship of weight to measurement; to the character of the commodity, i.e., whether it is dangerous, hazardous, perishable, or susceptible to damage or pilferage; and to the packing of the commodity, i.e., whether it is easily loaded and stowed aboard ship. However, where unitized and containerized shipments are utilized, the importance of the transportation characteristics as a factor in the ratemaking process may be reduced.

#### LENGTH OF VOYAGE

The factor of distance has less importance than one might ordinarily think in the conference ratemaking process. This is due to the fact that the greater part of the cost in ocean transportation frequently is incurred by the carrier not in moving goods across the sea but in loading, stowing, and discharging cargo. Factors of competition also come into play which can minimize the effect of distance. Thus, an exporter may find that it does not cost twice as much to ship a given commodity 2000 miles as it costs to ship it 1000 miles.

### PART 4

#### OCEAN FREIGHT RATE ADJUSTMENT PROCEDURES

The preceding section outlined the principal factors that influence conference and independent carrier ratemaking. This section is devoted to an explanation

of a suggested procedure for an exporter to follow in seeking an ocean freight rate adjustment and of conference practices for handling such requests. Independent carriers usually follow similar practices.

#### FILING A REQUEST FOR RATE ADJUSTMENT

When an exporter feels that a given ocean freight rate is restricting his ability to export, he should as a first step enter into negotiation with the particular conference involved. The names and addresses of the conferences and rate agreement groups serving our principal trades are listed in Appendix A.

*Submitting a Rate Request to the Conference.*—The conferences do not have uniform requirements regarding the methods for presenting requests. All normal means of communication are acceptable, mail or cable being the most common. The conferences' principal interest is in the content of the request, and their basic requirement is that the exporter present information sufficient to allow proper evaluation of the request. This information falls into four general categories:

- (1) transportation characteristics of the cargo;
- (2) rate data relevant to the current delivered cost of the cargo;
- (3) estimated volume of movement at the proposed rate;
- (4) a statement of reasons why the proposed rate is necessary.

*Standard Forms.*—Conferences make available standard forms for preparing rate requests. A sample form is included in this booklet as Appendix B. The forms specify in detail the various items on which information should be supplied if available. While use of these forms is not essential, they should be used when possible. The forms usually require the following information:

- (1) name and full description of commodity and its trade name if one is used;
- (2) nature of commodity with respect to being hazardous, inflammable, perishable, liquid, or solid, etc.;
- (3) particulars of shipping package, including material from which it is made and its shape, such as box, barrel, crate, etc.;
- (4) length, width, depth, cubic feet, and gross weight of each package;
- (5) cubic feet occupied by 2,000 or 2,240 pounds of gross weight of the package;
- (6) value per unit ton, pound, item, etc.;
- (7) uses of the commodity;
- (8) present and proposed ocean rate, ports of origin and destination, and rate to port of loading if shipped from an interior point;
- (9) reason for the requested change in rate;
- (10) source of foreign competition involved, if any, and particulars regarding rates from source to market in which the competition is experienced;
- (11) volume in which commodity ordinarily moves and might be expected to move in the future if rate adjustment is made; and
- (12) nature of movement with respect to whether it is continuous, seasonal, or sporadic.

The above information provides a basis for an evaluation by the conference of the relevant cost and demand factors for each rate decision. The transportation characteristics affect the costs incurred by a carrier in handling the commodity (loading, stowing, and discharge); the data on the volume of movement provide some foundation for an estimate of the revenue potential at the proposed rate; and the reasons for the request (particularly that relating to foreign competition) allow some assessment of the competitive situation influencing an exporter's need for rate reduction. Much of this information is readily available to the exporter, e.g., information concerning the physical characteristics of the cargo, but on other items the exporter may find it more difficult to provide satisfactory data, e.g., estimated volume of movement at an adjusted rate and foreign competition in the purchaser's market. Nevertheless, the conferences take the general position that it is incumbent on the exporter to at least make a reasonable effort to supply such information in order to demonstrate a need for a rate adjustment.

In effect, conference ratemaking involves a sharing of responsibility between conference and exporter. The exporter fulfills his responsibility by preparing well-reasoned proposals containing adequate supporting information. The conference's responsibility is to make an objective evaluation of these proposals.

## CONFERENCE PROCEDURES FOR HANDLING REQUESTS FOR RATE ADJUSTMENTS

Most conferences follow standard procedures for processing requests for rate adjustments. While there is a considerable degree of flexibility in approach to individual rate decisions, the methods generally followed by the conferences are described below.

*Receipt of Rate Requests.*—Once received by the conference, rate requests are generally referred to the conference chairman and conference staff. Requests are sometimes sent to one of the member lines, but the preference in most conferences is to have requests sent by the exporter to the conference office. There is also a general preference that requests be made in the name of the exporter who wants the adjustment. The request may be prepared with the assistance of a freight forwarder, or a member line; however, the request itself is normally expected to come to the conference office from the exporter.

*Preliminary Evaluation of Requests.*—Requests received by the conference are examined to check on the adequacy of the information presented. If there are errors or ambiguities in the request, or if there is an apparent lack of pertinent information, a request for clarification or additional information is normally addressed to the applicant. (A standard form application is often sent to the applicant for this purpose if one has not been used.) Where the matter is deemed sufficiently important, the conference may attempt to verify information in the request, or to gather information not provided by the applicant, by utilizing the various sources of commercial intelligence available to the conference and its member lines. For example, information on foreign-to-foreign rates needed for comparison is often obtained by the conference.

*Standing Rate Committees.*—Many conferences utilize standing rate committees made up of representatives from member lines. (Assignments to these committees are generally rotated among the member lines.) Applications for rate adjustments are submitted to such a committee by the conference chairman. The rate committee reviews the rate requests and prepares recommendations. These recommendations are then usually presented at ratemaking meetings attended by representatives of all the member lines. Depending on the size of the conference and the volume of its business, such meetings may be held either on a regular or irregular basis as the need dictates.

*Ratemaking Meetings.*—The agenda for these meetings consists primarily of rate requests which have been processed and prepared for final action by the conference office and the rate committee. The requests are voted upon by all of the members; in some conferences a unanimous vote is required for approval while in others a two-thirds or three-fourths vote will suffice. As a rule, applicants for a rate reduction are not permitted to attend these meetings.

*Telephone Polls.*—Frequently a request for rate adjustment will be made by an exporter who desires action before the next regularly scheduled conference ratemaking meeting. Special meetings may be called to consider such requests, but a more common practice is to use a telephone poll. The conference chairman usually coordinates this effort by calling the member lines to inform them of a request, and to solicit opinions on it. He relays information and opinion among the lines until a consensus is reached. A common requirement for taking affirmative action through a telephone poll is that there be unanimous approval. Items not unanimously approved are usually referred to the next regularly scheduled meeting.

*Informal Negotiation of Rates.*—The preceding discussion of conference procedures covers the most formal and routine parts of the conference process for considering rate adjustments. The great bulk of rate requests are handled through these procedures, but there are other avenues open to applicants who have the time and resources to make use of them. There is no standard format for these informal contacts between a conference and an exporter, but perhaps the most common instances of this kind are direct contacts with the conference chairman either in telephone conversation or informal meetings.

## CONFERENCE DISPOSITION OF RATE REQUESTS

Conference rate deliberations should take into account the needs of exporters and the interests of the lines. In large measure, the effectiveness of the system in achieving equitable results for both carriers and exporters depends on the manner in which rate adjustment requests are prepared and submitted by exporters and evaluated by the conferences.

A perplexing aspect of conference ratemaking is the anonymity which the conference structure affords to the ratemakers. The chairman, as chief admin-

istrative officer, is most easily identified as a person of authority in the conference structure, but these officers usually claim no significant authority in rate matters. They usually act as administrators and at most as negotiators in the ratemaking process, but they disclaim the power to set rates. This function is claimed for the membership. Since there are numerous members and since ratemaking meetings are usually closed to outsiders it is difficult to determine who influences the outcome of any given rate decision.

This group aspect of conference ratemaking makes it difficult to determine who makes conference rate decisions, but some general observations on this subject can be stated. First, the conference officers are probably often influential in their capacity as advisors and negotiators. Second, the division of authority within the member lines may be such that some discretion is vested in the lower echelon personnel who customarily represent the line. Third, within some conferences one or more lines may develop a position of leadership so that the other members give great weight to their opinions in rate matters. Securing a favorable position from such lines may greatly enhance the prospects for favorable rate action.

The foregoing statements are generalizations, and as such may not be found to be equally applicable to each conference. The division of authority within each conference, indeed within each member line, is different.

The preceding discussion leads to the conclusion that while the ratemaking process draws the exporter into the system by reliance on his requests for rate adjustments, he can be only partially aware of the full range of influences affecting rate decisions, since conference meetings are not usually open to the exporter. There may be instances where favorable rate adjustment action will be denied by a conference even where a good case for such action appears to have been made. In such instances the exporter may wish to request the Federal Maritime Commission to investigate the conference's rate decision. The procedures involved in a request for a Federal Maritime Commission investigation are outlined in the following part.

#### PART 5

#### EXPORTERS' REQUEST FOR ASSISTANCE FROM THE FEDERAL MARITIME COMMISSION

Shippers should first take up their rate problems directly with the carrier or conference. The shipper, in many instances, may be able to obtain satisfactory rate adjustments or satisfactory disposition of other requests by supplying the information requested by the carrier or conference, as discussed in Part 4. In the event correspondence or discussions with the carrier or conference prove fruitless, or if the shipper's request is not being acted upon promptly or fairly by a conference, then the shipper has recourse to the Commission by either one or both of two methods: (1) An informal complaint may be filed with the Commission by means of a letter; or (2) a formal complaint may be filed with the Commission in accordance with section 22 of the Shipping Act.

#### INFORMAL COMPLAINT PROCEDURES

There are no specific or formal requirements for filing an informal complaint with the Commission. It may be submitted in the form of a letter addressed to the Office of Foreign Regulation, Bureau of Compliance, at the Commission's Washington address as indicated in Appendix C.

The complaint should clearly define the problem. If the complaint involves a request for adjustment of a freight rate, including the establishment of an initial rate on a commodity for which a rate has not previously been filed, the shipper should send to the Commission copies of any correspondence which he has had with the carrier or conference of carriers. The shipper should state in the informal complaint why he disagrees with the position taken by the carrier or conference involved. Since it may be necessary for the Commission to communicate with the carrier or conference in regard to the complaint, the shipper should indicate whether he has objections to disclosure of his identity.

In the event the complaint involves matters other than requests for establishment or adjustment of rates, such as alleged discriminatory actions, rebates, or other unfair practices of the carrier or conference, or other alleged violations of the statute, the informal complaint should contain:

1. A statement of the nature of the violation.
2. An explanation of how the shipper is being harmed by the action complained of.



3. The name and address of the carrier or conference against whom the complaint is being made.
4. The dates on which the actions complained of took place.
5. The name of the vessel involved, date of sailing, date of entry or exit at port of loading or discharge, date on which cargo was booked or date of other significant events.
6. Copies of any pertinent shipping documents.
7. Copies of correspondence with the carrier and/or conference concerning the complaint matter.

Additional information, if necessary, will be requested of the complainant (shipper) by the Bureau of Compliance. In appropriate instances, an investigator of the Commission may call upon the shipper for further information.

The Commission staff, after evaluation of the information furnished, will attempt to obtain adjustment with the carrier or conference and will also determine whether there appears to be a violation of the Shipping Act and what, if any, corrective procedures should be undertaken.

Although, as already stated, the Commission's authority in the matter of rates is limited, it has often been successful in assisting shippers to obtain equitable rate adjustments.

#### FORMAL COMPLAINT PROCEDURES

Section 22 of the Shipping Act, 1916, provides in part:

"That any person may file with the board a sworn complaint setting forth any violation of this Act by a common carrier by water, or other person subject to this Act, and asking reparation for the injury, if any, caused thereby."

A formal complaint filed under the provisions of the Shipping Act must allege specific violations of the Act and should be supported by facts which sustain such allegations. A formal complaint, not otherwise settled between parties after filing, requires the Commission to investigate the matter and to issue appropriate orders. This invariably entails a hearing, as remedies invoked by appropriate Commission orders pursuant to the Act must be predicated upon adequate findings of fact based on evidence.

These proceedings, which are judicial in nature, are controlled by the provisions of the Administrative Procedure Act, as implemented by the Commission's Rules of Practice and Procedure, copies of which may be obtained upon application to the Commission's Washington office.

The Act, in part, generally requires that "the proponent (the Commission or the complainant, whichever is the case) of a rule or order shall have the burden of proof" except as may be otherwise statutorily provided.

Because of the complexities involved, it is recommended that anyone contemplating the filing of a formal complaint with the Commission first solicit the advice and counsel of a competent attorney.

## PART 6

### HOW THE COMMERCE DEPARTMENT HELPS U.S. EXPORTERS

The U.S. Department of Commerce, through its Business and Defense Services Administration and the Bureau of International Commerce, offers businessmen a wide range of services to assist them in marketing abroad.

#### MARKETING INFORMATION

Bureau of International Commerce (BIC) trade experts and country specialists identify for U.S. businessmen specific overseas market opportunities. Many of the BIC's timely reports on various aspects of international trade are not available to businessmen from other sources. The Bureau also tries to establish and maintain a favorable international trading climate in the interests of U.S. traders and investors. BIC presents the views of the U.S. business community in those government forums which determine policies affecting business. It is instrumental in helping to develop and carry out the foreign economic and commercial policies of the United States.

The Bureau works with organizations such as the General Agreement on Tariffs and Trade (GATT) to reduce unwarranted restrictions on international trade and investment. Both the Bureau of International Commerce and the Business and Defense Services Administration (BDSA) work with the Organization for Economic Cooperation and Development (OECD), and each has

important functions in trade negotiations under the Trade Expansion Act. BIC works closely with the Agency for International Development (AID) to help expand the flow of private investment to the developing nations, thus laying foundations for future export markets.

In addition, the Bureau is concerned with the development of general U.S. policy regarding international transportation, insurance, and facilitation of the movement of goods and people in international trade.

The Business and Defense Services Administration (BDSA) specializes in individual industry analysis. It has more than 100 Industry Specialists who gather and maintain a wealth of domestic and international information on specific products and industries. Businessmen dealing with BDSA find experienced Government specialists familiar with the terminology and problems of their industries. These Industry Specialists evaluate and publicize overseas trade opportunities; advise businessmen on foreign marketing, financing, and overseas competition; and guide businessmen to other Government agencies for special information not available in the Department of Commerce.

These major marketing units—BIC and BDSA—get information for the international businessman principally through the Commercial Officers in the Foreign Service of the United States, located in 278 posts in 113 countries. More than 40,000 communications dealing with business conditions or trade and investment opportunities are analyzed each year and made available, almost immediately, to U.S. businessmen.

Since only part of the available information can be published, businessmen are free to review Foreign Service communications in the Department when information in depth is required. But these communications are only part of the many sources of data. Statistics from outside the Foreign Service are regularly examined and evaluated; newspapers and magazines in dozens of languages are studied for significant data. Interviews with overseas businessmen and official guests visiting the United States provide additional information.

Few firms could afford the extensive research needed to develop and maintain such a fund of marketing information.

They do not need to. BIC and BDSA do it for them.

This marketing information is available through individual consultation, through many publications, and through special information services, and covers such areas as economic conditions abroad, foreign transportation and utilities, import and export controls, variations in commercial practices overseas, and the patent, trademark, and copyright regulations in foreign countries.

Specific examples of readily available marketing information include:

Trade Lists give names and addresses of foreign companies that import or deal in specific commodities in individual countries. Lists include information on size, type of operation, products handled, sales territory, and a summary of general trade conditions in specified products. Each list costs \$1 per country for each commodity classification.

Trade Contact Surveys are conducted by Commercial Officers at Foreign Service posts to help U.S. companies select overseas representatives. Companies using this service are given a report which includes marketing data as well as names and addresses of prospects qualified to act as foreign representatives. The charge for each survey is \$50.

Agency Index Service is provided for U.S. companies that already have agents abroad. The Foreign Service posts put prospective buyers in touch with local distributors of the U.S. product if the company has advised BIC of its foreign agency arrangements.

World Trade Directory Reports are made on any firm in any free world country. They are prepared by Commercial Officers at Foreign Service posts and describe the operations of a company, list products handled, name manufacturers from whom it imports, give size and reputation of the company, tell its capital and annual turnover, and include other pertinent facts. The service costs \$1 a report.

BIC also informs and advises exporters on such matters as:

- Market characteristics at various levels of distribution;
- New marketing techniques and their applications;
- Distribution channels.

BDSA also reports on specific products and industries in foreign markets. Much of this information is published; much more is available upon inquiry.

The business community gets this marketing information through personal consultation at Field Offices (listed in Appendix C) or at the Commerce Department; through liaison with trade associations, chambers of commerce, and other organizations concerned with world trade; through the National and Regional Export Expansion Councils; and through international business publications of the Commerce Department.

Marketing information also is reported to business publications, trade and association journals, and the daily press, in order to reach the largest possible number of business readers.

#### U.S. TRADE CENTERS AND TRADE FAIRS

U.S. Trade Centers are permanent overseas merchandise marts. Here American companies can test and develop selected markets where the demand for U.S. goods is matched by the financial resources for payment.

These centers—located in London, Frankfurt, Stockholm, Milan, Tokyo, and Bangkok—schedule promotion featuring single selected lines of products. A Trade Center show displays the products of 20 to 40 U.S. exhibitors. These shows generally run a week to 10 days. Centers also are available between regularly scheduled shows for special events when requested by a U.S. industry or overseas representatives of U.S. firms.

BIC stages U.S. Commercial Exhibitions at major international trade fairs abroad to sell American goods in the world's leading markets. The themes of the exhibitions generally are restricted to a single related line of products. Commercial Exhibitions run from a few days to two weeks or more.

Trade Center and trade fair shows help companies seeking to expand exports in a particular market, those with products new to the market, and those firms new to exporting.

Both types of exhibition are based on market research indicating a good potential in certain areas for a particular product line. Each show is preceded by a sales promotion campaign to attract the largest possible number of buyers, agents, and distributors.

BIC helps find agents or distributors and furnishes marketing counsel. This market development program continues during the after shows. Exhibit design, housekeeping and other services also are provided, as well as inland transportation from overseas port of entry to exhibit site. BIC pays for return freight to the exhibitor's plant if the merchandise is not sold.

Many firms that have never exported before have made their first sales at these shows.

Export expansion also is advanced through Business Information Centers, Mobile Trade Fairs, Sample Display Centers, and "America Week" promotions. Business Information Centers—operated overseas in cooperation with the U.S. Foreign Service—furnish foreign businessmen sales literature and other detailed information about U.S. products. Mobile Trade Fairs—carried in ships, planes, trains, or exhibit vans—take displays of U.S. products to promising overseas markets. Sample Display Centers furnish showroom facilities for U.S. goods at selected American Embassies and Consulates. "America Weeks" are sales events at large overseas department stores where American consumer products are featured and promoted.

#### TRADE MISSIONS

A Trade Mission is a selected group of businessmen chosen to carry specific U.S. trade and investment proposals to international markets. The mission members represent the entire U.S. business community—not themselves or their companies.

Trade Missions travel under U.S. Government auspices, and are accompanied by Commerce Department international trade specialists. However, the U.S. Government is not a party to transactions discussed or concluded.

U.S. businessmen submit proposals for trade in specific items, for licensing, or for joint ventures prior to the Trade Mission's departure for overseas.

During the mission's three to five week visit abroad, meetings with individual foreign businessmen, business groups, public officials, trade associations, and the press help promote the sale of U.S. products.

Reports on trade and investment opportunities brought back by the missions are published in International Commerce—the Department's weekly business magazine—and released to the daily and trade press. These reports also are discussed in special end-of-mission conferences. With this information made available to him, any U.S. businessman may then deal directly with his overseas counterpart.

Each mission takes a commercial library overseas with it. This collection of more than 1000 commercial reference books and business publications—donated by American publishers—is left with the American Embassy or Consulate for the use of local businessmen.

Industry-organized Trade Missions—set up by industries, industry associations, or State governments—also are supported by BIC, although each group pays its own expenses. They are organized to transact business abroad on the spot for themselves and their members.

Both types of missions are thoroughly briefed on trade and economic conditions in the areas they will visit before they depart. They are preceded abroad by a Commerce Department specialist who arranges business appointments.

Thousands of other Americans also go abroad every year on business. BIC's business travel service is available to them. At the business traveler's request, BIC will notify Foreign Service posts of his itinerary and his particular needs for certain information.

Business travel service is available at any of the Commerce Department's 42 Field Offices or at the Commerce Department in Washington. In either case, the businessman planning an overseas trip can be briefed by international trade specialists on business and economic conditions in the areas he plans to visit.

#### THE NATIONAL AND REGIONAL EXPORT EXPANSION COUNCILS

The National Export Expansion Council (NEEC) and the Regional Export Expansion Councils (REEC) are an important supporting element in the U.S. Government's export expansion efforts. The National Council serves as an advisory body to the Secretary of Commerce and to the Regional Councils.

There is a Regional Council in each of the Department of Commerce Field Office areas, with the Field Office Directors serving as REEC Executive Secretaries. The total REEC membership of 1,100 is comprised of volunteer American business leaders, bankers, trade organization executives, and educators. The Councils meet regularly to plan and recommend action programs for increasing the Nation's exports.

REEC activities include:

Providing advice and guidance to new and prospective exporters, including information about specific overseas markets.

Cooperating with the Department of Commerce in conducting world trade conferences, export seminars, and workshops.

Obtaining speakers for meetings of business organizations interested in world trade.

Disseminating information on Government programs of assistance to exporters.

Publicizing international trade matters through business publications, trade and association journals, the press, and other media.

## APPENDIX A

## Names, Addresses and Trade Areas of the Steamship Conferences and Rate Agreement Groups Serving the Foreign Commerce of the United States

- No. 14-1—TRANS-PACIFIC FREIGHT CONFERENCE**  
D. PARKER, Chairman/Secretary  
P. & O. Building, 17th Floor  
77 Des Voeux Road Central  
Hong Kong, B.C.C.  
Cable: CONFERENCE  
TRADE: FROM OR VIA Hong Kong and ports in China south of and including Foochow; and, Taiwan, Cambodia, and Viet Nam  
TO Pacific Coast Ports of U.S. and Canada, including Alaska and Hawaii
- No. 17—FAR EAST CONFERENCE**  
J. A. DENNEAN, Chairman  
Room 760  
11 Broadway  
New York, New York 10004  
Cable FECONFER  
TRADE: FROM U. S. Atlantic and Gulf ports  
TO Japan, Okinawa, Korea, Taiwan (Formosa), Siberia, Manchuria, China, Hong Kong, Philippines, Viet Nam, Cambodia and Laos.
- No. 50-1—PACIFIC COAST AUSTRALASIAN TARIFF BUREAU**  
W. C. GALLOWAY, Chairman  
J. R. HARPER, Secretary  
635 Sacramento Street  
San Francisco, California 94111  
Cable: WLIANZ  
TRADE: FROM U. S. & Canadian Pacific Ports and Hawaii  
TO Australia (Queensland, New South Wales, Victoria, South Australia and Tasmania), New Zealand, Cook Island, Fiji Islands, New Caledonia, New Guinea, New Hebrides, Norfolk Island, British Samoa, Solomon Islands, Tahiti, Thursday Islands, Tongo Islands, and Gilbert Islands.
- No. 57—PACIFIC WESTBOUND CONFERENCE**  
W. G. GALLOWAY, Chairman  
635 Sacramento Street  
San Francisco, California 94111  
Cable: WESTBOUND  
TRADE: FROM U. S. and Canadian Pacific Coast ports  
TO Japan, Korea, Taiwan (Formosa), Siberia, Manchuria,
- China, Hong Kong, Indo-China, Thailand, and the Philippines
- No. 59—RIVER PLATE AND BRAZIL CONFERENCES**  
WILBUR VAN EMBURGH, JR., Chairman  
17 Battery Place  
New York, New York 10004  
Cable: CONFAGENTS  
TRADE: Except Refrigerated Cargo FROM U. S. and Canadian ports, except Pacific Coast ports of the U. S. and Canada and Newfoundland.  
TO Uruguay, Argentina, Paraguay, and Brazil
- No. 90—JAVA—NEW YORK RATE AGREEMENT**  
HENRY NOON & CO., Secretaries  
Finlayson House, 5th Floor  
4, Raffles Quay, P.O. Box 247  
Singapore, Malaysia  
Cable: CONFERENCE  
DJAKARTA  
TRADE: FROM Indonesian ports, exclusive of ports on the East Coast of Sumatra between Langasa and Indragiri, both inclusive.  
TO United States Atlantic and Gulf ports.
- No. 93—OUTWARD CONTINENTAL NORTH PACIFIC FREIGHT CONFERENCE**  
C. J. KORDING, Secretary  
Karel Doormanlaan 8  
Katwijk aan Zee, Holland  
Cable: PACICONFER  
TRADE: FROM Scandinavian, Baltic, German, Dutch, Belgian, and French Atlantic ports  
TO United States and Canadian Pacific Coast ports, and to Hawaii with transhipment at Los Angeles Harbor or San Francisco.
- No. 134—GULF/MEDITERRANEAN PORTS CONFERENCE**  
JOHN T. CROOK, Chairman  
Suite 927 Whitney Building  
New Orleans, Louisiana 70130  
Cable: CONFERENCE  
TRADE: FROM U. S. Gulf and South Atlantic ports from Brownsville/Cape Hatteras Range
- TO Spanish Mediterranean ports (from Huelva, East, including Balearic Islands), French Mediterranean Sea ports, Monaco, and Corsica, North African ports in Morocco, Algeria, Tunisia, and Libya, Sicily, Sardinia and West Coast of Italy, Egyptian (Mediterranean), Israeli, Syrian, Lebanese, Grecian, Turkish, Russian (Black Sea), Bulgarian, Roumanian, all Adriatic Sea ports and Gulf of Taranto ports.
- No. 150—TRANS-PACIFIC FREIGHT CONFERENCE**  
D. P. GILLETTE, Chairman  
Kindai Building  
11, 3-chome Kyobashi Chuo Ku, Tokyo, Japan  
Cable: TRACONFER  
TRADE: FROM Japan, Korea and Okinawa  
TO U. S. and Canadian Pacific Coast ports, including Alaska and Hawaii.
- No. 161—GULF/UNITED KINGDOM CONFERENCE**  
JOHN T. CROOK, Chairman  
Suite 927 Whitney Building  
New Orleans, Louisiana 70130  
Cable: CONFERENCE  
TRADE: FROM United States Gulf ports  
TO England, Ireland, Scotland and Wales.
- No. 191—JAVA PACIFIC RATE AGREEMENT**  
Mr. ONG TUING BOEN, Secretary  
Kali Besar Barat 50  
P. O. Box 2001  
Djakarta-Kota, Indonesia  
Cable: CONFERENCE  
TRADE: FROM Indonesia, exclusive of ports on the East Coast of Sumatra between Langasa and Indragiri, both inclusive  
TO Pacific Coast ports of the United States
- No. 192—DELI PACIFIC RATE AGREEMENT**  
Mr. M. S. SLAMET, Secretary  
P. N. Djakarta Lloyd Unit  
ex P. N. Djaya Bhakit  
2 Djalan Gudang  
Medan, Indonesia  
Cable: DELICONF

- TRADE: FROM East Coast of Sumatra between and including Langasa and Indragiri  
TO Pacific Coast ports of North America
- No. 194—HONG KONG/PANAMA FREIGHT CONFERENCE**  
COMMERCIAL MANAGEMENT LIMITED, Secretaries  
1508 Hang Seng Bank Building  
77 Des Voeux Road Central  
Hong Kong, B.C.C.  
Cable: CONFERENCE  
TRADE: FROM Hong Kong and Canton, China  
TO Panama Canal Zone
- No. 2744—ATLANTIC AND GULF/WEST COAST OF SOUTH AMERICA CONFERENCE**  
C. D. MARSHALL, Chairman  
11 Broadway  
New York, New York 10004  
Cable: LAMACONFER  
TRADE: FROM U. S. Atlantic and Gulf ports  
TO Ports on the West Coast of Colombia, Ecuador, Peru and Chile, direct or via transshipment at Cristobal or Balboa, Canal Zone.
- No. 2846-13—THE WEST COAST OF ITALY, SICILIAN AND ADRIATIC PORTS/NORTH ATLANTIC RANGE CONFERENCE (WINAC)**  
G. RIVERA, Secretary pt.  
Vico S. Luca, 4  
Genoa, Italy  
Cable: CONFIMAR  
TRADE: FROM West Coast of Italy ports (Ventimiglia/Reggio Calabria inclusive), Sicilian and Sardinian Island ports, and Adriatic Sea ports.  
TO U. S. North Atlantic ports (Hampton Roads/Portland range.)
- No. 3103—JAPAN—ATLANTIC AND GULF FREIGHT CONFERENCE**  
CHESTER COLE, JR., Chairman  
Kindai Building  
11, 3-chome, Kyobashi, Chuo Ku  
Tokyo, Japan  
Cable: JACONFER  
TRADE: FROM Japan, Korea and Okinawa  
TO Atlantic and Gulf ports of North America
- No. 3302—ASSOCIATION OF WEST COAST STEAMSHIP COMPANIES**  
P. E. ALDERSON, Secretary-Chairman  
P. O. Box 5097  
Cristobal, Canal Zone  
Cable: ASSWESTCO  
TRADE: FROM Pacific Coast ports of Colombia and Ecuador  
TO Cristobal and Balboa, Canal Zone; U. S. Atlantic, Gulf and Pacific ports, including Alaska and Hawaii; and, to all U. S. territories and possessions by direct call or transshipment at Cristobal or Balboa or intermediate ports.
- No. 3357—UNITED KINGDOM/UNITED STATES PACIFIC HONG KONG ASSOCIATION**  
S. COLLINS, Secretary  
14 Leadenhall Street  
London, E. C. 3, England  
Cable: COLLINS ROYAL-MAILLINE LONDON  
TRADE: FROM United Kingdom  
TO U. S. Pacific Coast ports and Honolulu, Hawaii, with transshipment at Los Angeles Harbor or San Francisco.
- No. 4188—GULF AND SOUTH ATLANTIC HAVANA STEAMSHIP CONFERENCE**  
HENRY P. KNOBLOCH, Acting Chairman  
321 St. Charles Street  
New Orleans, Louisiana 70130  
Cable: GULFCO  
TRADE: FROM U. S. Gulf and South Atlantic ports, south of Virginia  
TO Havana, Mariel and Matanzas, Cuba.
- No. 4189—HAVANA STEAMSHIP CONFERENCE**  
C. D. MARSHALL, Chairman  
11 Broadway  
New York, New York 10004  
Cable: LAMACONFER  
TRADE: FROM U. S. North Atlantic ports (Maine-Virginia range)  
TO Havana, Mariel and Matanzas, Cuba.
- No. 4610—U. S. ATLANTIC & GULF—JAMAICA CONFERENCE**  
C. D. MARSHALL, Chairman  
11 Broadway  
New York, New York 10004  
Cable: LAMACONFER  
TRADE: FROM U. S. Atlantic and Gulf ports (Portland/Houston Range)  
TO Kingston, Jamaica and to Jamaican outports, direct service or via transshipment at Kingston.
- No. 5200—PACIFIC COAST—EUROPEAN CONFERENCE**  
DAVID LINDSTEDT, Chairman  
417 Montgomery Street  
San Francisco, California 94104  
Cable: ASPACON  
TRADE: FROM U. S. States of Alaska, Washington, Oregon and California  
TO United Kingdom; Northern Ireland; Ireland; the Scandinavian Peninsula; Continental Europe, including ports on and in the Baltic and Mediterranean Seas, and the bordering seas; French Morocco; the Atlantic Islands of the Azores, Madeira, Canary and Cape Verde; and, by transshipment to ports in South, West and East Africa and to Iceland.
- No. 5300—NORWAY/NORTH ATLANTIC CONFERENCE**  
With. Wilhelmssen  
Roald Amundsens Gate 5,  
Oslo, Norway  
TRADE: FROM Norway  
TO U. S. North Atlantic ports.
- No. 5400—GULF-SCANDINAVIAN & BALTIC SEA PORTS CONFERENCE**  
JOHN T. CROOK, Chairman  
Suite 927 Whitney Building  
New Orleans, Louisiana 70130  
Cable: CONFERENCE  
TRADE: FROM United States Gulf ports (Tampa/Brownsville, inclusive)  
TO Danzig Free States, Denmark, Estonia, Finland, Latvia, Lithuania, Norway, Poland, Sweden; and, to Russian and German ports on the Baltic Sea.
- No. 5450—BRAZIL/UNITED STATES-CANADA FREIGHT CONFERENCE**  
Capt. CARLOS BEZERRA de MIRANDA, Chairman  
Av. Rio Branco 156, grupos 2707/2711  
Rio de Janeiro, Guanabara State, Brazil  
Cable: CONFRETE  
or  
WILBUR VAN EMBURGH, JR., Chairman  
N. Y. Standing Committee  
17 Battery Place  
New York, New York 10004  
Cable: CONFAGENTS  
TRADE: Except baggage and refrigerated cargo  
FROM Brazilian ports (Victoria and ports south thereof)  
TO U. S. Atlantic and Gulf ports, and to ports in Eastern Canada including St. Lawrence River ports not west of but including Montreal but not including Newfoundland.
- No. 5600—PHILIPPINE-NORTH AMERICA CONFERENCE**  
E. H. BOSCH, Secretary/Manager  
P. O. Box 1376  
Manila, Philippines  
Cable: PHILNACON  
TRADE: FROM Philippine Islands ports  
TO The United States, its possessions, territories, districts, and Canada.
- No. 5660—MARSEILLES/NORTH ATLANTIC U.S.A. FREIGHT CONFERENCE**  
G. RETOURNAT, Secretary  
72 Rue de la Republique  
Marseille (2e), France  
TRADE: FROM Marseilles, France  
TO U. S. Atlantic Coast ports.
- No. 5680—PACIFIC/STRAITS CONFERENCE**  
R. E. SPAULDING, Secretary  
635 Sacramento Street  
San Francisco, California 94111  
Cable: PACSTRACON  
TRADE: FROM U. S. and Canadian Pacific Coast ports

- TO Singapore, Malaya, Sarawak, North Borneo, Labuan, and Brunei.
- No. 5700—NEW YORK FREIGHT CONFERENCE (HONG KONG)**  
D. PARKER, Chairman/Secretary  
P & O Building, 17th Floor  
77 Des Voeux Road Central  
Hong Kong, B. C. C.  
Cable: BUREAU
- TRADE:** FROM Hong Kong, Canton, Amoy, Foochow and other China ports south of Foochow, and from Taiwan (Formosa), Indo-China excluding Saigon  
TO U. S. Atlantic and Gulf ports.
- No. 5850—NORTH ATLANTIC WESTBOUND FREIGHT ASSOCIATION**  
Atlantic Freight Secretaries, Ltd., Secretaries  
Cunard Building  
Liverpool 3, England  
Cable: ATSEC
- TRADE:** FROM Great Britain; North Ireland; and Eire  
TO U. S. North & South Atlantic ports.
- No. 6010—STRAITS/NEW YORK CONFERENCE**  
HENRY NOON & CO., Secretaries  
P. O. Box 247  
Singapore, Malaysia  
Cable: SYNPAICON
- TRADE:** FROM Singapore and Federation of Malaya  
TO U. S. Atlantic and Gulf ports.
- No. 6080—UNITED STATES ATLANTIC AND GULF-SANTO DOMINGO CONFERENCE**  
C. D. MARSHALL, Chairman  
11 Broadway  
New York, New York 10004  
Cable: LAMACONFER
- TRADE:** BETWEEN U. S. Atlantic and Gulf ports  
AND Dominican Republic ports.
- No. 6200—U. S. ATLANTIC AND GULF/AUSTRALIA NEW ZEALAND CONFERENCE**  
MARCUS E. ROUGH, Secretary  
39 Broadway  
New York, New York 10006  
Cable: ANZCONF
- TRADE:** FROM Atlantic and Gulf ports of U. S.  
TO Australia, Tasmania, New Zealand, Cook Island, Fiji Islands, New Caledonia, British Samoa, Solomon Islands, Society Islands, Thursday Island, Tonga Islands, Gilbert Islands, Ellice Islands, Admiralty Islands and Bismark Archipelago.
- No. 6400—PACIFIC COAST RIVER PLATE BRAZIL CONFERENCE**  
R. F. BURLEY, Chairman  
417 Montgomery Street  
San Francisco, California  
Cable: LATAMCO
- TRADE:** BETWEEN Pacific Coast ports of United States & Canada  
AND Argentina; Uruguay; and Brazil.
- No. 6800—EAST COAST SOUTH AMERICA REEFER CONFERENCE**  
WILBUR VAN EMBURGH, JR., Chairman  
17 Battery Place  
New York, New York 10004  
Cable: CONFAGENTS
- TRADE:** Refrigerated cargo only  
FROM U. S. Atlantic and Gulf ports  
TO Brazil, Uruguay and Argentina.
- No. 6870—VENEZUELA-N.W.I. OIL COMPANIES CONTRACT AGREEMENT**  
C. D. MARSHALL, Agent  
11 Broadway  
New York, New York 10004  
Cable: LAMACONFER
- TRADE:** Proprietary cargo of OIL COMPANIES  
FROM U. S. Atlantic and Gulf ports  
TO Curacao, Aruba, and Coaire, Netherlands, West Indies and Venezuela.
- No. 6900—RIVER PLATE—UNITED STATES-CANADA FREIGHT CONFERENCE**  
WILBUR VAN EMBURGH, JR., Chairman  
17 Battery Place  
New York, New York 10004  
Cable: CONFAGENTS
- TRADE:** Except baggage and refrigerated cargo  
FROM Argentina; Paraguay; and Uruguay  
TO U. S. Atlantic and Gulf ports; ports in Eastern Canada including ports on the St. Lawrence River not West of Montreal, but not including Newfoundland.
- No. 7090—STRAITS/PACIFIC CONFERENCE**  
HENRY NOON & CO., Secretaries  
Finlayson House, 5th Floor  
Singapore, Malaysia  
Cable: SYNPAICON
- TRADE:** FROM Singapore and Malaysia  
TO Pacific Coast ports of U. S. and Canada, including Hawaii.
- No. 7100-2—NORTH ATLANTIC UNITED KINGDOM FREIGHT CONFERENCE**  
R. J. GAGE, Chairman  
17 Battery Place  
New York, New York 10004  
Cable: TRANCONFER
- TRADE:** FROM U. S. North Atlantic ports (Hampton Roads/Eastport, Maine Range)  
TO United Kingdom and Eire.
- No. 7190—DELL/NEW YORK RATE AGREEMENT**  
HENRY NOON & CO., Correspondent
- Finlayson House, 5th Floor  
4, Raffles Quay, P.O. Box 247  
Singapore, Malaysia  
Cable: SYNPAICON
- TRADE:** FROM East Coast of Sumatra between and including Langasa and Indragiri  
TO U. S. Atlantic and Gulf ports.
- No. 7540—LEEWARD & WINDWARD ISLANDS & GUIANAS CONFERENCE**  
C. D. MARSHALL, Chairman  
11 Broadway  
New York, New York 10004  
Cable: LAMACONFER
- TRADE:** Except Bauxite Ores in Bulk  
BETWEEN U. S. Atlantic and Gulf ports  
AND Leeward & Windward Islands; Trinidad; Barbados; British, French and Netherlands Guianas; excluding the Virgin Islands.
- No. 7580—AUSTRALIA, NEW ZEALAND AND SOUTH SEA ISLANDS/PACIFIC COAST CONFERENCE**  
W. C. GALLOWAY, Chairman  
J. A. HARPER, Secretary  
635 Sacramento Street  
San Francisco, California 94111
- TRADE:** FROM Australia, New Zealand and the South Sea Islands  
TO Pacific Coast ports of U.S. and Canada, and Hawaii.
- No. 7590—EAST COAST COLOMBIA CONFERENCE**  
C. D. MARSHALL, Chairman  
11 Broadway  
New York, New York 10004  
Cable: LAMACONFER
- TRADE:** BETWEEN U. S. Atlantic and Gulf ports  
AND Barranquilla, Cartagena, Puerto Colombia, and Santa Marta, Colombia.
- No. 7630—MID BRAZIL/UNITED STATES-CANADA FREIGHT CONFERENCE**  
Capt. CARLOS BEZERRA de MIRANDA, Chairman  
Av. Rio Branco, 156, grupos 2707/2711  
Rio de Janeiro, Guanabara State, Brazil  
Cable: CONFRETE  
OR  
WILBUR VAN EMBURGH, JR., Chairman  
N. Y. Standing Committee  
17 Battery Place  
New York, New York 10004  
Cable: CONFAGENTS
- TRADE:** Except baggage and refrigerated cargo  
FROM ports in Brazil north of but not including Victoria, and including Natal  
TO U. S. Atlantic and Gulf ports; ports in Eastern Canada, including St. Lawrence River ports including but not West of Montreal, but not including Newfoundland.

**No. 7640—NORTH BRAZIL/  
UNITED STATES-CANADA  
FREIGHT CONFERENCE**  
Capt. CARLOS BEZERRA de  
MIRANDA, Chairman  
Av. Rio Branco, 156, grupos  
2707/2711  
Rio de Janeiro, Guanabara State,  
Brazil  
Cable: CONFRETE

OR  
WILBUR VAN EMBURGH, JR.,  
Chairman  
N. Y. Standing Committee  
17 Battery Place  
New York, New York 10004  
Cable: CONFAGENTS

TRADE: Except baggage and re-  
frigerated cargo  
FROM ports in Brazil north of  
but not including Natal, but in-  
cluding Amazon River ports and  
tributaries thereto.

TO U. S. Atlantic and Gulf ports;  
ports in Eastern Canada, St.  
Lawrence River ports including  
but not west of Montreal, but  
not including Newfoundland.

**No. 7650—SANTIAGO DE CUBA  
CONFERENCE**  
C. D. MARSHALL, Chairman  
11 Broadway  
New York, New York 10004  
Cable: LAMACONFER

TRADE: BETWEEN U. S. Atlantic  
and Gulf ports  
AND Santiago de Cuba, Cuba.

**No. 7670-2—NORTH ATLANTIC  
BAL TIC FREIGHT CONFERENCE**  
V. G. BARNETT, Chairman  
17 Battery Place  
New York, New York 10004  
Cable: LAMACONFER

TRADE: FROM U. S. North Atlan-  
tic ports (Hampton Roads/East-  
port, Maine range)  
TO Danish, Finnish, Norwegian,  
Polish, Swedish, Iceland ports;  
and German Baltic ports and  
Union of Soviet Socialist Repub-  
lic ports served by the Baltic.

**No. 7680—AMERICAN WEST  
AFRICAN FREIGHT  
CONFERENCE**

JOHN K. CUNNINGHAM,  
Chairman  
F. H. FERRY, Secretary  
Suite 1001, 80 Broad Street  
New York, New York 10004  
Cable: AMWESAF C

TRADE: Except wheat in bulk  
BETWEEN U. S. Atlantic & Gulf  
ports, Canadian St. Lawrence  
and Atlantic ports

AND West African ports south of  
the southerly border of Rio de  
Oro, Spanish Sahara, and north  
of the northerly border of South-  
west Africa; the islands of the  
Azores, Madeira, Canary, Cape  
Verdes, Fernando Po, Principe  
and Sao Tome.

**No. 7690—THE INDIA, PAKISTAN,  
CEYLON AND BURMA OUT-  
WARD FREIGHT CONFERENCE**

JAMES C. PENDLETON,  
General Secretary  
11 Broadway  
New York, New York 10004  
Cable: INPAKCON

TRADE: FROM U. S. Atlantic and  
Gulf ports

TO India, Pakistan, Ceylon and  
Burma ports

**No. 7770-2—NORTH ATLANTIC  
FRENCH ATLANTIC FREIGHT  
CONFERENCE**

V. G. BARNETT, Chairman  
17 Battery Place  
New York, New York 10004  
Cable: TRANCONFER

TRADE: FROM U. S. North Atlan-  
tic ports (Hampton Roads/East-  
port, Maine, range, both inclu-  
sive)

TO French Atlantic ports (Dun-  
kirk/Bordeaux range).

**No. 7810—FRENCH NORTH  
ATLANTIC WESTBOUND  
FREIGHT CONFERENCE**

Mrs. M. LAMBERT, Secretary  
12 Rue des Pierrelais  
Chautilon-sous-Bagneux  
Seine, France  
Cable: FRETCONFER

TRADE: (except cargo within the  
scope of the Swiss North At-  
lantic Freight Conference)

FROM French Atlantic ports  
(Bayonne/Dunkirk range)

TO U. S. North Atlantic ports  
(Hampton Roads/Portland  
range)

**No. 7814—MONTREAL, AUS-  
TRALIA AND NEW ZEALAND  
LINE (M.A.N.Z. LINE)—JOINT  
SERVICE**

TRADE: FROM Australia, New Zea-  
land, Cook Islands, Fiji Islands,  
New Caledonia, Australian New  
Guinea, New Hebrides, Norfolk  
Island, Western Samoa, Solomon  
Islands, Tahiti, Thursday Is-  
land, Tongo Islands, Gilbert and  
Ellice Islands.

TO U. S. ports (Atlantic & Gulf)  
and the Canal Zone.

**No. 7820—UNITED STATES GREAT  
LAKES-BORDEAUX/  
HAMBURG RANGE EASTBOUND  
CONFERENCE**

RAYMOND P. DeGROOTE,  
Secretary  
108 North State Street  
Chicago, Illinois 60602  
Cable: LACON

TRADE: FROM U. S. Great Lakes  
ports

TO European ports in the Bor-  
deaux/Hamburg range.

**No. 7830—UNITED STATES GREAT  
LAKES-BORDEAUX/  
HAMBURG RANGE  
WESTBOUND CONFERENCE**

L. S. BISSELL, Executive Officer  
44-46, Leadenhall Street  
London, E.C. 3, England  
Cable: CANFRECON

TRADE: FROM Continental Euro-  
pean ports (Bordeaux/Hamburg  
range)  
TO U. S. Great Lakes ports.

**No. 7860—SWISS/NORTH  
ATLANTIC FREIGHT  
CONFERENCE**

Mrs. M. LAMBERT, Secretary  
12 Rue des Pierrelais  
Chautilon-sous-Bagneux  
Seine, France  
Cable: FRETCONFER

TRADE: FROM Switzerland and  
Upper Alsace (Belfort and Mul-  
house to the south of Colmar,  
inclusive) except potash from  
Alsace

TO United States Atlantic ports  
(Hampton Roads/Portland  
range)

VIA European Continental ports  
(Hamburg/Bayonne range, in-  
clusive); Italian ports (Venti-  
miglia/Reggio Calabria range,  
inclusive, on the Italian Main-  
land); and, Sicilian and Adriatic  
Sea ports.

**No. 7890—WEST COAST SOUTH  
AMERICA NORTHBOUND  
CONFERENCE**

C. D. MARSHALL, Chairman  
11 Broadway  
New York, New York 10004  
Cable: LAMACONFER

TRADE: FROM Chile and Peru  
TO U. S. Atlantic and Gulf ports.

**No. 7980—NORTH ATLANTIC  
MEDITERRANEAN FREIGHT  
CONFERENCE**

D. M. MacNEIL, Chairman  
17 Battery Place  
New York, New York 10004  
Cable: TRANCONFER

TRADE: FROM U. S. North Atlan-  
tic ports (Hampton Roads/East-  
port range), either direct or by  
transhipment

TO all ports on the Mediterranean  
Sea (except Spanish and Israeli  
ports), on the Sea of Marmara  
and the Black Sea, and on the  
Atlantic Coast of Morocco.

**No. 8040—WEST COAST OF INDIA  
& PAKISTAN/USA  
CONFERENCE**

JAMES C. PENDLETON,  
General Secretary  
11 Broadway  
New York, New York 10004  
Cable: CALCUSA

TRADE: FROM West Coast of India  
and Pakistan (Tuticorin/Karachi  
range) including Marmagao

TO U. S. Atlantic and Gulf ports  
by direct call or transhipment.

**No. 8050—CEYLON/U.S.A.  
CONFERENCE**

JAMES C. PENDLETON,  
Secretary  
New York Committee  
11 Broadway  
New York, New York 10004  
Cable: INPAKCON  
TRADE: FROM Ceylon



- TO U. S. Atlantic and Gulf ports by direct call or transshipment.
- No. 8080—ATLANTIC AND GULF-INDONESIA CONFERENCE**  
J. F. NASH, Chairman  
8-10 Bridge Street  
New York, New York 10004  
Cable: INDOCONF  
TRADE: FROM U. S. Atlantic and Gulf ports  
TO Indonesia, Portuguese Timor and West New Guinea.
- No. 8086-2—ATLANTIC & GULF AMERICAN-FLAG BERTH OPERATORS AGREEMENT**  
R. L. HANSEN, Secretary  
80 Broad Street  
New York, New York 10004  
An arrangement between American-Flag carriers for establishing rates, terms and conditions of transportation and related services for use as a basis for negotiation with MSTs and related Shipper Services.  
TRADE: BETWEEN U. S. Atlantic, Great Lakes and Gulf ports AND Territories and possessions of the United States, and between foreign ports.
- No. 8090-3—MEDITERRANEAN/NORTH PACIFIC COAST FREIGHT CONFERENCE**  
G. RAVERA, Secretary  
Vico San Luca No. 4  
Genoa, Italy  
Cable: CONFIMAR  
TRADE: FROM ports in the Mediterranean and Black Sea and on the Atlantic Coast of Spain, Morocco and Portugal  
TO U. S. and Canadian Pacific Coast ports, and ports in the Hawaiian Islands, via direct call or transshipment.
- No. 8100—THAILAND/U. S. ATLANTIC AND GULF CONFERENCE**  
S. S. MARR, Secretary  
c/o The Borneo Company, Limited  
1041 Silom Road  
Bangkok, Thailand  
Cable: SICONFER  
TRADE: FROM Thailand ports  
TO U. S. Atlantic and Gulf ports.
- No. 8120—UNITED STATES ATLANTIC AND GULF-HAITI CONFERENCE**  
C. D. MARSHALL, Chairman  
11 Broadway  
New York, New York 10004  
Cable: LAMACONFER  
TRADE: BETWEEN U. S. Atlantic and Gulf ports  
AND Haiti ports
- No. 8130—GREAT LAKES-UNITED KINGDOM EASTBOUND CONFERENCE**  
RAYMOND P. De GROOTE, Secretary  
108 North State Street  
Chicago, Illinois 60602  
Cable: LACON
- TRADE: FROM ports of the Great Lakes of the United States  
TO ports of the United Kingdom.
- No. 8140—GREAT LAKES-UNITED KINGDOM WESTBOUND CONFERENCE**  
J. J. JOHANNIS, Chairman  
Veerkaade 1  
Rotterdam, Holland  
Cable: PIONEERS  
TRADE: FROM United Kingdom ports  
TO United States Great Lakes ports.
- No. 8160—SPANISH/UNITED STATES NORTH ATLANTIC PORTS OLIVE CONFERENCE**  
JOSE J. GONZALES, Secretary pt.  
c/o American Export Isbrandtsen Lines  
Sevilla, Spain  
TRADE: (Olives of Spanish origin)  
FROM Spanish ports  
TO U. S. North Atlantic ports (Hampton Roads/Portland, Maine, range)
- No. 8180—U. S. GREAT LAKES, SCANDINAVIAN AND BALTIC EASTBOUND CONFERENCE**  
RAYMOND P. De GROOTE, Secretary  
108 North State Street  
Chicago, Illinois 60602  
Cable: LACON  
TRADE: FROM U. S. Great Lakes ports  
TO ports in Norway, Sweden, Denmark, Finland, Danzig Free State, Estonia, Iceland, Latvia, Lithuania, Poland and to Continental and Russian ports served via the Baltic.
- No. 8186—WEST COAST-AMERICAN FLAG BERTH OPERATORS AGREEMENT**  
A. R. PAGE, Secretary  
Seven Front Street  
San Francisco, California 94111  
Cable: WCAFBO  
An arrangement between American-Flag carriers for establishing rates, terms and conditions of transportation for use as a basis for negotiations with MSTs and related Shipper Services for the transportation of cargo.  
TRADE: BETWEEN U. S. Pacific Coast ports, including Alaska and Hawaii  
AND ports in territories and possessions of the United States and between foreign ports.
- No. 8190—JAPAN/PUERTO RICO & VIRGIN ISLANDS FREIGHT CONFERENCE**  
D. O. GILLETTE, Chairman  
Kindai Building  
11, 3-chome Kyobashi, Cho-ku Tokyo, Japan  
Cable: TRACONFER  
TRADE: FROM Japan, Korea and Okinawa  
TO Puerto Rico and the Virgin Islands direct or by transhipment in Japan, Canal Zone, Pacific, Atlantic or Gulf ports.
- No. 8210—CONTINENTAL NORTH ATLANTIC WESTBOUND FREIGHT CONFERENCE**  
Mrs. M. BOURGEOIS, Secretary  
79 de Bomstraat  
Antwerp 1, Belgium  
Cable: CONTINORAT  
TRADE: (Except Swiss traffic)  
FROM or via the ports of Germany, Belgium, and the Netherlands (Hamburg and boundary line of Belgium and France range)  
TO U. S. North Atlantic ports (Hampton Roads/Portland, Maine, range)
- No. 8220—NORTH ATLANTIC ISRAEL FREIGHT CONFERENCE**  
Secretary: From January 1st to June 30 each year  
P. J. WARMSTEIN, Secretary  
c/o American Export Isbrandtsen Lines, Inc.  
26 Broadway  
New York, New York 10004  
Secretary: From July 1st to December 31st each year  
BERNARD KATZ, Secretary  
c/o Mediterranean Agencies, Inc.  
42 Broadway  
New York, New York 10004  
TRADE: FROM U. S. North Atlantic ports (Hampton Roads/Maine range)  
TO Israel Mediterranean ports.
- No. 8240—ATLANTIC AND GULF-SINGAPORE AND THAILAND CONFERENCE**  
J. F. NASH, Chairman  
8-10 Bridge Street  
New York, New York 10004  
Cable: SINGCONF  
TRADE: FROM U. S. Atlantic and Gulf ports  
TO Singapore, Malaysia, Thailand, Sarawak, North Borneo, Labuan, Brunei.
- No. 8250—AMERICAN GREAT LAKES-MEDITERRANEAN EASTBOUND FREIGHT CONFERENCE**  
ERIC G. BROWN, Secretary.  
72 Rue de la Republique (Bouches-du-Rhone)  
Marseilles, France  
Cable: AMLAKES  
TRADE: FROM U. S. Great Lakes port  
TO Atlantic Coast ports on the Iberian Peninsula, European, Asian and African ports on the Mediterranean Sea (including Black Sea ports), and Atlantic Coast African ports including but not south of Casablanca, all either direct or by transshipment.
- No. 8260—MEDITERRANEAN-U.S.A. GREAT LAKES WESTBOUND FREIGHT CONFERENCE**  
ERIC G. BROWN, Secretary

- 72 Rue de la Republique  
(Bouches-du-Rhone)  
Marseilles, France  
Cable: AMLAKES  
TRADE: FROM Mediterranean,  
North African and Iberian Pen-  
insular ports  
TO U. S. Great Lakes ports; by  
direct call or by transshipment.
- No. 8277—GREEK LINE—Joint  
Service**  
GREEK LINE, INC.,  
General Agents  
8-10 Bridge Street  
New York, New York 10004  
TRADE: BETWEEN United States  
Atlantic ports  
AND ports in Europe and the  
Mediterranean  
ALSO cruises out of said U. S.  
ports to the Mediterranean, Ber-  
muda, the West Indies and the  
Caribbean.
- No. 8290—HAWAII/ORIENT RATE  
AGREEMENT**  
c/o States Steamship Company  
320 California Street  
San Francisco, California 94104  
TRADE: FROM Hawaiian ports,  
including cargo moving through  
or transhipped at said ports  
TO Japan, Korea, Formosa, Si-  
beria, Manchuria, China, Hong  
Kong, Indo-China, Thailand  
and the Philippines.
- No. 8300—ATLANTIC AND GULF/  
WEST COAST OF CENTRAL  
AMERICA AND MEXICO  
CONFERENCE**  
C. D. MARSHALL, Chairman  
11 Broadway  
New York, New York 10004  
Cable: LAMACONFER  
TRADE: BETWEEN U. S. Atlantic  
& Gulf ports  
AND West Coast ports of Panama  
(except Panama, R.P.) Costa  
Rica, Nicaragua, Honduras, El  
Salvador, Guatemala, and Mex-  
ico, direct or via transshipment at  
Cristobal or Balboa, Canal Zone.
- No. 8310—SOUTH ATLANTIC  
STEAMSHIP CONFERENCE**  
E. J. MIDDLETON, Secretary  
P. O. Box 96  
Savannah Bank & Trust Building  
Savannah, Georgia  
TRADE: FROM U. S. South At-  
lantic ports (Cape Hatteras to  
key West inclusive)  
TO the United Kingdom and Eire,  
Continental Europe (North of  
French Spanish Border other  
than Mediterranean ports), Scan-  
dinavia and Baltic ports.
- No. 8410—HAWAII/EUROPE RATE  
AGREEMENT**  
Direct all communications to the in-  
dividual members at the following  
addresses:  
Mr. L. H. Cloud, Owner's  
Representative  
Hanseatic-Vassa Line  
215 Market Street  
San Francisco, California
- Mr. Robert E. Pyke, Asst. Vice  
President  
Rederiaktiebolaget Nordstjernan  
(Johnson Line)  
c/o Grace Line, Inc.,  
General Agents  
2 Pine Street  
San Francisco, California 94111  
Mr. Marshall A. Perkes  
States Marine-Isthmian Agency,  
Inc.  
100 Bush Street  
San Francisco, California  
TRADE: FROM Hawaii  
TO Great Britain, Northern Ire-  
land, Ireland, Scandinavian Pen-  
insula, Continental Europe in-  
cluding Baltic & Mediterranean  
Seas, the seas and waters border-  
ing thereon, French Morocco and  
Atlantic Islands of Azores, Ma-  
deira, Canary and Cape Verdes,  
and by transshipment to ports in  
West, South and East Africa,  
Iceland, Gulf of Aden, Red Sea  
and Persian Gulf.
- No. 8420—ISRAEL/U.S. NORTH  
ATLANTIC PORTS WESTBOUND  
FREIGHT CONFERENCE**  
January 1 to June 30:  
Zim Israel Navigation Co., Ltd.  
Rehov Haatzmauth, 7/9  
Haifa, Israel  
Cable: ZIMLINES  
July 1 to December 31:  
American Export Isbrandtsen  
Lines, Inc.  
Via Cairoli, 6  
Genoa, Italy  
Cable: EXFOSHIP  
TRADE: FROM Mediterranean ports  
of Israel  
TO U. S. North Atlantic ports  
(Hampton Roads/Portland  
range)
- No. 8470—INTERNATIONAL  
HOUSEHOLD GOODS RATE  
AGREEMENT**  
F. L. WYCHE, Exec. Secretary  
1424 16th Street, N. W.  
Washington, D. C. 20036  
TRADE: Household Goods  
BETWEEN United States ports  
AND Foreign ports in the con-  
tinent of Africa, Asia, Australia,  
Europe, North America, South  
America, and foreign ports of the  
islands, in the oceans, and  
seas between and adjacent to  
such continents.
- No. 8493—TRANS-PACIFIC  
AMERICAN-FLAG BERTH  
OPERATORS AGREEMENT**  
A. R. PAGE, Secretary  
Seven Front Street  
San Francisco, California 94111  
Cable: WCAFBO  
An arrangement between American-  
Flag carriers for establishing rates,  
terms and conditions for cargoes mov-  
ing on through Department of Defense  
bills of lading under Rate and Service  
Tenders approved by the Department  
of Defense.
- TRADE: BETWEEN U. S. Pacific  
Coast ports, including Hawaii  
AND ports in the Far East includ-  
ing U. S. Trust Territories, Ter-  
ritories or Possessions  
AND Between ports in the Far  
East.
- No. 8530—INTERNATIONAL  
MOVERS' RATE AGREEMENT**  
CARROLL F. GENOVESE,  
Executive Secretary  
Suite 1101 Warner Building  
Washington, D. C. 20034  
TRADE: Household goods and per-  
sonal effects  
BETWEEN ports of the United  
States  
AND ports in Central America  
and South, and ports in Algeria,  
Belgium, Bermuda, Denmark,  
Egypt, Formosa, France, Repub-  
lic of Germany, Greece, Hong  
Kong, B.C.C., Ireland, Israel,  
Italy, Japan, Korea, Lebanon,  
Libya, Morocco, Netherlands,  
Norway, Okinawa, Panama, Re-  
public of the Philippines, Portu-  
gal, Spain, Sweden, Thailand,  
Tunisia, Turkey, United King-  
dom and Viet Nam.
- No. 8535—NEW ZEALAND/  
ATLANTIC GULF, PUERTO  
RICO AND VIRGIN ISLANDS  
REEFER AGREEMENT**  
TRADE: Refrigerated cargo  
FROM New Zealand ports  
TO U. S. Atlantic, Gulf, Puerto  
Rico and Virgin Islands ports.
- No. 8558—RED SEA AND GULF OF  
ADEN/U.S. ATLANTIC AND  
GULF RATE AGREEMENT**  
J. C. PENDLETON, Secretary  
11 Broadway  
New York, New York 10004  
Cable: CALCUSA  
TRADE: FROM Red Sea and Gulf  
of Aden ports  
TO United States Atlantic and  
Gulf ports.
- No. 8595—GREAT LAKES/JAPAN  
RATE AGREEMENT**  
GRAHAM, JAMES & ROLPH  
310 Sansome Street  
San Francisco, California 94104  
Cable: CHALGRAY  
TRADE: FROM U. S. Great Lakes  
ports  
TO Japan.
- No. 8630—U. S. ATLANTIC AND  
GULF/RED SEA AND GULF OF  
ADEN RATE AGREEMENT**  
J. C. PENDLETON, General  
Secretary  
11 Broadway  
New York, New York 10004  
Cable: CALCUSA  
TRADE: FROM U. S. Atlantic and  
Gulf ports  
TO Red Sea and Gulf of Aden  
ports.
- No. 8650—CALCUTTA, EAST  
COAST OF INDIA AND EAST  
PAKISTAN/U.S.A. CONFERENCE**

- J. C. PENDLETON, General Secretary  
11 Broadway  
New York, New York 10004  
Cable: CALCUSA  
TRADE: FROM East Coast of India and East Pakistan ports, Chittagong/Tuticorin range but not including Tuticorin  
TO U. S. Atlantic & Gulf ports (Searsport/Brownsville range), by direct call or transhipment.
- No. 8660—LATIN AMERICA/PACIFIC COAST STEAMSHIP CONFERENCE  
R. F. BURLEY, Chairman  
417 Montgomery Street  
San Francisco, California 94104  
Cable: LATAMCO  
TRADE: BETWEEN Pacific Coast ports of U.S. and Canada  
AND Central America, Caribbean, West Indies, and South American ports (excluding Argentina, Uruguay and Brazil), direct or by transhipment.
- No. 8670—JAPAN/GREAT LAKES RATE AGREEMENT  
GRAHAM, JAMES & ROLPH  
310 Sansome Street  
San Francisco, California 94104  
Cable: CHALGRAY  
TRADE: FROM Japan  
TO U. S. Great Lakes ports.
- No. 8735—U.S. ATLANTIC COAST/ATLANTIC SPAIN RATE AGREEMENT  
c/o UNITED STATES LINES COMPANY  
One Broadway  
New York, New York 10004  
Cable: SEAPOST  
TRADE: BETWEEN U. S. Atlantic Coast ports  
AND ports in Atlantic Spain (from the northern border of Portugal to the southern border of France).
- No. 8760-3—WEST COAST UNITED STATES & CANADA/INDIA, PAKISTAN, CEYLON AND BURMA RATE AGREEMENT  
c/o AMERICAN MAIL LINES, LTD.  
1010 Washington Building  
Seattle 1, Washington  
TRADE: FROM West Coast of United States and Canada  
TO India, Pakistan, Ceylon and Burma.
- No. 8770—UNITED KINGDOM/U.S. GULF PORTS RATE AGREEMENT  
c/o LYKES BROS. STEAMSHIP CO., INC.  
821 Gravier Street  
New Orleans, Louisiana 70150  
Cable: LYKES  
TRADE: FROM United Kingdom ports (England; Scotland; Wales; Northern Ireland; and the Republic of Ireland)  
TO United States Gulf ports (Key West/Brownsville range).
- No. 8900—THE "8900" LINES  
O. G. WALKER, Secretary  
26 Broadway  
New York, New York 10004  
TRADE: FROM U. S. Atlantic & Gulf ports  
TO Ports in the Persian Gulf and adjacent waters in the range of west of Karachi and northeast of Aden but excluding both.
- No. 9150—BORDEAUX-HAMBURG RANGE/U.S. SOUTH ATLANTIC RATE AGREEMENT  
c/o UNITED STATES LINES COMPANY  
One Broadway  
New York, New York 10004  
Cable: SEAPOST  
TRADE: FROM Continental European ports (Bordeaux/Hamburg range)  
TO South Atlantic ports of the United States (Cape Hatteras/Key West range).
- No. 9214—NORTH ATLANTIC CONTINENTAL FREIGHT CONFERENCE  
V. G. BARNETT, Chairman  
17 Battery Place  
New York, New York 10004  
Cable: TRANSCONFER  
TRADE: FROM U. S. North Atlantic ports (Portland, Maine/Hampton Roads, Va.)  
TO Belgium, Holland and Germany (excluding German Baltic)
- No. 9238—GREECE/UNITED STATES ATLANTIC RATE AGREEMENT  
c/o PRUDENTIAL LINES, INC.  
One Whitehall Street  
New York, New York 10004  
TRADE: (excluding tobacco from Greece)  
FROM Greece  
TO U. S. Atlantic ports (Norfolk, Virginia to Portland, Maine, inclusive).
- No. 9239—TURKEY/UNITED STATES ATLANTIC RATE AGREEMENT  
c/o PRUDENTIAL LINES, INC.  
One Whitehall Street  
New York, New York 10004  
TRADE: (excluding tobacco from Turkey)  
FROM Turkey  
TO U. S. Atlantic ports (Norfolk, Virginia to Portland, Maine, inclusive)
- No. 9247-1—INDIA, PAKISTAN, CEYLON & BURMA/WEST COAST UNITED STATES RATE AGREEMENT  
c/o AMERICAN MAIL LINES, LTD.  
1010 Washington Building  
Seattle 1, Washington  
TRADE: FROM India, Pakistan, Ceylon and Burma  
TO The West Coast of the United States and Canada
- No. 9293—NORTH ATLANTIC PORTUGAL EASTBOUND FREIGHT CONFERENCE  
D. M. MacNEIL, Chairman  
17 Battery Place  
New York, New York 10004  
Cable: TRANCONFER  
TRADE: FROM North Atlantic ports of the United States (in the Maine/North Carolina range inclusive)  
TO Portugal Atlantic ports
- No. 9349—PORTUGAL/NORTH ATLANTIC RATE AGREEMENT  
Dr. NUNO MONTEIRO, Secretary  
c/o Companhia de Navegacao Corregadores Acoreanos  
Praca Duque Da Terceira 24  
Lisbon, Portugal  
TRADE: FROM ports in Portugal  
TO U. S. North Atlantic ports (Norfolk, Va./Portland, Maine)
- No. 9360—GULF-EUROPEAN FREIGHT ASSOCIATION  
W. J. AMOSS, JR.  
Vice President, Traffic  
c/o Lykes Bros. Steamship Co., Inc.  
821 Gravier Street  
New Orleans, Louisiana 70150  
Cable: LYKES  
TRADE: FROM U.S. Gulf ports (Key West/Brownsville)  
TO LeHavre/Hamburg range ports
- No. 9364—SCANDINAVIA BALTIC/U.S. NORTH ATLANTIC WESTBOUND FREIGHT CONFERENCE  
LARS INGE CARLSIO, Secretary  
Pachhusplatsen 6  
Gothenburg, Sweden  
Cable: BALTICLAKE  
TRADE: FROM Sweden, Finland, Poland, and USSR Baltic ports  
TO U.S. North Atlantic ports.
- No. 9369—SPAIN/UNITED STATES ATLANTIC RATE AGREEMENT  
H. J. GRIFFIN, Vice President  
Boise-Griffin Steamship Co., Inc.  
90 Broad Street  
New York, New York 10004  
TRADE: FROM Spanish ports  
TO U. S. North Atlantic ports (Norfolk/Portland inclusive)
- No. 9408—SCANDINAVIAN BALTIC/GREAT LAKES WESTBOUND FREIGHT CONFERENCE  
LARS INGE CARLSIO, Secretary  
Pachhusplatsen 6  
Gothenburg, Sweden  
Cable: BALTICLAKE  
TRADE: FROM Finland, Sweden, Denmark, Norway, Estonia, Latvia, Lithuania, Poland and Russian Baltic ports  
TO Great Lakes ports of the United States and Canada, the St. Lawrence River, Nova Scotia, Newfoundland, and New Brunswick.
- No. 9417—INDONESIA/U.S. GREAT LAKES RATE AGREEMENT  
C. P. KEERS, Executive Vice President

- Nedlloyd Lines, Inc.  
25 Broadway  
New York, New York 10004  
TRADE: FROM Indonesian ports  
TO U. S. Great Lakes ports
- No. 9418—MALAYSIA U.S. GREAT LAKES RATE AGREEMENT  
C. P. KEERS, Executive Vice President  
Nedlloyd Lines, Inc.  
25 Broadway  
New York, New York 10004  
TRADE: FROM Malaysian ports  
TO U. S. Great Lakes ports.
- No. 9419—THAILAND/U.S. GREAT LAKES RATE AGREEMENT  
C. P. KEERS, Executive Vice President  
Nedlloyd Lines, Inc.  
25 Broadway  
New York, New York 10004  
TRADE: FROM Thailand ports  
TO U. S. Great Lakes ports.
- No. 9420—UNITED STATES GREAT LAKES AND ST. LAWRENCE RIVER PORTS/WEST AFRICA AGREEMENT  
AVNER MANOR, Chairman  
Vice President  
American Israeli Shipping Co.  
42 Broadway  
New York, New York 10004  
TRADE: BETWEEN U. S. Great Lakes & St. Lawrence River ports west of Montreal  
AND West African ports (south of the southerly border of Rio de
- Oro, Spanish Sahara and north of the northerly border of Southwest Africa) including the Azores, Madeira, Canary, Cape Verde, Fernando Po, Principe and Sao Tome Islands.
- No. 9427—GERMANY-NORTH ATLANTIC PORTS RATE AGREEMENT  
HAMBURG-AMERIKA LINIE,  
Secretary  
Ballindam 25  
Hamburg, Germany  
TRADE: FROM ports of Germany (west of and including Hamburg)  
TO U. S. North Atlantic ports (Hampton Roads/Portland)
- No. 9449—U.S. ATLANTIC & GULF/BERMUDA RATE AGREEMENT  
T. A. CRABB, Manager  
Operating Department  
Furness, Withy & Company, Ltd.  
34 Whitehall Street  
New York, New York 10004  
TRADE: BETWEEN U. S. Atlantic & Gulf ports  
AND Bermuda ports.
- No. 9461—SALONIKA (YUGOSLAV) U.S. ATLANTIC RATE AGREEMENT  
c/o HELLENIC LINES LIMITED  
39 Broadway  
New York, New York 10006  
TRADE: FROM Salonika (Freezone), Greece (traffic originating in Yugoslavia)  
TO U. S. Atlantic ports
- No. 9487—EAST COAST MEXICO/ U.S. ATLANTIC & GULF RATE AGREEMENT  
JOHN C. GORMAN,  
Vice President  
Farrell Lines Incorporated  
One Whitehall Street  
New York, New York 10004  
TRADE: FROM East Coast of Mexico ports  
TO U. S. Atlantic & Gulf ports
- No. 9509—UNITED STATES GREAT LAKES/SOUTH & EAST AFRICA AGREEMENT  
ELMER C. MADDY  
Kirlin, Campbell & Keating  
One Twenty Broadway  
New York, New York 10005  
TRADE: FROM U. S. Great Lakes TO South, Southwest & East African ports and adjacent islands
- No. 9510—HOUSEHOLD GOODS FORWARDERS ASSOCIATION OF AMERICA CONFERENCE  
ALLEN F. WOHLSTETTER  
Denning & Wohlstetter  
1 Farragut Square South  
Washington, D. C. 20006  
TRADE: Household Goods only FROM United States ports TO ports in the continents of Africa, Asia, Australia, Europe, North America, South America and foreign ports of the Islands in the oceans and seas between and adjacent to such continents.

APPENDIX B

Sample Form for Preparing Rate Requests

Date .....

Please consider this Application for Rate Adjustment:

- 1. Name of commodity, and if trade name used, give full description of article: .....
- 2. Is it: Hazardous?..... Inflammable?..... Liquid or Solid?.....
- 3. Show particulars of Shipping Package, including material and if box, barrel, crate, etc.: .....
- 4. Show: Length ..... Width ..... Depth ..... Cu. Ft..... Gross Wt. of Pkg.....
- 5. Number of cubic feet per 2,000 pounds (using gross weight and measurements of package) .....
- 6. Value per unit, ton, pound, article, etc.....
- 7. Uses of commodity: .....
- 8. Ocean Rates: Present ..... Proposed .....  
(Application will not be processed if proposed rate omitted)
- 9. From: ..... To: .....
- 10. Show points of origin: .....
- 11. Show railroad rate, if any, from points of origin to port of export, minimum carload weight and Tariff Authority: .....
- 12. If foreign competition involved, show source and full particulars as to rates, etc.: .....
- 13. In what volume does commodity ordinarily move, and state if continuous, seasonal or sporadic?.....
- 14. Reason for requested change: .....
- 15. Remarks. (As an incomplete or unconvincing application may have disappointing results, applicants should not only furnish complete data on Items 1 to 14 inclusive, but should also furnish any other information deemed necessary to substantiate request, using reverse side hereof or another sheet if more space is required. If a manufactured article is involved, a cut, photograph or catalog may be submitted.)  
.....  
.....  
.....  
.....  
.....  
.....  
.....

Place..... (Applicant)

Street..... By..... (Name and Title)

## APPENDIX C

## Department of Commerce and Federal Maritime Commission Field Offices

## Federal Maritime Commission

Washington Office: 1321 H Street, N.W.  
Washington, D.C. 20573

## Field Offices:

## Atlantic Coast

45 Broadway  
New York, New York 10006  
Ralph M. Hylton, District Manager

## Gulf Coast

P. O. Box 30550  
Room 946  
600 South Street  
New Orleans, Louisiana 70130  
Ralph P. Dickson, District Manager

## Field Offices:

## Pacific Coast

450 Golden Gate Avenue  
Box 36067  
San Francisco, California 94102  
Harvey P. Schneiber, District Manager

## Alaska

Federal Office Building  
Room 30  
Anchorage, Alaska 99501  
Robert M. Skall, Area Representative

## United States Department of Commerce Field Offices

ALBUQUERQUE, NEW MEXICO 87101 U. S. Courthouse	DENVER, COLORADO 80202 16407 Federal Building 20th and Stout Streets	NEW ORLEANS, LOUISIANA 70130 909 Federal Office Building, South 610 South Street
ANCHORAGE, ALASKA 99501 306 Loussac-Sogn Building	DES MOINES, IOWA 50309 1216 Paramount Building 509 Grand Avenue	NEW YORK, NEW YORK 10001 61st Floor, Empire State Building 350 Fifth Avenue
ATLANTA, GEORGIA 30303 4th Floor, Home Savings Building 75 Forsyth Street, N. W.	DETROIT, MICHIGAN 48226 445 Federal Building	PHILADELPHIA, PENNSYLVANIA 19107 Jefferson Building 1015 Chestnut Street
BALTIMORE, MARYLAND 21202 305 U. S. Customhouse Gay and Lombard Streets	GREENSBORO, NORTH CAROLINA 27402 412 U. S. Post Office Building	PHOENIX, ARIZONA 85025 5413 New Federal Building 230 North First Avenue
BIRMINGHAM, ALABAMA 35205 Suite 200-201, 908 South 20th Street	HARTFORD, CONNECTICUT 06103 18 Asylum Street	PITTSBURGH, PENNSYLVANIA 15222 2201 Federal Building 1000 Liberty Avenue
BOSTON, MASSACHUSETTS 02110 Room 230, 80 Federal Street	HONOLULU, HAWAII 96813 202 International Savings Building 1022 Bethel Street	PORTLAND, OREGON 97204 217 Old U. S. Courthouse 520 S. W. Morrison Street
BUFFALO, NEW YORK 14203 504 Federal Building 117 Ellicott Street	HOUSTON, TEXAS 77002 512 Federal Building 515 Rusk Avenue	RENO, NEVADA 89502 2028 Federal Building 300 Booth Street
CHARLESTON, SOUTH CAROLINA 29403 Federal Building, Suite 631 334 Meeting Street	JACKSONVILLE, FLORIDA 32202 512 Greenleaf Building 208 Laura Street	RICHMOND, VIRGINIA 23240 2105 Federal Building 400 North 8th Street
CHARLESTON, WEST VIRGINIA 25301 3002 New Federal Office Building 500 Quarrier Street	KANSAS CITY, MISSOURI 64106 Room 2011, 911 Walnut Street	ST. LOUIS, MISSOURI 63103 2511 Federal Building 1520 Market Street
CHEYENNE, WYOMING 82001 6022 Federal Office Building 2120 Capitol Avenue	LOS ANGELES, CALIFORNIA 90015 Room 450, Western Pacific Building 1031 South Broadway	SALT LAKE CITY, UTAH 84111 3235 Federal Building 125 South State Street
CHICAGO, ILLINOIS 60604 1486 New Federal Building 219 South Dearborn Street	MEMPHIS, TENNESSEE 38103 345 Federal Office Building 167 North Main Street	SAN FRANCISCO, CALIFORNIA 94102 Federal Building, Box 36013 450 Golden Gate Avenue
CINCINNATI, OHIO 45202 8028 Federal Office Building 550 Main Street	MIAMI, FLORIDA 33130 928 Federal Office Building 51 S. W. First Avenue	SAVANNAH, GEORGIA 31402 235 U. S. Courthouse and Post Office Building 125-29 Bull Street
CLEVELAND, OHIO 44101 4th Floor, Federal Reserve Bank Building East 6th Street and Superior Avenue	MILWAUKEE, WISCONSIN 53203 Straus Building 238 West Wisconsin Avenue	SEATTLE, WASHINGTON 98104 809 Federal Office Building 909 First Avenue
DALLAS, TEXAS 75202 Room 1200, 1114 Commerce Street	SANTURCE, PUERTO RICO 00907 Room 628, 605 Condado Avenue	
	MINNEAPOLIS, MINNESOTA 55401 306 Federal Building 110 South Fourth Street	

## APPENDIX D

## Glossary

## Ocean Transportation Terms

**Liner:** The word "liner" is derived from the term "line traffic," which denotes operation along definite routes on the basis of definite, fixed schedules; a liner thus is a vessel that engages in this kind of transportation, which generally involves the haulage of general cargo as distinct from bulk cargo.

**Bulk carrier:** There are two types of bulk carrier, the dry-bulk carrier and the liquid-bulk carrier better known as a tanker. Bulk cargo is a shipment such as oil, grain, or ore which is not packaged, banded, bottled, or otherwise packed and is loaded without counting or marking.

**Tramp:** A tramp ship is a vessel that does not operate along a definite route on the basis of a fixed schedule but rather calls at any port where cargo is available.

**Ton:** Freight rates for liner cargo are generally quoted on the basis of a certain rate per ton, dependent upon the nature of the commodity. This ton, however, may be a weight ton or a measurement ton.

**Weight Ton:** There are three types of weight ton: the short ton, weighing 2,000 pounds; the long ton, weighing 2,240 pounds; and the metric ton, weighing 2,204.68 pounds. The last is frequently quoted for cargo being exported from Europe.

**Measurement Ton:** The measurement ton (also known as the cargo ton or freight ton) is a space measurement, usually 40 cubic feet or one cubic meter. The cargo is assessed a certain rate for every 40 cubic feet of space it occupies.

**Weight/Measurement Ton:** In many cases, a rate is shown per weight/measurement ton, carrier's option. This means that the rate will be assessed on either a weight ton or measurement ton basis, whichever will yield the carrier the greater revenue. As examples, the rate may be quoted on the basis of 2,240 pounds or 40 cubic feet or of 1 metric ton or 1 cubic meter.

**Ad Valorem:** A freight rate set at a certain percentage of the value of an article is known as an ad valorem rate.

**Deferred Rebate:** This refers to a return of a portion of the freight charges by a carrier or a conference to a shipper in exchange for his giving all or most of his shipments to the carrier or conference over a specified period of time (usually six months); payment of the rebate is deferred for a further similar period, during which time the shipper must continue to give all or most of his shipments to the rebating carrier or conference (thus earning a further rebate, which will not, however, be paid without an additional period of exclusive or almost exclusive patronage with the carrier or conference; in this way, the shipper becomes tied to the rebating carrier or conference). Although the deferred rebate system is illegal in United States foreign commerce, it is generally accepted and used in the ocean trade between foreign countries.

**Fighting Ship:** This is a vessel utilized in a particular trade by a carrier or conference for the purpose of excluding, preventing, or reducing competition by driving an independent carrier out of the trade. This is accomplished by having the fighting ship sail between the same ports and on the same sailing schedules as the independent carrier while charging freight rates lower than those of the independent. The use of fighting ships in United States foreign commerce is illegal.

## Standard Foreign Trade Definitions

The importance of mutual understanding of the costs and the risks to be assumed by each party to a contract of sale makes a standard interpretation of price quotation terms necessary. Differences in interpretation in the past have led to frequent misunderstanding between buyers and sellers. To bring about uniformity, standard definitions for all price quotations were adopted by a Joint Committee representing the National Foreign Trade Council, the National Council of American Importers, and the Chamber of Commerce of the United States, in 1919. These were revised in 1941, and are known as the "Revised American Foreign Trade Definitions—1941." They are recom-

mended for general use by exporters and importers. Increasing acceptance of them has made for greater uniformity of interpretation of price quotation terms and the avoidance of much disagreement. They have no legal status, unless there is specific legislation providing for them, or unless they have been confirmed by court decisions. It is important, therefore, that the seller and the buyer agree voluntarily in advance that these standard definitions will govern the sale. When this is done, the meanings as adopted in the contract become legally binding on all parties concerned in the transaction and there should be little excuse for dispute in interpretation. The definitions are available in pamphlet form from the National Foreign Trade Council, 111 Broadway, New York 6, New York, for ten cents per copy.

Following are definitions of the terms most frequently utilized in price quotations. In the case of f.o.b., its utilization is not limited to the example shown; for instance, f.o.b. may be shown in conjunction with an inland shipping point in the country of exportation or an inland point in the country of destination. This means that the expenses up to the point specified are for the account of the seller.

**F.A.S: Free Along Side (Vessel).** A price quotation under which the exporter quotes a price that includes delivery of the goods to the vessel's side and within reach of its loading tackle. Subsequent risks and expenses are for the account of the buyer.

**F.O.B: Free On Board (Vessel).** A price quotation under which the exporter quotes a price that includes delivery of the goods on board the vessel. Subsequent risks and expenses are for the account of the buyer.

**C. & F: Cost and Freight.** The same as c.i.f., except that insurance is arranged by the buyer.

**C.I.F: Cost, Insurance, and Freight.** A price quotation under which the exporter quotes a price that includes prepayment of freight charges and insurance to an agreed destination.

## Export Documents

The number and kind of documents required on export shipments vary with

the country of destination. Ordinarily they include a commercial invoice, a shipper's export declaration, a bill of lading, and a marine insurance certificate; also, in a good many cases, a consular invoice and a certificate of origin.

Because of liability to penalty for failure to send the correct documents or to fill them out properly, it is important that the exporter keep advised of current requirements in those countries to which he exports.

**Commercial Invoice:** This document is a record of the transaction between a buyer and seller. It is customarily required that at least two copies be forwarded with shipping documents in export trade.

**Shipper's Export Declaration:** This is a form required by the United States Government for the compilation of statistics on trade both

with foreign countries and with United States territories and possessions. It is necessary on practically every commercial shipment leaving the United States with the exception of mail shipments of small value.

**Bill of Lading (Ocean):** A document signed by the captain, owners, or agents of a vessel, furnishing written evidence for the conveyance and delivery of merchandise sent by sea to a certain destination. It is both a receipt for merchandise and a contract to deliver it.

**Marine Insurance Certificate:** This form certifies that the shipment described thereon is insured subject to the insurance clause or terms shown on the certificate; only the important clauses are so shown. The certificate is a negotiable instrument and is accepted by banks

when properly endorsed.

**Consular Invoice:** An invoice covering a shipment of export goods certified by a consular official of the country of destination. The invoice shows the value of the shipment in the currency of the country of export. It is used by customs officials of the country of entry to verify the value, quantity, and nature of the shipment.

**Certificate of Origin:** This form shows the country of production of an export shipment, and is frequently required by customs officials of an importing country the tariff laws of which favor certain countries. The certificate enables customs officials to determine which goods being imported are entitled to preferential tariff treatment. It is usually endorsed by a consular official of the country of destination at the port of shipment.



Admiral HARLLEE. Our investigations indicate that, of course, there is considerable lack of knowledge in many parts of the country among the approximately 100,000 possible shippers about the conferences and about the Commission and their role in helping the shippers. This publication, on which the Department of Commerce and ourselves worked, is designed as something which is relatively simple and usable for a small shipper to start stimulating interest in exports and distributing information on a simple, usable basis. We are hopeful that this will be a real help in increasing the number of exporters.

Chairman DOUGLAS. I notice you have several pages on the process of having freight rates adjusted, so that the insiders will not have a monopoly on how to approach the Maritime Administration and the conferences.

Admiral HARLLEE. Yes, that is one of the principal ideas behind the publication, Mr. Chairman.

So much for the highlights. I would like to now report in some depth the progress of our Commission.

My discussion will primarily concern the Commission's efforts to eliminate outbound-inbound rate disparities on specific commodities and general disparities on trade routes and our program to obtain satisfaction of legitimate shipper complaints. These problems were discussed in the committee hearings May 27 of last year. I will then discuss the Commission's program in the field of ocean transportation for U.S. Government cargo. Finally, I will review very briefly the progress of the Commission's overall program.

The testimony before the Joint Economic Committee in May 1964 which focused the attention of the Commission and the public—and I think that is important, the public, because the shipping public, and others have been made aware of the importance of ocean transportation, of exports, and of what to do to increase by this committee—on the problems of ocean freight rates disparities in our foreign trades prompted the Commission to launch three formal proceedings concerning disparate rates on specific commodities.

In Docket 1114 the Commission made formal inquiry into the propriety of disparate rates on iron and steel products moving in world-wide trades. This was followed by a formal proceeding regarding the rates on high-pressure boilers in Docket 1171, and by a formal proceeding in Docket 1174 concerning inbound-outbound rate disparities on distilled spirits between the United States, the United Kingdom, and Baltic countries.

After many months of litigation in Docket 1114 in which scores of witnesses were called and thousands of pages of testimony taken, the Commission on December 6, 1965, found that the iron and steel rates subject to that particular proceeding were not unlawful but the full record in that case indicated that American domestic prices on almost all iron and steel rates subject to the proceeding were too high to enable those commodities to penetrate foreign markets.

In view of the fact that there was no significant evidence from steel shippers to the effect that their exports were impaired by ocean freight rates, the Commission was required to make the finding that the rates involved did not contravene section 18(b)(5) of the Shipping Act which provides the Commission with the authority to disapprove a rate upon a finding that the rate is so unreasonably high as to be detrimental to the commerce of the United States.

However, despite the finding that the rates were not unlawful, the Commission's decision enunciated a principle which for the first time provides some standard for testing rates under that section and which makes more acceptable the burden placed on the Commission's staff and its trial attorneys. Docket 1114 specifically held:

\* \* \* that under section 18(b)(5) of the act, "When a rate disparity in reciprocal trades, on similar commodities appears, and when movement of goods under the higher rates has been impaired, the carrier quoting the rates must demonstrate that the disparate rates are reasonable."

Chairman DOUGLAS. In other words, the burden of proof in these cases is thrown upon the shipping line?

Admiral HARLLEE. Where any impairment of movement can be shown, the burden of proof is then thrown on them, which does represent a step ahead in the development of case law and our ability to handle these matters.

Chairman DOUGLAS. Very good.

Admiral HARLLEE. Thus, under that decision where disparate rates exist, under the stated circumstances, the burden of demonstrating that the higher rate is reasonable is placed on the respondent conferences or carriers rather than on the Commission's staff. This decision is eminently sensible, sound, and fair, inasmuch as the Commission's attorneys are only required to prove what they are in a position to prove; that is, the level of the rate structure and the impact of that rate structure upon exporters.

It relieves the Commission of proving the rates are unreasonable on the basis of cost and competitive factors, which are known only to the conferences or carriers involved. The investigation of rates on high-pressure boilers in docket 1171 has been completed and has been submitted to the Commission for final decision.

Our investigation of distilled spirits in docket 1174 was discontinued after the Commission was successful in obtaining equalization on inbound and outbound rates for distilled spirits.

Chairman DOUGLAS. Let me pause a minute there. This means that while the investigation was in process, that the shipping lines reduced the export rates on bourbon?

Admiral HARLLEE. Yes, Mr. Chairman.

Chairman DOUGLAS. Well, I think this was virtually a confession that you were right and they were wrong.

Admiral HARLLEE. Well, of course, there could be other points of view on that, Mr. Chairman, in all honesty, but it could be interpreted that way, or it could be interpreted that the conferences didn't want to continue with the proceeding.

However, I would like to say that while that proceeding affected only the United Kingdom and the Baltic countries, there have been reductions of rates in the case of distilled spirits in addition to these, which have resulted in an increase in the export of U.S. products.

Chairman DOUGLAS. Of course, I am not at all certain that whisky is a benefit to the human race. In fact, I am inclined to think it is a curse to the human race.

Admiral HARLLEE. Maybe it is better to get it out of here.

Chairman DOUGLAS. But society recognizes it, and I don't know that we can draw moralistic distinctions.

Admiral HARLLEE. It may be better to get it out of the United States and into those other countries, Mr. Chairman. I don't know. [Laughter.]

The Commission's approach to correcting individual outbound-inbound rate disparities has been two pronged. First, we initiated the three investigations described above. Second, we initiated a comprehensive program to obtain traffic and financial data that would be meaningful in testing whether such disparities exist.

In view of the fact that there are some 3 million rates on file with the Commission, we concluded early that it would be almost an insuperable task to attempt to eliminate rate disparities through individual formal proceedings on specific given disparities. It also became apparent that it is not the disparity between an inbound and outbound rate which concerns exporters but the fact that the outbound rate may be too high to enable the American exporter to penetrate foreign markets.

Consequently, outbound-inbound rate disparities on individual commodities had to be considered by the Commission merely as evidence that the outbound rate might be too high. As the Commission staff probed more deeply into this problem, it realized that the rate disparity problem was considerably more sophisticated than originally thought. It was incumbent upon the staff to make determinations whether certain high outbound rates from the U.S. ports were viable, that is, whether commodities actually moved under those rates or whether the rates were merely so-called paper rates.

In addition, determinations had to be made in the particular trade as to competitive factors, capacity offered, type of berth services involved, relationship between tramp carryings and berth carryings, major moving commodities, vessel utilization, amounts carried by carriers, and the revenues obtained from their carryings.

While the Maritime Administration and the Bureau of the Census could make available to the Commission certain types of statistics and carrying data applicable to our foreign trades, these sources of information fell far short of what was needed to make the necessary analytical determinations as to the impact of disparities on the movement of American cargo.

At about the same time the Commission became aware of its lack of critical information on which to judge freight rate disparities, it was decided that a better approach to the problem—or I should really say another approach to the problem because we will still always approach a problem of any commodity where there is reason to approach it—it was decided that another approach to the problem would be a Commission effort to determine whether the entire freight rate structures are disparate to the possible disadvantage of American export commerce.

In order to obtain the necessary data to launch this program, the Commission, pursuant to section 21 of the Shipping Act, issued a series of orders designed to require both inbound and outbound conferences operating in eight of our major trading areas to submit information on which rate structures in these foreign trades could be tested.

The section 21 orders were met with vigorous opposition of the carriers, particularly foreign-flag carriers. Many foreign governments joined their carriers in protesting the Commission's action.

The Commission was required to defend its orders in a series of court skirmishes, and each case was resolved in the Commission's favor. We have no doubt that had we decided to continue to press our jurisdictional arguments through the various appellate courts, the Commission would have been successful. It was recognized, however, that a successful defense of the section 21 orders would likely take several years and the Commission was more interested in obtaining the information at an early enough date than in establishing its legal right to issue the order, which really is acknowledged.

During the initial court skirmishes on the section 21 orders approaches were made by the foreign nations concerned, that the Federal Maritime Commission undertakes to obtain the necessary information through intergovernmental consultation and negotiation. The Commission agreed to do so and after a series of consultations, the various foreign governments agreed to supply the Commission the following statistics:

1. The total revenue tons of cargo carried during 1963 concerning 8 inbound-outbound major trade routes—this agreement was made back in late 1964, or early in 1965—concerning 8 inbound-outbound major trade routes served by 16 conferences;

2. The total gross freight revenue earned on such cargo;

3. The number of revenue tons of 10 major moving commodities in each direction on each trade route for 1963;

4. The gross freight revenue earned from the carriage of said major moving commodities.

While the information that the foreign governments agreed to submit was not the maximum information desired, we did receive information not heretofore available to the Commission or its predecessors and this enabled us to pursue a meaningful program to determine (1) whether general disparities existed in the eight trades involved and (2) whether disparate rate structures were weighted against the interests of American exporters.

The results of the first study completed by the staff involved the U.S. North Atlantic-United Kingdom trade, which, of course, is an extremely important trade, and was transmitted to the Joint Economic Committee during its hearings on May 27, 1965. In essence, the staff study of this trade concluded that there existed an imbalance between the applicable freight rates inbound and outbound, the outbound being approximately one-third higher than the inbound rate on an average revenue-per-revenue-ton basis. The study indicated that an apparent discrimination against American exporters had been created by the rate structure. After a series of notes had been exchanged with the British Government, it was concluded that the rate disparity existing in this trade had not been sufficiently explained or justified and the Commission ordered a formal investigation and hearing. Hearings in that case are scheduled to start June 15, 1966.

Now recognizing that you may want to—as was the case before—ask questions about that particular case, again, we have Mr. Schmeltzer here, who can properly discuss the details of it, because it will be a matter with which I will have to pass judgment in my quasi-judicial capacity.

Chairman DOUGLAS. Well, Admiral, thank you very much. I want to ask you this question.

Last year, testifying, you replied to a question that I addressed to you, you stated that the outbound rates to the United Kingdom from New York were much higher than inbound rates, and I have statistics here on 10 items, commodities moving in both directions, in the British trade. For instance, books, February 15th, had a rate of \$68.25 outbound, \$23.45 inbound. Textile machinery, \$57.25 outbound, \$35 to \$46.45 inbound; refrigerators, \$25.25 outbound, \$21 inbound.

Tools, \$68.25 outbound; \$39.90 inbound. Toys, \$33 outbound, only \$17.50 inbound. Machine tools, \$57.25 outbound, \$35 inbound. Magazines, \$69 outbound, \$23 inbound.

Now the next two are in the opposite direction. Harmless chemicals, \$22.75 outbound; inbound \$51.10. Rags—I don't imagine this is a very great outgo of trade—\$30 outbound, \$38.85 inbound. But on 8 of the 10, the outbound rate was as much as two or three times the inbound rate.

Now those are the facts, Admiral. What has been done about it?  
(Data referred to follow:)

*Commodities moving in both directions—British trade*

Commodity description	Outbound rate effective—			Inbound rate effective—		
	Feb. 15, 1965	May 2, 1966	Percent increase	Feb. 15, 1965	May 2, 1966	Percent increase
Books	\$68.25	\$70.75	3.66	\$23.45	\$24.85	5.97
Textile machinery and parts	\$57.25	\$57.25	.00			
Textile machinery				\$35.00	\$36.40	4.00
Textile machinery parts				\$46.55	\$47.95	3.01
Refrigerators	\$24.25	\$26.75	10.31	\$21.00	\$22.40	6.67
Tools	\$68.25	\$70.75	3.66	\$39.90	\$41.30	3.51
Toys	\$33.00	\$35.50	7.58	\$17.50	\$18.90	8.00
Machine tools	\$57.25	\$59.75	4.37	\$35.00	\$36.40	4.00
Magazines	\$69.00	\$70.75	2.54	\$23.45	\$24.85	5.97
Tires	\$135.50	\$138.00	1.85	\$23.45	\$24.85	5.97
Harmless chemicals	\$22.75	\$25.25	10.99	\$51.10	\$52.50	2.74
Rags	\$30.00	\$32.50	8.33	\$38.85	\$40.25	3.60
Average percent increase			5.33			4.86

<sup>1</sup> Weight or measurement basis.

<sup>2</sup> "Magazines" deleted from tariff; general cargo rate now applies; assuming that the article moves by weight.

<sup>3</sup> Weight.

NOTE.—1. In each case the lowest applicable rate has been used. 2. The percentage increase on these commodities varies greatly but the average is approximately the same in both directions.

Mr. SCHMELTZER. The proceeding has been instituted. A prehearing conference has been held, the data the hearing counsel wanted to introduce has been distributed to the parties, and hearings will begin very shortly. It is June, is it not?

Mr. BLACKWELL. June 15th.

Mr. SCHMELTZER. Now the data we developed was data from an economist, where we put in rate profiles to show the rate disparity. We are also contacting approximately 200 shippers, who we think may be in a position to testify. We used every source we could to find shippers who had an interest in these matters, and if they are willing to, we will have them testify on behalf of the Commission. The case is coming up very shortly. We just have to prove the facts.

Chairman DOUGLAS. Now, in the meantime, these rates have been adjusted, haven't they? Some of the rates? I hold in my hand a

sheet which purports to give the rates as of the second of May 1966, only a few days ago. Those indicate an average increase in outbound rates of  $53\frac{3}{100}$  of a percent, an increase in inbound rates of  $48\frac{6}{100}$  of a percent, indicating that there has been no redress of the situation in the year that is past.

Mr. SCHMELTZER. That is correct, sir, there has been no change. We expect to have the hearings to determine whether the Commission can order the changes.

Chairman DOUGLAS. So that there has been no improvement by voluntary action of the conferences during this year and a quarter.

Mr. SCHMELTZER. That is right, sir.

Now I would like to explain what appears on the face of these isn't entirely true all the time. For example, tires in the inbound trade is on a weight or measurement basis. That is the \$23.45. On the outbound trade, it is \$135.50, but that is only on a weight basis. Now because tires are a very light commodity, comparatively, the disparity is not as bad as it looks. These are the kinds of things we have to get into in the hearings.

Chairman DOUGLAS. But now as I go over the list, I find that the rate on books is lower inbound than outbound, the same thing is true of textile machinery; refrigerators; tools; toys; machine tools; and magazines. The only one that may be different is in the case of tires.

Mr. SCHMELTZER. That is right. I am in no way trying to indicate that I don't think a disparity exists. As a matter of fact, we are going into the hearings to prove that the disparity exists. I am just trying to indicate that sometimes—

Chairman DOUGLAS. You are leaning over backwards to be fair.

Mr. SCHMELTZER. Granted.

Chairman DOUGLAS. Well, that is a commendable moral virtue.

Do you think the other side would lean over backward in this fashion?

Mr. SCHMELTZER. Well, maybe we have enough so that we can lean over backwards.

Chairman DOUGLAS. All right, Admiral.

Well, let me ask you this: How long are these hearings going to take?

Mr. SCHMELTZER. Hearings take time. I would say that if we could complete this hearing in less than 9 months we would be doing very well. I think if we project—

Chairman DOUGLAS. Then there will have to be review of the evidence?

Mr. SCHMELTZER. By the court, you mean?

Chairman DOUGLAS. No, by the Commission.

Mr. SCHMELTZER. Oh, no, I mean the whole proceeding.

Chairman DOUGLAS. With the courts.

Mr. SCHMELTZER. No, not by the court.

Chairman DOUGLAS. Then there will be appeals.

Mr. SCHMELTZER. We hope not. It may be. I think that if we project 9 months to a year to complete the hearing before the Commission, that would be reasonably good time.

That is as fast as you can normally complete one of these proceedings. The hearing stage of it at which the evidence is taken probably will be completed in a month or two.

Chairman DOUGLAS. Then there is always the prospect of judicial review. These are very pertinacious people, equipped with subtle and brilliant lawyers, with almost unlimited financial resources, backed up in many cases by foreign governments.

Mr. SCHMELTZER. I agree that it is a tough problem, but these are rights that people are entitled to by law.

Chairman DOUGLAS. They hope that in the meantime they will replace the admiral, and defeat some of the Senators, and a new generation will arise, uninformed about these matters, and unconcerned about the matters.

Mr. SCHMELTZER. Mr. Boggs at least is very young.

Chairman DOUGLAS. Go ahead.

Admiral HARLLEE. Mr. Chairman, although I must speak carefully, I would like to make a couple of brief comments on the matter that just transpired.

There has never before been made any effort in the history of the implementation of the Shipping Act of 1916 to consider the disapproval of a conference based on its overall general rate structure. That is the case here, and that is one of the purposes.

Chairman DOUGLAS. You mean a conference has never been disapproved by the Commission?

Admiral HARLLEE. That is right. And that is why —

Chairman DOUGLAS. In 50 years?

Admiral HARLLEE. The conferences have never been disapproved. They have, however, been forced to modify clauses in their agreements. They have been forced to change things that they do, time and again. We have disapproved pools, and things of that type, so that it isn't quite an accurate picture simply to say that they have never been disapproved, inasmuch as they have been forced to modify their actions.

However, what you say is basically true. The proceeding, perforce, must be a careful one which is developed and conducted under the Administrative Procedure Act, and which is developing case law. Proceedings after that would be considerably expedited and accelerated.

The Commission has laid down dicta and case law which will facilitate and expedite further proceedings. It is the fact that it is the first of a kind, I think, that causes it to be lengthy. In certain other instances, the conferences have voluntarily made adjustments, and this is the reason, such as in this whisky case, that we always hope that this will happen. When it doesn't, we pursue it to the full extent of the law. Now, if it turns out that we are unsuccessful, as may well be, in accomplishing what we think we should accomplish, we then should consider legislative recommendations which would give us more rapid power, but I think we first have to try to exhaust what is in the lawbook now.

Chairman DOUGLAS. Thank you.

Admiral HARLLEE. From the beginning, it appeared that at least some of the eight freight rate studies that would be undertaken by the Commission staff could only be resolved during formal proceedings. Consequently, the Commissioners did not take part in these staff studies. It was felt that it would be injudicious for us to participate in the studies and then to sit in judgment on the same cases.

Chairman DOUGLAS. And you have been very careful not to express an opinion on these studies?

Admiral HARLLEE. Yes; and this is the reason why I really don't express some opinion on the United Kingdom study. We would have to wait for the evidence. It is conceivable and possible that there could be justification established. My earlier remarks were directed towards the possible frustration due to lack of statutory power, and not to any present judgment of the thing. They were directed strictly toward the matter of the time taken, and not whether anybody is right or wrong.

Chairman DOUGLAS. Well, let me ask the staff, then. You are convinced in the list of items in which there is trade both in and out that the outbound rates between the United States and Great Britain are vastly higher than the inbound rates on the same commodities?

Mr. SCHMELTZER. That is correct, sir. And we think we can prove that, in a proceeding according to law.

Chairman DOUGLAS. And that the overall rate structure is higher on outbound commodities than on inbound commodities as between the United States and Great Britain?

Mr. SCHMELTZER. That is true as to general cargo, yes, sir, which is what we are interested in.

Chairman DOUGLAS. And in addition, our lines have subsidies?

Mr. SCHMELTZER. Most of our lines plying that trade have subsidies; yes, sir.

Chairman DOUGLAS. Do the British lines have subsidies?

Mr. SCHMELTZER. Not the same kind of subsidies we have. I understand that there are some ship construction subsidies, but I couldn't give you a complete answer to that now.

Chairman DOUGLAS. But not operating subsidies?

Mr. SCHMELTZER. No, sir; not operating subsidies.

Chairman DOUGLAS. The British Government is on the whole pretty tough on this matter, is it not?

Mr. SCHMELTZER. On the matter of subsidizing its lines?

Chairman DOUGLAS. No; on the matter of rates.

Mr. SCHMELTZER. They are tough in their dealings with us. If that is what you mean.

Chairman DOUGLAS. Yes.

Mr. SCHMELTZER. In our efforts to eliminate rate disparities.

Chairman DOUGLAS. Was this as true of the Labor Government as of the Conservative Government?

Mr. SCHMELTZER. So far it has been true; yes, sir.

Chairman DOUGLAS. Go ahead.

Admiral HARLLEE. With your indulgence, I will emphasize once more, Mr. Chairman, that my remarks were designed not in pre-judgment of the case as to who was right or wrong, but rather an explanation of the time taken by the case, and the possibility of seeking legislative action, or powers, if it appeared to be necessary at the end. Or before the end, for that matter.

Chairman DOUGLAS. If you wait until the end, you will wait until eternity.

Admiral HARLLEE. That is why I made that remark.

The staff has also completed a rate disparity study of inbound and outbound rates in the United States Atlantic/Gulf Japan trade which was also briefly discussed in my last appearance before this committee.



That study and the Commission's conclusions have been transmitted to the Japanese Government through the State Department and has been made the subject of discussion between the Commission and the Japanese Government.

The Japanese Government has attempted to advance explanations with respect to some of the questions raised in the study and have posed certain questions of their own. The Japanese Government has, in addition, expressed a hope that the matter can be resolved without resort to formal proceedings and we expect a favorable response to a suggestion advanced by the Commission through the State Department that a working group composed of representatives of the Japanese Government and the Commission attempt to establish criteria for a factually detailed rate analysis to be made of this trade and the types of additional information required to make a dispositive study of rate structures.

Chairman DOUGLAS. Well, now, conciliation is fine, and negotiation is excellent, agreement is desirable, but I think you had better retain a switch in the woodshed.

Admiral HARLLEE. Well, the fact that we do have a formal proceeding in the extremely important United States-United Kingdom trade, I think, does indicate that, Mr. Chairman.

Chairman DOUGLAS. Don't hold up the proceeding. Negotiation proceeds much better, and in much more lubricated fashion, when the absence of agreement will provoke publicity and action.

Admiral HARLLEE. Yes, Mr. Chairman.

Chairman DOUGLAS. And I notice that a representative of the Japanese Government is here. We welcome our friends, the Japanese; we admire Japanese art, and the behavior of the Japanese since the war, and present international policy. We urge upon him to convey to his Government our earnest desire that they negotiate constructively and not obstructively.

Admiral HARLLEE. I would like to——

Chairman DOUGLAS. This is direct diplomacy, over the heads of the State Department.

Admiral HARLLEE. I would like to say, Mr. Chairman, that they have been cooperating in furnishing additional information and that it does appear that we have some good chances of working this out more rapidly than in the other cases.

Chairman DOUGLAS. Let us hope so. In the event that it is not worked out, if I am still around, this matter will be brought up again.

Admiral HARLLEE. Several other studies have also been completed by the staff, one of which, United States North Atlantic-Swedish, indicates the existence of a wide disparity favoring the inbound movement from foreign area to the United States. These preliminary reviews indicate that significant general rate disparities do not exist in three of the trades. One of these is between the United States North Atlantic and Netherlands, Belgium, and Germany, in which the Meyer Line, a strong nonconference carrier, provides unusually keen competition.

Chairman DOUGLAS. In other words, this is where they have competition. This reduces the rate on outbound cargoes.

Admiral HARLLEE. That has been the result. As to whether the causative factor is complete, there is another matter.

Chairman DOUGLAS. I think the Meyer Line ought to be commended.

Admiral HARLEE. In 1964 and 1965, attempts were made to secure Commission approval of a pooling agreement between—

Chairman DOUGLAS. Oh.

Admiral HARLEE. No; I said attempts; between Meyer and the conference.

Chairman DOUGLAS. I say "Oh" three times today.

Admiral HARLEE. Subsequent to the Commission's institution of a formal hearing, docket 1175, the request for approval of that agreement was withdrawn.

Chairman DOUGLAS. There must have been a lot of interesting developments behind that sentence.

Admiral HARLEE. We believe that the existence of a strong non-conference competitor in this trade has fostered a rate structure which is reasonable and nondiscriminatory to American exporters.

Chairman DOUGLAS. So you have enforced competition in this area.

Admiral HARLEE. Yes, Mr. Chairman, as much—as you know, that is the basic philosophy of the Shipping Act, that while the conferences are good organizations for stability of trade, the existence of a non-conference line or the possibility of existence to provide some competition is the inhibitor, the natural competitive inhibitor which should—and in this case does—keep the rates from being too high, and keeps the services—

Chairman DOUGLAS. I hope I don't stir up any lions when I say it is extraordinary how many advocates of free enterprise don't want to have any free enterprise.

Admiral HARLEE. Well, the Europeans have a somewhat different philosophy from ourselves. They look upon conferences with no independents as free enterprise.

Chairman DOUGLAS. In Great Britain the theory of competition was first developed by Adam Smith, and followed up by Ricardo and John Stewart Mill and Alfred Marshall. They talk about competition more than any nation in the world. They practice it less.

Admiral HARLEE. Another trade in which no general rate disparity appears is the United States North Atlantic-Italy. The third trade in which no disparity appears is the trade between United States North Atlantic-French Atlantic ports.

In our study of the trade between U.S. Pacific ports—

Senator DOUGLAS. Is there competition on those routes?

Admiral HARLEE. There is some competition. Not as strong as the Meyer Line, but there is some competition.

Senator DOUGLAS. And you think this may have an effect on non-discrimination?

Admiral HARLEE. Yes, Mr. Chairman.

In our study of the trade between U.S. Pacific ports and ports in Japan, it appears that the statistical data available varies to such an extent that no sound conclusions can be made.

We will have to get more data on that, of course.

The eighth and last trade route study—i.e., the U.S. Pacific Coast, Scandinavian and Continental European Conference—is not sufficiently advanced at this time to permit conclusions. These studies, of course, are quite comprehensive, and time consuming.

It is believed that should our negotiations with the Japanese Government prove fruitful, a helpful precedent will be established which

will assist us in concluding the other studies now pending before the Commission staff.

Where conferences or carriers refuse to react to accommodate meritorious shipper claims that rates are too high, the Commission is obligated to protect the interest of shippers by resorting to formal proceedings.

I might interject at this point that we do in speeches and in publications urge that the shippers first contact the conferences, because this is the proper approach, we believe.

Chairman DOUGLAS. But they are always outvoted in the conferences. Isn't that true? Is there a single conference where American shipping lines are in the management?

Admiral HARLEE. I think that there is one conference.

Mr. BLACKWELL. There is one conference in the Persian Gulf made up of two carriers which are both American lines.

Chairman DOUGLAS. One conference. How many shipping conferences are there?

Mr. BLACKWELL. Oh, I would say there are over 80.

Chairman DOUGLAS. Eighty shipping conferences, in one of which American carriers are in the majority. That is one and a quarter percent.

Mr. SCHMELTZER. Not quite.

Admiral HARLEE. Mr. Chairman, I must say in all honesty that our review and work with this has indicated, though, that most of these conferences do grant a great many of these requests. It varies widely with the conference, of course, and whether it has competition or not; and we do get records on these shippers requests and complaints in accordance with the act of 1961. Furthermore, I have been in pretty close contact with the National Industrial Traffic League, which is comprised of about 2,300 shippers, some small as well as big, with the Commerce Industry Association of New York, and generally speaking, the conferences do pay heed to the shippers requests, but "generally speaking" is not good enough. We have to look into each conference and into each situation to see whether there is any improper handling.

I would be less than candid if I indicated to this committee that the Commission's formal proceedings against disparate rate structures or against specific rates have at this juncture been marked with conspicuous success.

I believe, however, that we have taken positive action and made headway. We are now better prepared on both a factual and legal basis to prevail in litigated proceedings on rates and that we have taken major strides down a long road where we have been met at almost every turn with vigorous opposition by the conferences who, in almost every case, have been supported by the governments of the foreign-flag carriers.

We are not unmindful that this opposition will continue but let me state our intentions unequivocally and with as much conviction as I can muster. We are most sensitive to the statutory mandate that Congress has imposed upon the Commission to eliminate unreasonable practices in regard to rate matters and to insure that American exporters are not discriminated against by having unreasonably high freight rates applied to the movement of their goods.

We will continue to persevere in our efforts. If it is in our power, the congressional mandate will be achieved.

Chairman DOUGLAS. Now, just a minute. Do you have power to shut off access to American ports to foreign shipping lines that refuse to conform?

Admiral HARLEE. Under certain circumstances, the Secretary of Commerce has that power.

Chairman DOUGLAS. The Secretary of Commerce?

Admiral HARLEE. Under certain limited circumstances.

Chairman DOUGLAS. I remember that the British threatened to prevent American airlines from using British airports if we reduced passenger rates.

Admiral HARLEE. Yes, I recall the case, sir.

Chairman DOUGLAS. And that this was a powerful weapon that was used in the rate disputes.

Do we have a similar power to deny; that is, does the Secretary of Commerce have a similar power to deny access to American ports?

Admiral HARLEE. It is much more limited.

We will look it up, now, Mr. Chairman.

It is not nearly as broad. However, let me say that there are powers that we have short of that which we have not as yet used; that is, the powers to disapprove a conference, and the power to disapprove a rate after a normal proceeding.

These powers should be—

Chairman DOUGLAS. Let me ask you this: If Great Britain uses its power to prevent air rates from being reduced, do we not have power to prevent our shipping facilities, shipping ports, being used by those who would try to keep up rates? Have we not the power to deny access to foster competition as the British have power to deny access to defeat competition?

Admiral HARLEE. No, we do not have that power, Mr. Chairman, but as I say, we have powers which should be used before that.

Chairman DOUGLAS. Such as?

Admiral HARLEE. Disapproval of conferences, or a conference, after a proceeding, and to disapprove a rate after a proceeding.

Chairman DOUGLAS. If you disapprove a conference, what can you do?

Admiral HARLEE. Well, if you disapprove a conference, you then have the forces of competition, which we believe would take care of the situation.

Mr. SCHMELTZER. If you disapprove a conference, the whole matter is open against antitrust laws, and the Department of Justice can go against anybody that is not competing completely.

Chairman DOUGLAS. Would this not lead to secret agreements?

Admiral HARLEE. It might lead to secret agreements, yes. This would be a problem.

Chairman DOUGLAS. Well, you remember in "Gulliver's Travels," when Gulliver went to Lilliput, he fell asleep, and found himself completely tied down by threads which the Lilliputians had fastened to him.

I sometimes think our Government is tied down by these, this multitude of threads which defeat action, and I would like to see these threads cut, and for you to have strong powers, or for some Government agency to have strong powers to force compliance.

I would like to think that the American lines are not willing participants in these conferences. I would like to think that, though at times their behavior does not justify me in thinking that.

I would like to think that it is the control of the conferences by the foreign shippers which keeps them in line, and with some secret pooling of earnings.

Now, where we meet open opposition, as we have met it with Great Britain, I would favor reciprocal retaliatory action.

Now, our State Department friends are always reluctant to face this issue.

Admiral HARLLEE. Well, we have met with objections, Mr. Chairman, but we have not met with opposition in terms of absolute refusal—

Chairman DOUGLAS. Oh, no, no, no. You have been faced with a silken process of delay.

Admiral HARLLEE. Well, yes, there has been delay, but at the same time, we think that there has been progress.

Chairman DOUGLAS. Well, now, just a minute. This table shows that the increases since February 15, 1965, have been slightly greater on the outbound shipping than on the inbound shipping. (See p. 561 for table referred to.)

There has been no evidence of voluntary reform, so far as the conferences operating between the United States and Great Britain are concerned.

Now, we sympathize with the desperate position that the British are insofar as their balance of payments is concerned. The United States has shown its desire to help. We have loaned billions of dollars to Great Britain to enable them to meet their exchange difficulties, and we are ready to continue to do so, because we realize that Great Britain is a great nation, and it would be a catastrophe if they were forced to devalue, but we ask for some reciprocity in return. The United States cannot permanently continue to be the fall guy.

I am not indicting you, Admiral. You are not connected with this, but I am attempting to talk over your head to representatives of foreign governments who may be here.

Admiral HARLLEE. Fortunately, the Commission's program, as I testified at the early hearings of this committee, is multifaceted. We use formal adjudicatory proceedings only where they are absolutely necessary.

In the first place, formal proceedings with all the protections afforded to the parties by the Administrative Procedure Act could, despite our best efforts, be lengthy.

CHAIRMAN DOUGLAS. Could be lengthy? Will be lengthy!

Admiral HARLLEE. Yes, but they are going to be less lengthy as the case law is developed, Mr. Chairman, as I have indicated, and they are being less lengthy. But the first cases of a particular type such as we have been engaged in definitely are lengthy, and have been.

We have developed, or are adopting, new techniques to shorten these procedures, too. We revised our Rules of Practice and Procedure, and we are now engaged in a number of showcase procedures, which are much shorter. They are done in a matter of weeks, rather than years, in certain instances.

Shippers require prompter action on rates than can be accorded them even in a successful rate litigation.

In addition, formal proceedings are extremely expensive, not only to the shipper, but to the Commission, and often the complaining parties. Even though the Commission attempts to relieve shippers of as much expense as possible through what is called the Office of Hearing Counsel, the costs shippers necessarily must bear many times are too high for them to be interested in protecting their interests in protracted formal litigation.

Furthermore, formal proceedings usually require shippers, many of them rather small, to be absent from their businesses for extended periods.

Actually, even the organizations of shippers, such as the National Industrial Traffic League and Commerce and Industry Association of New York generally do not appear in our proceedings, so it is up to us to represent the public and to develop a full record, and we do do this.

Chairman DOUGLAS. How true this is. As a private citizen, for some years, I tried to represent utility consumers in the State of Illinois, and I know the burden that is thrown upon the small consumer or small municipality, fighting these cases, and how they get exhausted, worn out.

This is the difficulty with justice, that people without great resources are at a tremendous competitive disadvantage and generally get discouraged, and feel it is not worthwhile to defend their own interests.

Admiral HARLEE. We are keenly aware of this, and have a large and effective organization known as the Bureau of Hearing Counsel, the existence of which has been violently objected to by some of our adversary lawyers.

In order to insure that shippers are afforded reasonable rate treatment without the burden of litigation, the Commission has implemented an informal complaint program which I believe has been marked with considerable success. In a great many instances shippers who have been unsuccessful in obtaining freight rate adjustments on their own have been able to obtain rate relief after bringing their problems to the attention of the Commission.

The Commission through every means endeavors to convince the conferences or carriers of the merits of the shippers' position, assuming that these merits exist, because of course there would be some that would not be meritorious, and attempts to prevail on the conferences to accord justified rate relief.

In my last appearance before this committee, on May 27, 1965, I alluded in exhibit C of my testimony to 12 instances where shippers were benefitted by informal Commission action. In the ensuing 10 months, the Commission's staff has been instrumental in obtaining freight rate adjustments for shippers in an additional 22 cases. And these are being submitted for the record.

The Joint Economic Committee, in bringing to the public's attention the existence of freight rate disparities in our foreign trades, has stimulated many, many shippers, particularly the smaller ones, to confront conferences with requests for rate reductions, and if they remain unsatisfied, to bring these matters to the Commission's attention.

Since the Joint Economic Committee's hearings began, not only has the tempo of informal complaints before the Commission increased,

but our ability to obtain rate concessions for shippers has increased at least twofold.

In short, the committee has made a valuable contribution in calling this problem to the attention of the public, who now come forward to us with their problems.

To demonstrate the effectiveness of informal complaint techniques, there is attached as exhibit A a recent letter to the Commission which refers to a fourfold increase in poultry shipments as a result of conference action in reducing rates.

In another instance, the Commission has been advised that as a result of obtaining a lower freight rate on cocoa matting, a facility in St. George, S.C., has been able to expand its production by about 30 percent, thus contributing to the expansion of the local economy in that area.

In exhibit B we have listed those instances where Commission action through informal complaint proceedings has enabled shippers to obtain lower freight rates.

The rates and practices of carriers and conferences as they affect the movement of Government cargo have been of particular concern to the Commission, and is an area where the Commission is generally pleased with its accomplishments.

Based largely upon testimony before this committee in early April 1965 the Commission instituted an investigation into the rates charged the military for the movement of its cargoes. These rates are negotiated with the military by the members of three American-flag berth operator groups that operate under agreements approved pursuant to section 15 of the Shipping Act.

The investigation seeks to determine whether the operations of the groups violate any statutory prohibitions, whether the rates charged are discriminatory or detrimental to American commerce, whether certain groups have acted in concert to exclude Sapphire Line from carrying Government cargoes, and whether Sapphire's rates are so low as to be detrimental to the commerce of the United States.

To April 8, 1966, there had been 54 days of hearings at Washington, San Francisco, and New York, in which approximately 25 witnesses appeared. The transcript to that date covers 6,310 pages, and 487 exhibits have been introduced in evidence. Further hearing dates have been set to complete this complex matter.

On April 4, 1966, Robert C. Moot, Deputy Assistant Secretary of Defense for Logistic Services, announced from the witness stand that the Department of Defense intended to cease negotiating ocean rates for Government cargoes with the three groups of American flag operators, and to close out the allocation system of distributing such cargoes among the various lines. Mr. Moot stated that:

In the past it has been the general practice of the Department of Defense to procure ocean freight services through negotiation on the general basis of commercial rates, adjusted to exclude those services neither required by, nor applicable to, the Department of Defense.

He went on to say that:

In the future it will be the practice of the Department of Defense in procuring ocean freight services to acquire such services to a maximum extent possible through price competition, or, to the extent such competition is not feasible, to negotiate on the basis of total versus introductory costs.

It is our understanding that the Department of Defense intends to inaugurate the new system in July of this year.

On the basis of Mr. Moot's statement, and the implementation of the new system, the Commission will of necessity have to determine promptly whether the agreements of the three groups are now serving any purpose, and whether they should be canceled.

In my testimony before this committee in May of last year, I outlined the Commission's proposals to establish liaison with various Federal agencies responsible for or having an interest in the movement of goods in our foreign commerce for the purpose of determining uniform approaches to ocean-freight-rate problems.

Since that time, many meetings have been held with the Departments of Agriculture, Commerce, State, AID, and MSTs. In meeting with these agencies, the Commission stressed its desire to cooperate fully to insure that ocean rates in no way hamper the flow of goods in our commerce, and that rates are maintained at levels consistent with statutory and executive policy requirements.

The result of these discussions has been the establishment of an effective liaison between the agencies and the Commission which has already produced tangible benefits to the Government.

Following a series of discussions with AID, the Commission agreed to undertake a study focused upon our ability to assist that agency in meeting its obligations to insure that AID-financed cargoes move at nondiscriminatory, reasonable, and fair rates.

The Commission furnished AID with a program to be jointly implemented which incorporated standards to which rates on AID-sponsored cargoes might be exposed to determine their propriety in light of total governmental requirements. The program offered by the Commission is set forth in the attached exhibit C.

Subsequent to the submission of our program, AID engaged the services of a private consulting firm, Foster Associates, Inc., to analyze our suggestions, conduct its own study of the overall problem, and propose final recommendations for a joint program. AID expects to have the final report and recommendations of the consulting firm shortly.

After these data have been analyzed, a meeting will be scheduled between representatives of the consulting firm, AID, and the Commission's staff to discuss the results and decide upon the most feasible program.

There has been considered in earlier hearings of this committee the question whether the State Department (AID) and the Department of Agriculture, or the Federal Maritime Commission, should determine whether freight rates on commodities shipped by the two former agencies are fair and reasonable.

Let me reiterate the Commission's position on this point.

The Commission's authority with respect to the fixing of freight rates in the foreign commerce of the United States is found in section 18(b) of the Shipping Act of 1916, and as here pertinent, consists of a mandate to disapprove any rate or charge filed by a common carrier by water in the foreign commerce which, "after hearing, it finds to be so unreasonably high or low as to be detrimental to the commerce of the United States."

This is not the same determination which is imposed on governmental agencies to determine that rates applicable to cargoes shipped



by such agencies are "fair and reasonable rates" within the meaning of their respective statutes. We believe the basic responsibility in this area rests with those agencies, that is, the State Department (AID) and the Department of Agriculture, and that the initiative is up to them.

In the event either State or Agriculture should complain to the Commission that a given rate appears too high, our assistance would be made available to attempt to obtain a satisfactory adjustment.

If necessary and proper, we would institute a formal proceeding to test the propriety of such a rate within the meaning of section 18(b)(5) and/or, if such rate was fixed by a conference or other group of carriers pursuant to an approved agreement, the public interest and detriment to commerce provisions, and other criteria of section 15.

As already pointed out, we have evidenced keen interest in working in liaison with other Government agencies, including the Departments of Agriculture, MSTs, Commerce, and the State Department. We have conferred with these agencies on numerous occasions in an effort to resolve rate problems with which they are confronted.

But our efforts to eliminate discriminations and high rates applicable to the movement of Government cargoes has not been confined to mere discussions of these problems. We have reacted promptly and with success on specific problems confronting Government shipping agencies.

I refer first to the problem of the Vietnam surcharges. In June 1965 the three conferences serving the trade from the United States to Vietnam; namely, the Far East and Pacific Westbound Conferences and the Hawaii/Orient Rate Agreement, established a war risk congestion charge of \$7.50 per ton on all cargoes consigned to Vietnamese ports. The majority of the independent carriers in this trade also established similar charges.

The purpose of the charge was to offset additional war risk hull and seamen's insurance premiums and crew bonuses incurred for operating vessels in South Vietnamese waters.

In October 1965 the underwriters reduced war risk premiums, and, as a consequence, the Commission addressed letters to all conferences and carriers serving the area, requesting that they give serious consideration to commensurate reduction charges.

The conferences and carriers took the position that although insurance premiums had been reduced, there was serious congestion and vessel detention at South Vietnamese ports, substantially increasing operating costs and increased insurance expenses. The higher insurance expense in the face of reduced premiums resulted from the longer time vessels had to remain in South Vietnamese waters.

In December 1965 the conferences and carriers established a congestion surcharge of \$8.25 per ton on all cargo destined to South Vietnam, making the total additional charges applicable for service to that area \$15.75 per ton.

Immediately following establishment of the congestion surcharge, discussions were held by representatives of AID and the Commission, wherein AID expressed concern that these additional charges might deplete Government funds available for ocean freight and impede the flow of goods to Vietnam which are essential to the effectiveness of our national commitment.

Following our discussions with AID, the Commission dispatched letters to the conferences and carriers, requesting they promptly provide us with cost data to support the additional charges.

The Commission made it clear that the Government was not insensitive to the needs of the carriers to recover out-of-pocket costs resulting from valid detention conditions beyond the carriers' control, but we would take all steps necessary to insure that the carriers are not gaining windfalls by applying surcharges higher than necessary for recovery of actual expenses.

The conferences and a number of the independent lines provided the required cost data, copies of which were furnished to AID, MSTs, and the Department of Agriculture. This data indicated that some vessels operating to Vietnamese ports were experiencing expenses directly attributable to detention that were higher than additional charges being assessed, and other vessels were experiencing detention expenses that were considerably lower than the additional charges.

In January 1966 the Commission scheduled a meeting with AID, MSTs, and the Department of Agriculture to discuss the data obtained and determine a future course of action.

At this meeting it was agreed to try informally to persuade the conference chairmen and the American-flag conference members who carried the major portion of cargoes to Vietnam to reduce charges.

Subsequent meetings and discussions were held between ourselves and the other Government agencies concerned in an effort to prepare the strongest possible Government case.

On February 11, 1966, a meeting was held at the Commission's offices between representatives of the Government agencies and the conference chairmen and the American-flag conference members. At that meeting AID representatives did a very creditable job in stating the Government's case.

It was made clear to the carriers that if they could not either reduce the additional charges or provide the Government with further evidence of their justification as the assessed levels, we would not hesitate to exercise the limits of our authority to insure that the Government's cost of ocean service to Vietnam was not disproportionate to the cost of providing such service.

As a result of this meeting, in March 1966 the conferences and the independent carriers reduced their war risk compensation charge from \$7.50 to \$5.50 per ton.

We are keeping a close watch on this situation, and the conferences will continue to reconsider from time to time AID's request to remove the congestion surcharge.

The Commission's initiative in attempting to obtain rate adjustments on household goods moving under auspices of the State Department also is worthy of mention. Shipments of household goods tendered by the State Department to carriers serving Mediterranean and Far East ports are assessed commercial rates, while similar cargoes moved for the Department of Defense are assessed rates 50 percent lower.

The Commission's staff studies the problem, and believe that inasmuch as the transportation characteristics of household goods shipped by the Department of Defense and the State Department are almost identical, the State Department's claim that it should be assessed the lower military rate was meritorious.

The State Department advised that if it was able to obtain the lower rates to the Mediterranean and the Far East, it would save approximately 1 million per year.

After several constructive meetings with representatives of the State Department, the Commission's staff confronted the chairman of the Far East Conference and the North Atlantic Mediterranean Freight Conference to demonstrate the meritorious nature of the Department of State's position.

Having created what was believed to be a conducive atmosphere for rate negotiations, the Commission's staff advised the Department on how to proceed with filing the necessary rate adjustment requests. This was seasonably accomplished by the Department.

The Commission was notified on April 27, 1966, that effective May 2, 1966, the Far East Conference reduced its rate on household goods applicable to the State Department and other civilian Government agencies from \$88.25 per ton weight or measurement to \$40.50 weight or measurement.

In our view, the Far East Conference should be commended for its timely and appropriate action on this critical rate matter.

The Commission was advised by the State Department only yesterday that the Pacific Westbound Conference had voted to reduce its applicable rate on household goods from \$77 per ton to \$33.25 per ton.

In our view, that conference, too, should be commended for its action.

We expect the North Atlantic Mediterranean Freight Conference to announce its decision on the Department's rate request shortly. If that conference takes no action, or its action is negative, the Commission's staff is prepared to take appropriate action.

The staff also intends to assist the Department in obtaining rate relief in a number of other trades in which it ships large amounts of household goods.

On still another front, the Commission has pursued its goal of insuring that rates on Government cargoes are applied in a manner consistent with the proscriptions against discrimination enunciated in the Shipping Act.

In March 1966 the Persian Gulf Outward Freight Conference and the Waterman Steamship Corp., both operating in the trade from the U.S. Atlantic and Gulf to the Persian Gulf, Gulf of Oman, and Arabian Sea, established on certain specified commodities a two-level rate structure based upon whether carriage is by American-flag vessel or foreign-flag vessel.

In establishing such a rate structure, both the conference and Waterman restricted previously applicable rates to transportation on American-flag ships and instituted considerably lower rates limited to foreign-flag carriage.

To say the least, this two-level rate system appears to represent a novel and unique concept of ratemaking.

The Commission's staff was concerned with this new ratemaking device, because it appeared to discriminate against the U.S. Government, which, under cargo preference laws and governmental executive policies, the Government is required to ship most of its cargoes on American-flag vessels.

Hence, the Government would be forced to pay the higher rates applicable to American-flag vessels. The lower foreign-flag vessel

rates would ordinarily be available only to commercial shippers, and in the circumstances the staff believed that this could result in the subsidization of commercial cargo by Government cargo on which higher rates would be assessed.

On April 19, 1966, the Commission, in docket 66-27, served on the Persian Gulf Outward Freight Conference, consisting of American-flag carriers, Isthmian Lines, and Central Gulf Lines, an order to show cause why the two-level rate structure does not exceed the authority embodied in the Commission-approved organic agreement, and why the Commission should not order the rate structure stricken from the tariff.

On that same date the Commission also served an order on the Waterman Steamship Corp. to institute docket 66-26, a formal investigation to determine whether the two-level rate structure of the carrier violates the Shipping Act by (1) giving undue or unreasonable preference or advantage to one shipper to the prejudice or disadvantage of another; (2) unjustly discriminating against the U.S. Government and/or other shippers; and (3) resulting in unreasonably high or low rates which are detrimental to the commerce of the United States.

The Commission's action in this instance is a manifestation of its policy to apply its regulatory authority without hesitation to insure that Government cargoes move at nondiscriminatory rates.

We are pleased to advise the committee that on April 22, 1966, Waterman Steamship Corp. informed the Commission by telegram that it was forthwith canceling all rates bearing reference to foreign-flag vessels. We have not been advised that the conference intends to cancel its rates applicable to foreign-flag vessels.

Pursuant to the order to show cause issued in docket 66-27, the conference is required to submit a memorandum of law to the Commission on May 13, 1966, as to why its two-level rate system should not be declared unlawful and accordingly stricken from the conference tariff.

I will next report on the general progress of the Commission in carrying out its regulatory responsibilities.

All rules on matters specifically mentioned in Public Law 87-346, the so-called Bonner Act, have been finalized. We now have general orders covering the self-policing systems of conferences (No. 7)—this should result in fairer competition, and further elimination of rebates which hurt the American steamship lines, and we recently put out a docket on this decision, which gives the self-policing system power to get at some things that we cannot get at in some cases overseas—admission, withdrawal, and expulsion provisions in conference agreements (No. 9), and tariff filings (No. 13) will be subject to automatic data processing, so we can derive information rapidly, and will be helpful to the industry, too; shippers' requests and complaints (No. 14).

These are all of the rules required by that Bonner Act.

General Order 14 became effective July 9, 1965. That is the one of shippers' requests and complaints. It implements the congressional admonition requiring disapproval of any agreement which does not include reasonable procedures for fairly and promptly hearing and considering shippers' requests and complaints.

The order requires each ratemaking group that operates under a section 15 agreement to file a statement with the Commission detailing its procedure for disposing of shippers' requests and complaints. Detailed reports showing how and when these matters were disposed of must be filed quarterly.

Foreign domiciled groups must designate a representative in the United States to receive requests and complaints, and the designated representative must retain records for at least 2 years.

The tariffs of such groups must inform interested parties of how and where to file requests and complaints. These are the ones based overseas.

It is noteworthy that the quarterly reports received from conferences pursuant to General Order 14 show that shippers received favorable rate action on between 70 and 90 percent of their requests.

I believe that this high incidence of favorable conference action is due in part to this committee's report on freight rate disparities which focused national attention on the grave problem, demonstrated that conferences were falling short of their public responsibilities, and apprised the public of the protection offered them by the Shipping Act.

The reporting requirements of General Order 14, the Commission's vigilance over freight rate matters, and signs that conferences now take their responsibilities toward shippers more seriously, have resulted in the higher incidence of rate reductions.

Section 18(b)(1) of the Shipping Act, 1916, requires the filing of tariffs by common carriers or conferences in the foreign commerce of the United States. Section 18(b)(4) contains a mandate from Congress to the Commission to prescribe the form and manner in which such tariffs are to be filed.

On January 1, 1966, General Order 13, Filing of Tariffs by Common Carriers by Water in the Foreign Commerce of the United States and by Conferences of Such Carriers, became fully effective.

During the past 4 years, the Commission's tariff files grew from 450 to a peak of approximately 2,600 as of December 31, 1965. The Commission's files now contain approximately 2,300 tariffs, and the decrease from the high of December 31 is attributed to cancellation of tariffs under which service is no longer offered, and the rejection by the Commission of tariffs filed by carriers no longer in business.

It can now be said with some assurance that the carriers and conferences with tariffs on file are prepared to offer service.

Freight tariffs are nothing more than schedules which provide the shipping public with information concerning the rates and other charges, rules and regulations of the carrier holding itself out to perform a transportation service. To be understood by the user, a tariff must be clear and unambiguous.

Prior to the effectuation of General Order 13, the form and manner of tariffs filed with the Commission varied carrier by carrier, conference by conference, and trade by trade. Tariff descriptions of trading ranges, rules and regulations, and statements regarding rates were in many instances either absent or so poorly stated that there was confusion concerning the intent of the carrier.

The uniform rules provided in General Order 13 assure tariff users and other interested persons that regardless of the trade involved,

there is uniformity of tariff construction. Tariffs are now sufficiently clear so that they may be scanned rather than laboriously searched for pricing information.

This is a big problem, the usability of tariffs. They are so complicated that many of the small or new shippers would be discouraged.

Moreover, thousands of so-called paper rates were eliminated from the tariffs when they were rewritten to comply with General Order 13.

The elimination of paper rates induces potential exporters to apply for establishment of realistic rates permitting the movement of their traffic, rather than be discouraged by high paper rates which appear to make sales of new commodities in foreign markets impossible.

The Commission in its General Orders, decisional process, appearances before committees of Congress, and day-to-day relationship with shippers has attempted to redefine and articulate the protections the Shipping Act affords shippers.

We nevertheless are convinced by staff reports filed in Fact Finding Investigation No. 6 that there are thousands of potential exporters whose ignorance of the most rudimentary facets of international commerce and shipping information precludes them from entering export ventures.

Moreover, many small shippers now in our foreign commerce have insufficient knowledge about freight rates, rate adjustment procedures, and conference functions to protect their own interests.

To remedy this situation, the Commission in conjunction with the Department of Commerce is publishing a Shipper's Guide which will assist in educating exporters and importers, at least to the extent that they will be able to recognize rate problems and be apprised of how to confront conferences or the Commission with meaningful requests for rate reductions.

We are optimistic that publication of the Shipper's Guide will enable shippers to advance more convincing arguments and receive even more favorable rate actions from conferences.

In exhibit D hereto we have set forth the major accomplishments of the Commission since May of 1965. In exhibit E we have updated our response to the general recommendations contained in this committee's report of January 6, 1965.

And, of course, some of those recommendations were pretty specific, as well as general.

Almost without exception every regulatory activity undertaken by this Commission concerning conferences and carrier activities can ultimately be translated into a single issue—how will it affect the cost and efficiency of shipping goods in our foreign trade?

Your committee has expressed its concern with this problem from the beginning. We share, and will continue to share this concern.

Nothing would give me greater pleasure than to report that we have solved the problems concerning disparate rates. I cannot so state. I believe the Commission has made progress. We have achieved some noteworthy results. We will strive with purpose to accomplish more.

It has been an exhilarating experience for us to appear on two occasions before this committee. The committee's hearings and report on discriminatory ocean freight rates and balance of payments not only focused much-needed public attention on ocean freight rate discriminations against American interests, but for the first time since

passage of the Shipping Act of 1916, created regulatory atmosphere and encouraged the type of regulation that the framers of the act obviously envisioned.

The American shipping public owes this committee a great debt, which has not as yet been paid. [Laughter.]

Chairman DOUGLAS. Thank you very much, Admiral.

(Exhibits submitted with statement of Admiral Harlleee follow:)

## EXHIBIT A

STONE & Co., INC.,  
Savannah, Ga., April 19, 1966.

Mr. OTTO J. KIRSE,  
Chief, Division of Tariffs,  
Office of Foreign Regulation,  
Federal Maritime Commission,  
Washington, D.C.

DEAR MR. KIRSE: You will recall that for about a year—from mid-1964 until late 1965—we strove to effect a reduction in the ocean freight rates on poultry from the U.S. East and Gulf coasts to the various Caribbean Islands.

You will also recall that the Conference finally, and in one fell swoop, slashed the rate structure from the previous average of \$110.00/2,000 lbs. to a uniform \$45/2000 lbs.

Since the new rate went into effect, on November 1, I am pleased to report that our shipments of poultry to Antigua, St. Kitts, Dominica, Grenada, St. Lucia and Barbados have quadrupled—and this in the face of rising domestic prices which have destroyed our export business in other markets, such as Greece and the Middle East.

Since November 1, we have shipped from 400 to 500 tons of poultry to these little islands. In the previous six months prior to November 1, our shipments totalled 100 tons.

The principal beneficiaries were the Royal Netherlands Steamship Co. and the Booth Island Line. I am persuaded that our increase in business was shared by other American exporters and was made at the expense of Canadian and Danish suppliers.

Much of the credit for this reduction in rates goes to the FMC, which during the period of our correspondence with the Conferences, acted as amicus curiae. We are deeply appreciative of your assistance.

Very truly yours,

RICHARD L. GROSSE,  
Director, Export Division.

## EXHIBIT B

## LIST OF INFORMAL COMPLAINT PROCEEDINGS WHICH HAVE RESULTED IN SHIPPERS OBTAINING LOWER FREIGHT RATES

## BOURBON

The Bourbon Industry complained of its inability to market Bourbon in Peru and Japan because of the level of the freight rates. The Commission's staff did not inject itself into this matter but rather sought resolution of the problem by bringing the parties together on an industry-to-industry basis. The conferences in both of the trades involved were most cooperative and after meeting with a representative of the Bourbon industry established rates which will assist that industry in promoting the sale of Bourbon in overseas market places.

## COIR YARN

A South Carolina corporation protested the level of rates assessed by the West Coast of India. Pakistan-U.S.A. Conference on coir yarn from India and Pakistan ports to U.S. Atlantic ports. After discussing the matter with officials of the corporation and the conference chairman, the conference filed reduced rates on coir yarn on a measurement basis as requested by complainant. The shipper now reports that as a result of the savings realized from the reduced freight coupled with increased domestic consumption, his company has expanded production by approximately 25-30%. The shipper stated that the savings in trans-

portation costs was the principal factor for increased domestic sales and expansion of its production facilities, which in turn has had a beneficial effect on the local economy of St. George, South Carolina. In respect to this latter aspect the shipper elaborated by stating that the economy in his area has been depressed and many people unemployed. Presently we are informed two new buildings are being erected and many unskilled laborers put to work. Additionally many unskilled laborers are being trained to become skilled workers. In general there has been an upsweep in the community's economy and the importer has expressed his gratitude to us for our help.

#### TABULATING CARDS

A foreign importer of tabulating cards from the United States protested against the rate on this commodity maintained by the North Atlantic Mediterranean Freight Conference and sought rate relief on the basis of lower rates available to shippers from Canadian ports. Thereafter the conference reduced the rate from \$54.50. to \$45.50 per 2240 lbs. The Commission has been informed that export tonnage prior to the reduction was rather low. Indications received from the United States supplier of this commodity are that the reduction has been directly responsible for substantially increasing the volume of movement in the trade and that future increases are anticipated.

#### POULTRY

A shipper of Poultry to the Caribbean Islands informed us that after a freight rate reduction was put into effect his business to that area increased fourfold. Since November 1, 1965 this shipper has moved 400 to 500 tons to Caribbean importers whereas in the six month period prior to November 1 only 100 tons moved. The shipper states that he is pleased to report this to us since rising domestic prices have destroyed the export business in other market places such as Greece and the Middle East.

#### CORN MEAL CHEESE-FLAVORED ITEM

A twenty-five percent increase in sales resulted from the decision of the conference serving Venezuela and the Netherlands Antilles to revise certain tariff descriptions whereby a corn meal cheese-flavored item is now accorded a rate of \$25.00 per 40 cubic feet instead of the \$39.00 per 40 cubic feet rate formerly applicable. The shipper states that this change is the sole reason why it is able to continue in the export field.

#### PROJECTION SCREENS

Three Great Lakes Conferences serving Europe reduced their rates on projection screens after the Commission informed the Conferences regarding European competition with United States shippers. Rates were reduced ranging from \$3.50 to \$6.00 per ton on rates ranging from \$27.50 to \$42.50 per ton. On November 3, 1965, a fourth conference reduced its rates within the same range. The shipper indicated that a 10-20% increase in volume to Baltic ports is directly attributable to reduction in freight rates and that some increases had been noted to Mediterranean and Continental ports. The shipper stated that from 20 to 25 new accounts had been obtained in other than Baltic areas because of the rate reduction and that *prior* to rate reductions he could not remain competitive.

#### POULTRY INCUBATORS

After a New York shipper of poultry incubators complained that the ocean freight rate would cause his firm to lose export business to Japan we contacted the Far East Conference on his behalf. The conference considered downward rate adjustment and reduced the base port rate of \$71.00 per ton to \$53.75 per ton. The shipper has informed us that he anticipates exporting 70,000 cubic feet or 350 tons of poultry equipment valued at \$700,000.00 during the coming year and that this type of movement would continue for two or three years. Under the previous rate the shipper said he was unable to move any equipment in the trade. The conference reported a six-fold increase in the movement of poultry equipment during October, November and December, 1965, over the prior three months.



## TOYS

After receiving a protest concerning the freight rate of \$52.00 per 40 cubic feet on toys published by the Atlantic & Gulf West Coast of Central America and Mexico Conference, it was explained to the shipper how he should proceed in making application to the Conference for a rate reduction. As a result, the Conference notified the shipper that the member lines had agreed to a reduction to \$41.50 per 40 cubic feet or 2,000 lbs. The shipper stated that present orders indicate a substantial increase in export sales resulting from the rate reduction.

## MILK COOLERS

Following receipt of a complaint from a St. Paul, Minnesota shipper that increased ocean freight rates on bulk milk coolers from United States Pacific coast ports to Australia would restrict his exports to that area, the staff contacted the conference serving the trade, the Pacific Coast Australian Tariff Bureau. The conference thereafter reduced the rate from \$49.00 per ton to \$44.50 per ton. The shipper expressed satisfaction with the rate and stated that following the rate reduction he has shipped between 18,000 and 20,000 lbs. of milk coolers to Australia. He explained that shipments are made in carload lots of 20 units per car, valued at about \$28,000.00, and that he anticipates that an average year's exports will be 150 units. Before the rate reduction was placed in effect, this shipper averaged about 3 carloads per year, or 60 units. Export sales in this case will increase about 150 percent.

## MARBLE BLOCKS

A Knoxville, Tennessee firm had protested to the Gulf Mediterranean Conference concerning high outbound rates of \$52.25 per ton as compared with rates of \$28.50 per ton inbound for marble blocks. After securing details in the matter we simultaneously addressed advice to the complainant, and inquiry to the conference. The conference published an outward rate of \$30.00 per freight ton for marble blocks. Based upon the difference in rates, the shipper states that an average savings per shipment of \$650.00 will result and enable him to compete in the foreign market place.

## SHELLED PECANS

A protest against the Far East Conference ocean freight rate of \$100.00 per 2,000 lbs. or 40 cubic feet on shelled pecans, under refrigeration, from a Savannah, Georgia shipper, was discussed with the Conference. The Conference thereafter established a rate of \$100.00 per 2,000 lbs., which resulted in a rate decrease. The shipper informed us that the rate reduction enabled his company to move about 40 tons of pecans valued at \$90,000.00 to Hongkong. There are definite possibilities of increasing movements in the future but before the rate reduction this shipper had no movement in the trade.

## PEANUTS

The same Savannah, Georgia shipper protested against the \$68.50 per 2,000 lbs. rate on peanuts of the Far East Conference and requested our assistance to obtain a rate which would enable him to make export sales in Hongkong. The Conference reconsidered the rate level on this commodity and reduced the rate to \$45.00 per 2,000 lbs. This 35 percent decrease in the rate will greatly assist the shipper in establishing a market in Hongkong.

## COMMON GROUND CLAY

A Skokie, Illinois manufacturer and shipper of common ground clay and Bentonite requested our assistance in its negotiations with the River Plate and Brazil Conference to establish a common ground clay rate of \$26.00 per 2240 lbs. (measuring not over 80 cubic feet per 2240 lbs.) and \$31.00 per 2240 lbs. (measuring over 80 cubic feet per 2240 lbs.). After our intervention the conference agreed to reduce the rates on both commodities as indicated. The shipper reported that its exports increased to 1,236 tons from August, 1965 to December, 1965 as compared to 519 tons for a comparative five month period from March, 1965 to July, 1965. It was the shipper's expressed opinion that the favorable rate action by the conference was an important factor in expansion of its exports sales to Argentina and Brazil.

## PLYWOOD

A Seattle, Washington, importer of plywood protested short notice regarding increased handling charges in plywood announced by the Transpacific Freight Conference of Japan and the Philippines North American Conference to become effective September 19, 1965. The handling charges were scheduled to be increased from \$1.35 to \$2.35 per 40 cubic feet or 2,000 lbs. The Commission took the matter up with both conferences. The effective date of the increase was postponed by both conferences to November 1, 1965. The importer informed us that the conferences' action enabled him to maintain his price quotations to customers. He expects his imports of plywood to run about the same as for September, October and November, 1965, which totalled about 63 million square feet valued at \$3,671,210.00.

## FROZEN POULTRY, MEAT AND PORK

A California company by letter dated July 9, 1965, protested the increasing of the rates on Frozen Poultry, Frozen Meats, and Frozen Pork to the trade areas covered by the Atlantic and Gulf-Singapore, Malaya and Thailand Conference, Pacific Straits Conference, Far East Conference, and Pacific Westbound Conference. The conferences involved were contacted and the following action was taken: (1) The Pacific Westbound Conference agreed to reduce the amount of the announced increase from \$4.00 per 2,000 lbs. to \$1.50 per 2,000 lbs. (2) The Pacific Straits Conference rescinded its announced increase of \$2.00. (3) The Far East Conference modified the rate increases of \$5.00 per ton for Frozen Pork, Fat-Back and Poultry Parts, and \$6.25 per ton for Meats and Poultry, by downward adjustments to \$2.50 and \$3.00 per ton respectively. The Far East Conference states that export tonnages for the first seven months of 1965 totalled 2,776 tons against 3,792 tons for the last 5 months during which time the reduction was in effect. Reports from other conferences have not been received.

## VANILLA BEANS

A New York importer of vanilla beans sought to have the Java-New York Rate Agreement reduce the 8.1% ad valorem rate on that commodity from Indonesia. The ad valorem rate was reduced to 5%, after the matter was taken up by the staff with the conference. The importer has now informed us that the reduced rate will help him to maintain and increase his imports of vanilla beans.

## WALLBOARD

The Commission received protests from importers of wallboard against a freight rate increase on that commodity from \$31.90 to \$35.00 per ton of 2240 lbs. or 40 cubic feet by the Australia, New Zealand and South Sea Islands Pacific Coast Conference, scheduled to become effective November 4, 1965. The shippers stated that the increased rate would reduce imports and sought the Commission's intervention. We contacted the Conference in the matter and the rate was reduced to its former level, thus preventing the possibility of impeding movement.

## MARBLE BLOCKS

After staff intervention the South Atlantic Steamship Conference agreed to reduce its rates on Marble Blocks to a range of \$25.15 per 2240 lbs.—\$29.00 per 2240 lbs. from \$46.50 per 2240 lbs. to \$66.00 per 2240 lbs. The shipper could not develop a market in the United Kingdom at the higher rates and the rate reduction will be of assistance in developing new market places.

## OIL WELL TREATING COMPOUND

A shipper protested a proposed rate increase in the ocean freight rate on oil well treating compound, sand and Gilsonite, to the Persian Gulf. The staff contacted the conference carriers serving the trade who thereafter agreed to maintain the rates on the items. Subsequent thereto the shipper informed us that he was very satisfied with the action taken by the conference which would be of assistance to him in the movement of his commodities abroad.

## ARTISAN HANDICRAFT

An official of the Artisan Handicraft Program, Agency for International Development, requested our assistance in securing fair ocean freight rates from

West Coast of South America countries to United States Atlantic, Gulf and Pacific coast ports on various articles of native handcraft. It was the Agency's belief that the ocean freight rates to United States ports were many times higher than rates on similar commodities from Europe to United States ports. We furnished the Agency with complete tariff information and advice regarding the procedure to follow to apply for lower freight rates. Thereafter the Agency revealed that favorable action had been taken on its requests for lower rates by the various South America Conferences and it was anticipated that the rate action would increase imports of handicrafts.

#### HARDWOOD LUMBER

United States West Coast importers of hardwood lumber objected to the higher increase in handling charges which the Philippine North America Conference announced for hardwood lumber as compared with the increase on softwood lumber. The conference proposed to increase the \$1.90 per MBF handling charge on both types to \$6.59 per MBF on hardwood and \$3.31 per MBF on softwood.

The staff immediately called the conference's attention to the apparently discriminatory handling charge increase. The conference postponed the increases to November 1, 1965 in order to reconsider the matter and then reduced the hardwood increase to the level of the softwood increase, effective November 1, 1965.

Importers reported that following the conference action to equalize the handling charge increase they have been able to maintain the level of imports. One of the lumber firms reported that annual imports amount to 200,000 FBM valued at \$200.00 per 1,000 FBM; another about 12,000 FBM; and another about 5,000 FBM. The value of the savings involved can readily be seen based upon import figures of just two of the importers involved.

#### EXHIBIT C

MANAGING DIRECTOR,  
*Federal Maritime Commission,*  
December 2, 1965.

Re investigation of AID rates  
DIRECTOR, RESOURCES TRANSPORTATION DIVISION,  
*Agency for International Development.*

We have now made a preliminary examination of the selected vouchers on AID shipments which you are prepared to make available for examination and analysis. It is our understanding that these shipments were selected by AID as representative of volume movements in major AID trade areas.

From the material available in these vouchers, it will be possible to determine the following detailed information about each shipment:

- Name of carrier.
- Name of vessel.
- Loading port.
- Discharge port.
- Name of shipper.
- Name of foreign importer.
- Weight in long tons.
- Cubic measurement (if necessary to determine freight charges).
- Freight rate charged.
- Total freight charged for shipment.
- FAS value of the commodity.
- Terms of sale and shipment.

Based upon the nature of this information, there are various studies which can now be undertaken with respect to rates charged on these shipments. Following are some of the analyses which could be made which might indicate areas of potential or actual discrimination against Government cargoes:

1. Check the rate actually assessed with that contained in the applicable tariff on file with the Commission and in effect at the time to insure that the assessed rate is consistent with the requirements of Section 18(b).
2. Compare the rate assessed the AID shipment with those applicable in the same tariff on the same commodity from and/or to other related ports to determine whether there is any apparent significant discrimination against AID cargoes.

3. Convert the rates assessed to a per ton mile basis and compare the result with the per ton mile charges applicable in other comparable trades.
4. Determine the appropriate rate on the same commodity in the opposite direction. If the inbound rate is found to be appreciably higher than the outbound rate, efforts will be made to determine whether the commodity moves in both directions and, if so, in what volume. This will assist in arriving at a conclusion as to whether there is apparent justification for any rate disparity that may exist.
5. Obtain a list of the areas of supply competing with United States exporters of AID cargo for the same overseas markets. We might then secure the ocean freight rates available from the foreign competitive sources in order to determine whether the rates assessed United States exporters might be discriminatory. Since AID has representatives throughout the world, it should be in a position to obtain data of this type.
6. Where AID-sponsored commodities move in substantial volume, determine whether the same commodity also moves commercially in the trade and in what volume. This information is essential to determine whether the rates assessed AID are justified on their face in relation to commercial rates.
7. Determine the value per revenue ton of the commodity involved and check the tariff for a comparison of the rate assessed to that assessed other commodities in the same tariff of a similar nature and having a comparative value.
8. Determine whether the commodity involved competes with any other commodity moving in the trade which can be used as a substitute.
9. Check the tariff rates on the commodity concerned over a period of time, looking for any significant pattern of rate fluctuation which might cast suspicion on the rate.
10. Check the applicable tariff to determine if the commodity in question is also freighted under any special, emergency, or project rate item not available to AID.
11. Check the tariff to determine whether AID is given the benefit of any special rates which might be lower than ordinary rates yet higher than those available to other shippers.
12. Check the commodity involved to determine whether it has any peculiar characteristics or requires special handling, etc.
13. Check the Commission's Informal Complaint records and the data submitted by conferences and other rate-making groups under General Order 14 (Shippers, Requests and Complaints) to determine whether the commodity involved has been the subject of shipper complaints and, if so, whether such complaints contain any information pertinent to AID shipments.
14. Check rate levels on AID-sponsored cargo in relation to general rate levels in the tariff concerned and compare these factors to similar information in other trades. For example:

*Trade "A":*

Machinery N. O. S.—\$48-w/m.

Wheat in Bags—\$24-w/m (mostly, if not all, commercial cargo).

*Trade "B":*

Machinery N. O. S.—\$48-w/m.

Wheat in Bags—\$40-w/m (mostly AID-sponsored cargo).

On the basis of the foregoing example, it would appear that the rate on Wheat in Bags in Trade "B" may be inflated merely because AID is the primary shipper.

15. Check with the Departments of Commerce and Agriculture to determine if they can provide information on whether the rate on the commodity involved constituted an impediment to its movement.

It is obvious that any study along the above lines will involve a substantial volume of work. As the study progresses, there will be need for expert knowledge of AID shipping problems, expert tariff analysis, economic and statistical expertise, as well as substantial clerical and stenographic assistance.

As indicated in the letter from Admiral Harlee to Mr. Bell dated February 19, 1965, the personnel necessary to conduct this type of analysis should be furnished from both Agencies. It is our suggestion that AID should furnish at least two persons familiar with AID ocean shipping problems and competent to handle statistical and economic data. The Commission will furnish expert tariff examiners from its Division of Foreign Tariffs as well as economic and statistical personnel from its Office of Transport Economics. It is suggested,

that stenographic and clerical help be furnished as required from both AID and the Commission.

We are prepared to meet with you at your convenience and discuss assignment of personnel and the exact manner in which the study of these vouchers can now be undertaken.

TIMOTHY J. MAY.

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#### EXHIBIT D

#### MAJOR ACCOMPLISHMENTS—SINCE 1965

##### INTERCONFERENCE AGREEMENTS

There have recently been filed for approval a number of so-called "Interconference" agreements between conferences that serve different coasts of the United States. As of January 1, 1966, there were 15 such agreements that had previously been approved. The approved agreements and those more recently filed for approval cover a number of interconference activities from "house-keeping" to rate-fixing. Although interconference agreements are recognized in section 15 of the Shipping Act, it is obvious from the legislative history of the 1961 amendments that Congress viewed efforts to establish superconferences with some concern. Accordingly, we have instituted several formal proceedings to examine into the effect such agreements are likely to have on American foreign commerce. It seems to us that the legitimate needs of the conferences in respect to problems that might affect their operations must be weighed against the necessity to see that the shippers and receivers of freight engaged in foreign trade are not caught in a squeeze which could result in unjust discriminations, prejudices or disadvantages. The present state of the technological advances in the different modes of transportation now give certain areas of our country an opportunity to be competitive with other areas which heretofore did not exist. These facts must be recognized and considered in evaluating the possible impact of interconference agreements.

##### FOREIGN-TO-FOREIGN COVERAGE OF SECTION 15 AGREEMENTS

Because of the many problems that have arisen as a result of the inclusion of foreign-to-foreign trades in agreements filed for section 15 approval, the Commission has recently adopted the policy of requiring the parties to such arrangements to eliminate the foreign coverage before we give the matter further consideration. Our policy is predicated upon two principal grounds. First, we have no jurisdiction over foreign-to-foreign commerce and, second, we feel that we should not permit an agreement we approve to be given even an indication or color of authority which might be construed to mean that the Commission can or does authorize immunity from the antitrust statutes by virtue of its section 15 approval. While we have approached this matter on an *ad hoc* basis so far, we plan to implement the policy in the Rule regarding the filing and consist of section 15 agreements which the staff is now working on. For consistency we will have to issue an order to clear up this same situation in presently approved agreements.

##### CARNATION CASE

On February 28, 1966, the Supreme Court handed down a decision that will undoubtedly have a profound impact on carrier-shipper relationships. In *Carnation Company v. Pacific Westbound Conference*, No. 20—October Term, 1965, the Court held that treble damages were recoverable under the antitrust statutes in instances in which common carriers in our foreign commerce carry out agreements subject to section 15 of the Act prior to filing with and securing approval of the Commission. Under this decision, persons who have been damaged by unauthorized concerted activities of carriers may select the forum and the remedy which best meets their needs. They can sue in court for triple damages under the antitrust statutes or file a complaint seeking actual damages as reparations in a proceeding before the Commission. The decision seems to us to strengthen the regulatory machinery in acting as a significant deterrent to unauthorized concerted activities by carriers engaged in our foreign commerce.

## PENALTY SUITS FOR VIOLATIONS OF SECTION 15

Two penalty suits were recently settled by the Department of Justice by the payment of sizable sums of conferences that had not promptly admitted qualified carriers to membership. The North Atlantic Westbound Freight Association delayed about 15 months in admitting American Star Line and the Atlantic and Gulf/Australia-New Zealand Conference held up the admission of A/B Atlantrafik for nearly a year. Since these actions patently violated section 15 provisions requiring prompt admission to membership of qualified carriers, we submitted the matters to the Department of Justice for the institution of penalty suits. The settlements, \$30,000 in each instance, were sufficiently substantial to clearly indicate to these and other conferences that the Commission will take positive action to enforce statutory requirements regarding free and full admission to conference membership.

## PENALTY SUITS FOR FAILURE TO COMPLY WITH SECTION 21 ORDERS

In January, 1964, preparatory to issuing proposed rules on the hearing and consideration by rate-fixing groups of shippers' requests and complaints, the Commission issued section 21 orders against 14 conferences to require them to furnish certain information they would not voluntarily supply. Nine of the conferences failed to file the required information within the time fixed for compliance, basing their non-compliance upon an allegation that the Commission had exceeded its authority in issuing the orders. Since it seemed clear to us that there was ample legal basis for the action taken, we referred the cases to the Department of Justice for the filing of penalty suits. Seven suits have been filed in the United States District Court for the Southern District of California seeking to recover \$100 per day from each member line of the seven conferences for each day of default. We understand that the two remaining cases will be filed in New York shortly. I should point out that all of the involved conferences eventually complied with the orders and that the proposed rules were finalized and published as our General Order No. 14, effective July 9, 1965.

## DUAL RATE MATTERS

The criteria and guidelines established by the Commission in the *Dual Rate Cases* have proven to be of considerable value to both the industry and to the Commission and its staff. Through use of the established guidelines the Commission has been able to approve the institution of 6 new systems and 5 modifications to existing systems without the expense involved in protracted hearings. The carriers involved, in each of the eleven instances, carried their burden of showing compliance with all of the statutory provisions in section 14(b) of the Shipping Act and with the requirements set forth in the Dual Rate Cases.

## AGREEMENTS

A greater degree of understanding between the industry and the Commission and its staff, coupled with certain management improvements, has led to a significant shortening of time within which section 15 agreements are being processed. For example, an agreement filed in 1964 and approved in the same year took an average of 107.4 days to process to conclusion; in 1965 that average time was reduced to 75.3 days. These figures include all types of agreements among carriers engaged in our foreign commerce, from the most complex to the simplest. This saving in processing time is reflected in the current agreement workload. On January 31, 1965, there were on hand 119 agreements. During the period February 1, 1965, through January 31, 1966, 199 new agreements were received and 265 disposed of, leaving at the end of that period 53 agreements pending. This is the lowest pending figure we have had since the Commission was established. Since it must be recognized that there will always be a number of agreements pending because of public notice and other established procedures involved in processing, I believe that we have achieved as close to optimum currency in this element of our work as may reasonably be expected. I believe that both the industry and the shipping public have been benefited by this improvement.

## SMALL CLAIMS PROCEDURE

A proposed procedure would provide an inexpensive and expeditious forum for the adjudication of claims of \$1,000.00 or less. It will permit the claimant and the carrier to agree in writing to binding adjudication of the matter by a Hearing Examiner of the Commission on the basis of a documentary record. Both sides are given the opportunity to submit affidavits, correspondence, bills of lading, records, and other documents which support the claim or defend against the claim, as the case may be. The parties may also submit a memorandum or brief containing arguments and legal authorities in support of their respective positions. On the basis of this record, the matter will be conclusively adjudicated by the Hearing Examiner.

Should the carrier or carriers against which the claim is filed elect not to consent to this kind of procedure, the claim would then automatically be considered as a formal claim and be handled under the second part of the rule. This part provides for a very streamlined procedure, again under the direction of a Hearing Examiner. He may, in his discretion, order a hearing, but it is intended that the matter be disposed of, if at all possible, on the basis of the written record produced by the parties. In order to prevent the matter from being enlarged to defeat the purposes of the rule, interventions would ordinarily not be permitted. Under this portion of the rule the decision of the Hearing Examiner would be final unless either party, within 5 days, requests review by the Commission or unless, within 15 days, the Commission exercises its discretionary right to review the decision.

This procedure should prove beneficial to both shippers and carriers because it could dispose of small vexing claims in a very short time without the great expense usually attendant in more formalized proceedings.

## CONTAINERIZATION

Containerization is today one of the most significant and rapidly developing facets of the Marine transportation industry. While it is true that for some number of years containerized cargo has moved in our foreign trade, its volume has been relatively insignificant. Now, we appear to be on the threshold of a new impetus in the containerization field which projects a technological revolution in ocean transportation.

It may be years before the impact of this relatively new and developing concept of moving cargoes in our foreign commerce is fully realized. However, the first manifestation of this development has already appeared in our European and Japanese trades.

While we believe that it is too early to predict the ultimate affect of containerization on ocean shipping, the Commission is keenly aware of its extensive significance and importance to our foreign trade. We recognize that containerization will require a re-examination and re-assessment of our governing statutes, the rules and transportation principals enunciated thereunder, as well as our body of case law, all formulated in light of conventional, break-bulk services.

Our transatlantic trade with Europe, one of the most important in terms of tonnage commitments and type, volume and value of cargo transported, is presently making the most significant progress in developing the container concept of ocean movement. One major United States-flag carrier has just recently inaugurated an integrated container service in the trade. An appreciable number of lines have announced similar plans to be implemented as soon as facilities can be obtained. This means that within the next few years significant numbers of containership, high-speed vessels will be added to the United States-Europe trade. In our Far East trade, particularly with respect to Japan, major ocean carriers are taking definitive steps to meet the demand for this relatively new type of ocean transport service.

The advent of containerization brings to our foreign maritime commerce a number of benefits and advantages both to the carriers and the shippers. Insofar as the carriers are concerned, it means less cargo handling with resultant economies—cargo handling generally being a considerable percentage of the total cost of the ocean service. It enables the carrier to provide a much faster turn-around service. This too is an economy to the carrier, saving the time which a vessel consumes in delivering its cargo to the port of destination. Further economies are in the fact that cargo moving in containers are more adequately protected, diminishing claims because of loss, damage and pilferage.

The benefits accruing to shippers directly from a containerized service are that the containers can be placed at inland points, literally at the shipper's

doorstep, and the goods moved through to the door of the ultimate receiver even though it too might be inland, without the inconvenience and expense of loading and reloading cargo at ports requiring intermodal transfer. Because of the protection containerization affords to cargo, the shipper frequently obtains a saving since he is not required to package his goods for export purposes. The fact that loss, damage and pilferage claims are diminished is also of material benefit to the shipper.

At the present time containerization in our foreign trade is evolving from its embryo stage. Hence, it is somewhat premature to predict with absolute certainty the ultimate affect it will have upon the cost of moving goods therein. In view of the fact that there are positive economic advantages to the carriers, it is reasonable to presume that at least a part of these benefits will eventually be passed on to the shipper. It is our hope that such benefits will prove to be a much-needed stimulant to our foreign commerce. It must be recognized that ocean carriers converting to containership operations are faced with considerable expense in obtaining specialized vessels as well as the containers themselves. Therefore, it can be expected that some of the economic savings to the carriers will be ear-marked to off-set these capitalization expenditures.

However, I want to emphasize the fact that we cannot at this stage predict with a degree of absolute certainty the total and ultimate affect which containerization will have on the business of moving goods in our oceanborne commerce. In any event, the Commission is determined to play its regulatory role by keeping alert to these radical and revolutionary changes and insuring that governmental policies and requirements are consistent with the changing needs and technological advances of those engaged in the foreign commerce of these United States.

#### REFERRALS TO THE DEPARTMENT OF JUSTICE

Since May 1, 1965, the Commission has referred to the Department of Justice for consideration 30 cases involving violation of the Shipping Act, 1916, the Intercoastal Shipping Act, 1933, and orders of the Commission (not including applications for injunctions and enforcement of subpoenas duces tecum). Summary of the various referrals is set forth below:

(1) Twelve cases involved common carriers by water in the foreign commerce charging ocean freight rates other than those on file with the Commission, absorbing cargo charges, and underrating cargo in violation of Sections 16, 17 and 18(b), of the Shipping Act, 1916;

(2) One referral involved collections of penalties for failure to comply with sec. 21 order of the Commission;

(3) Six cases related to violation of Sections 15, 16 or 18(b) of the Shipping Act, 1916, or Section 2, Intercoastal Shipping Act, 1933, by common carriers by water in the domestic offshore commerce of the United States;

(4) One case related to violation of Section 15 of the Shipping Act, 1916, by conferences of common carriers in United States foreign commerce;

(5) One case related to information arising out of the Commission's Docket 1106 in which it was alleged that actions of American-flag lines had the effect of driving another American flag line out of a foreign-to-foreign trade;

(6) Six cases involved violation of the Commission's rules and the shipping statutes applicable to ocean freight forwarders;

(7) One case involved violation of the Commission's General Orders 7 and 9 promulgated and adopted pursuant to Section 15 of the Act. General Order 7 relates to self-policing systems, and General Order 9 relates to admission, withdrawal and expulsion provisions of the steamship conference agreements; and

(8) Two cases involved misclassification of commodities to obtain transportation at less than applicable charges in violation of first paragraph of Section 16, Shipping Act, 1916.



## EXHIBIT E

ACTIONS TAKEN BY THE FEDERAL MARITIME COMMISSION, SUBSEQUENT TO MAY 1965 AS THEY RELATE TO THE SPECIFIC RECOMMENDATIONS MADE BY THE JOINT ECONOMIC COMMITTEE IN ITS REPORT ISSUED IN DECEMBER 1964

*Recommendation No. 1. The Federal Maritime Commission should continue its investigations of ocean freight rate disparities, and should utilize its full statutory powers to remove discriminations against American exporters.*

As mentioned in the May, 1965 hearings, the Commission's District Managers and Field Investigators have been directed to increase their efforts, through contacts with conferences, carriers, shippers, freight forwarders and manufacturing firms, to report on rate problems. Additionally, the Commission's staff in Washington has been making greater use of the field staff and facilities to assist in resolving rate differences. Thus, in appropriate instances where complaints are received in Washington, the District Manager or a field investigator is instructed to call upon the complainant to obtain additional information which may be needed by the conference or carrier to arrive at a fair and reasonable rate. Our district offices are also instrumental in informing such shippers concerning (1) conference rate-making and the types of information needed by the conferences and carriers to intelligently consider their requests and (2) the limits of the Commission's jurisdiction in regulatory matters.

The subject of the Commission's activities with respect to interagency meetings on freight rates is fully set forth in my testimony.

At the present time the following formal proceedings involving the question of rates which may be so unreasonably high or low as to be detrimental to the commerce of the United States are pending before the Commission:

1. Docket 66-27, involves the two-level rate structure established by the Persian Gulf Outward Freight Conference wherein higher rates are assessed certain cargoes moving in American-flag vessels as opposed to movement in foreign-flag vessels. This subject is fully outlined in my testimony.

2. Docket 65-13, involves investigation of the rates and practices of the members of the three American-flag Berth Operator groups in connection with the movement of military cargoes in our foreign trade. The status of this proceeding has been outlined in my testimony.

3. Docket 65-45, investigating disparate rate structures maintained by the conferences serving the United States North Atlantic/United Kingdom trade. The status of this proceeding is set forth in my testimony.

4. Docket 65-7, for the purpose of investigating surcharges established by certain Latin American Freight Conferences. This proceeding is presently pending Commission decision.

An additional formal proceeding ordered by the Commission wherein the question of unreasonably high or low rates was at issue and not elsewhere covered in my testimony, is the complaint of the General Service Administration against American Export Lines with respect to the rate on Crude Natural Rubber, in bales, from New York to Turkey and Morocco. This proceeding was covered by Docket No. 1157 and decided by the Commission on August 31, 1964. The Commission found that respondent's rate on Crude Natural Rubber was not shown to be so unreasonably high as to be detrimental to the commerce of the United States, nor unjustly discriminatory or unduly prejudicial. The record failed to show the rate to be improperly fixed by the carrier, and actually showed that the rate compared favorably with corresponding rates in other trades. The record moreover failed to establish that the complainant had been hindered in marketing Natural Rubber by reason of the rate.

*Recommendation 2. The Federal Maritime Commission should continue to investigate third market discrimination, despite difficulties in obtaining accurate comparative rate information.*

In the hearing before the committee in May, 1965, reference was made to actions taken by the Commission to institute formal proceedings under Section 17, to investigate certain third Market Rate Discriminations.

The investigation in the Iron & Steel Case, Docket 1114, was covered in some detail in my statement. As to the other Section 17 investigations, the history and current status of each is briefly outlined hereinafter.

### *Fertilizers*

*Docket No. 1098—International Commodities Corporation v. River Plate and Brazil Conferences et al.* This proceeding was initiated March 26, 1963, on formal complaint by International Commodities Corporation against the above-named conference, Lloyd Brasileiro, Delta Lines, et al.

The complaint in this proceeding alleged that the complainant is an exporter of bulk fertilizers to Brazil from the United States; that respondents violated sections 14, 15, 16 and 17 of the Shipping Act, 1916, by conspiring to maintain transportation rates on fertilizers from European ports to Brazil at a lower rate than from United States East and Gulf ports and by indulging in certain other practices in granting releases under a 1959 Brazilian Government regulation—all causing loss of business to the complainant to the extent of about \$300,000.00. By stipulation dated March 9, 1965, it was agreed by all the parties that the proceeding be dismissed. The record was then studied by the staff to determine whether the Commission should institute formal investigation of the matters involved on its own motion. No evidence of the alleged violations was shown in the record, in the proceeding and the complainant was unable to provide the Commission with such evidence. The Commission considered the stipulation of the parties and dismissed the proceeding by order served on June 29, 1965.

### *Boilers*

*Docket No. 1171—Investigation of Outbound Rates on High Pressure Boilers, Parts and Related Structural Components.* Based on information furnished by the American Boiler Manufacturers Association, it appeared that outbound rates from United States Atlantic ports to Japan on the foregoing items were substantially higher than the inbound rates from Japan on the same items. This information also indicated that rates on these items from the United States to Brazil, Argentina, the Philippines, India and Pakistan were substantially higher than rates to the same destinations from European points of shipment. Accordingly, the Commission on March 12, 1964, ordered a formal investigation to determine whether in these circumstances the rates from the United States were impeding the exportation of these items to the prejudice of American exporters and to the detriment of the United States commerce and whether the maintenance of these rates might otherwise be in violation of sections 17 and 18, and as to the conferences, section 15. Respondents named were the Far East Conference, the River Plate and Brazil Conference, The India, Pakistan, Ceylon and Burma Outward Freight Conference and all the members of said conferences. Hearings were completed and the examiner's decision was served June 29, 1965. Oral argument was held October 7, 1965, and the matter is awaiting decision by the Commission.

### *Manila surcharge*

*Docket 1155—Investigation of Imposition of Surcharge on Cargo to Manila, Republic of Philippines,* instituted on October 23, 1963. The Commission instituted this investigation on its own motion to determine the lawfulness of surcharges on cargo moving from ports in the United States to Manila, Republic of the Philippines, under sections 15, 16, 17 and 18(b)(5) of the Shipping Act, 1916.

Respondents were Pacific Westbound Conference, Far East Conference, Hawaii Orient Rate Agreement, Pacific Star Line, Compagnie Maritime des Chargeurs Reunis, and Pacific Navigation System, Inc.

The Commission found that with the exception of newsprint out of Searsport, Maine, surcharges imposed by the respondents on cargo from the United States to Manila were not in violation of the Shipping Act, 1916. It was also found that respondents Maersk Line and Pacific Star Line, by imposing a surcharge on newsprint at Searsport, Maine, while they did not apply a surcharge at St. John, New Brunswick, Canada, have demanded, charged and collected a charge which was unjustly discriminatory between shippers and ports and unjustly prejudicial to exporters of the United States as compared with their foreign competitors contrary to section 17 of the Shipping Act, 1916. On February 3, 1965, the Commission ordered elimination of this prejudice and discrimination.

Pacific Star had cancelled the objectionable surcharge prior to the issuance of the Commission's order. Maersk Line, a member of the Far East Conference, could not obtain exemption from the conference requirement to assess the surcharge.

The Commission moved to have its order enforced by the court, but the court declined. The Commission again pursued the matter by issuing an order to

the Far East Conference under its Docket 65-29, served August 11, 1965, to show cause why Searsport should not be removed from the trading range of the conference agreement.

The Commission directed the Conference to open its rate on newsprint to Manila on November 5, 1965. The Conference appealed this order to the United States Court of Appeals and obtained an injunction staying the order pending the court's decision. The matter has been briefed and argued orally on April 29, 1966, and is now pending the Court's decision.

#### *Chittagong surcharges*

*Docket No. 1176—The Government of Pakistan v. The India, Pakistan, Ceylon & Burma Outward Freight Conference et al.* In a formal complaint dated March 27, 1964, the Government of Pakistan alleged, among other things, that the imposition of surcharges of 30% effective April 3, 1964 and 40% effective July 2, 1964, as scheduled by the above-named conference (and similar surcharges by two independent carriers) (1) are unfair as between ports, (2) are unjustly discriminatory or unfair between exporters from the United States and their foreign competitors, (3) and operate to the detriment of the commerce of the United States, and are therefore in violation of sections 15, 17 and/or 18(b)(5) of the Shipping Act, 1916, as amended. Hearings were concluded on May 21, 1964, and the initial decision of the Presiding Examiner was served September 2, 1964. After the hearings the Conference and one of the respondent independent lines reduced their respective surcharges to 15% effective in July, 1964. (The other respondent independent line cancelled all voyages as of July 2, 1964, and asked to be dismissed as respondent). The question whether the 30% or 40% surcharge should be disapproved became moot as to the Conference and the respondent independent line serving the trade. The 15% surcharge of the Conference and the operating independent line was suspended in November, 1964 for a period extending to March 1, 1965; then to April 30, 1965. On March 29, 1965, the surcharge was deleted altogether. Oral argument before the Commission scheduled for December 14, 1964, was postponed to January 18, 1965, and further postponed indefinitely at the request of the complainant. Thereafter on July 22, 1965, the Commission served notice of proposed dismissal of the proceeding on the grounds that the surcharges which were the subject of the proceeding were no longer in effect. By order dated September 16, 1965, the Commission dismissed the complaint.

*Recommendation 3. The Federal Maritime Commission should not approve an anticompetitive agreement, conference, or pool, without determining voting procedures and the extent of bloc voting by members of such agreements.*

#### *Bloc voting*

In testimony before the Joint Economic Committee on May 27, 1965, it was pointed out that the Commission's decision in Docket 873 had prescribed a procedure applicable to *passenger* conferences by which such conferences were required to take and record the votes of the members, keep detailed minutes of all matters coming before meetings, retain records of meetings for a reasonable period of time and provide copies of the minutes to the Commission. Pursuant to the Commission's decision, the Atlantic Passenger Steamship Conference and the Trans-Atlantic Passenger Steamship Conference, both of which were respondents in Docket 873, filed with the Commission amendments to the respective conference agreements, which specifically provide that the record of proceedings of all meetings concerned with travel agency matters in the United States, whether formal or otherwise, and the votes of the member lines or their representatives be subscribed to and certified by the Chairman-Secretary and promptly furnished to the Federal Maritime Commission. Examination of minutes filed subsequent to these amendments fails to disclose any evidence of bloc voting. In fact, all matters to date have been resolved by unanimous action of all members. Minutes reflecting other than unanimous voting on matters considered by the conference members will be closely followed to ascertain whether any voting pattern appears to be directed against American interests or whether the actions might otherwise be detrimental to the commerce of the U.S., contrary to the public interest or otherwise in violation of the Act.

I further testified that very few minutes filed with the Commission provide any detailed information with respect to matters considered or the position

taken by individual members on such matters and, therefore, the Commission had published proposed rules, Docket No. 1194, which would require all parties to approved section 15 agreements to file minutes of the meetings of authorized action taken by said parties, whether formal or informal and whether by committees, owners, etc., and that such minutes fully disclose the vote of each party on each matter considered.

After due consideration of all comments received in response to the proposed rule, including comments filed by conferences, shippers, port associations, the Department of State and foreign governments,<sup>2</sup> the Commission on January 29, 1966, published its final rule, General Order 18, to become effective May 2, 1966. The State Department, on April 23rd, requested that the effective date be extended for 60 days beyond the May 2 date. This request was considered and the date for compliance extended to July 1.

Notwithstanding that many parties expressed the view that minute filing requirements should be imposed only on conference agreements, the General Order makes it clear that the rules apply not only to conference agreements but also to any agreement which provides for the fixing of rates since this activity is the chief reason for the existence of conferences and rate-making groups. The order, therefore, provides that minutes will be required of all (1) conference agreements, (2) agreements between or among conferences, and (3) agreements whereby the parties are authorized to fix rates (except leases, licenses, assignments or other agreements of similar character for the use of marine terminal property or facilities). The rule requires that such agreements expressly include a provision describing the manner in which the authorized business of the parties to the agreement may be carried out, and that the voting requirements be explicitly stated therein.

In view of the Department of State's concern over the proposed rules, the initial requirement that the votes of the individual parties to agreements be revealed disclosing the position taken on each individual matter considered at meetings, it was determined that the Commission would not require a disclosure of the individual votes of the parties to the agreement at this time.

Since the reports (minutes) filed with the Commission are required to describe all matters within the scope of the agreement which are discussed or taken up at any meeting, and to specify action taken with respect to each such matter, we believe that a review of these reports should provide a basis for the Commission not only to maintain adequate surveillance over the activities of the parties but also to determine whether any bloc voting appears to be taking place. In the latter event, since the records will be maintained as required by General Order 18, they will be available and accessible to the Commission's investigators in those instances where further investigation beyond the filed minutes appears to be warranted.

In the conduct of Fact Finding Investigation No. 6, the minutes of conferences in the outbound trade from U.S. Gulf ports to Mediterranean areas and the River Plate Brazil Conference, were reviewed in an effort to ascertain whether any bloc voting had occurred in those conferences. Additionally, representatives of several steamship carriers, members of the respective conferences, including Mr. Alec Cocke, Vice President of Lykes Bros. Steamship Company, and the Chairman of the respective conferences testified concerning the voting procedures and patterns of those conferences. Information elicited did not indicate that any bloc voting has occurred in those two areas.

Furthermore, it was ascertained that in a number of cases involving so-called 48-hour agreements; that is, a rate-fixing agreement which permits a dissenting member to establish his own rate in instances where he disagrees with the rate agreed to by the other party(s), no bloc voting had occurred, this being evidenced by the fact that no American-flag line or other party to such agreement had exercised the 48-hour prerogative.

Except in one or two instances, the 48-hour rate agreements do not provide for the filing of minutes with the Commission and as to such agreement, therefore, the Commission has not had available to it any official data concerning the activities of parties to this type of arrangement. As already noted, General Order 18 applies to all "rate-making" agreements. Accordingly, the Commis-

<sup>2</sup> The Embassy of France in the United States submitted comments in behalf of the governments of Belgium, Denmark, France, Greece, Italy, Japan, Norway, Netherlands, Federal Republic of Germany, United Kingdom, and Sweden. None of these Governments participated in the oral argument which was provided by the Commission on October 20, 1965.

sion will now have available, effective from July 1, 1966, certified minutes regarding the actions taken by members of the so-called "48-hour" agreements as well as certified records with respect to the activities of members of conference agreements.

The minutes furnished by the conferences and other rate-fixing agreements will be carefully reviewed with respect to *all* actions taken, including those related to the fixing of rates in order to ascertain whether any special circumstances exist or whether actions taken seem to follow any set pattern which would suggest that further investigation is in order. In such instances, full use will be made of our field investigators to examine the records which are required to be maintained under General Order 18 disclosing the votes of the individual parties to agreements on each matter considered. Should these reviews indicate the existence of any bloc voting, further steps will be initiated as required, including, if necessary, a formal proceeding looking toward termination of an agreement where it appears that parties are carrying out their concerted activities in such a manner as to be detrimental to the commerce of the United States, contrary to the public interest, or otherwise in violation of the statute.

Agreements which do not conform with General Order 18 must be modified by July 1, 1966, to include all provisions specified in the General Order. All new agreements subject to General Order 18 are required to contain the provisions set forth therein before the Commission will approve them under section 15. Accordingly, from July 1, 1966, the Commission will be aware of the voting procedures of all existing agreements and will also be aware of such procedures prior to approval of any new agreements filed for approval under section 15 of the Shipping Act.

#### *The Commission's investigation of the Mediterranean pools*

The Commission's decision in Docket 1212, Mediterranean Pools Investigation, provides significant guidelines for those carriers engaged in our foreign commerce which seek an antitrust exemption for their concerted activities.

In stating the "ground rules" to apply in considering agreements filed for approval under section 15, the Commission said:

"Of prime importance at the outset is the clear recognition that section 15 represents a departure from our national policy—the promotion of competition and the fostering of market rivalry as a means of insuring economic freedom. \* \* \* The policy is one against 'undue limitations on competitive conditions,' \* \* \* and is embodied in the Antitrust Laws, 15 U.S.C. sections 1 *et seq.* Agreements approved under section 15 of the Shipping Act are exempted from the provisions of the antitrust laws. This exemption was granted by Congress with clear recognition of the public interest in the promotion of free and open competition, and it was granted only after an intensive investigation by a Congressional committee revealed that anticompetitive combination in the steamship industry was a lesser evil than the destructive rate wars which seem inevitably to result absent some anticompetitive agreement between the contending lines.

"Thus, Congress legalized agreements otherwise in violation of the antitrust laws primarily because it thought even stronger monopolies would result were such agreements completely prohibited, but in doing so it accepted the Committee's condition that the anticompetitive combinations be subjected to 'effective government control with power in the agency administering the law' to disapprove or cancel agreements which are 'detrimental to commerce of the United States or contrary to the public interest.' We think it now beyond dispute that 'the public interest' within the meaning of section 15 includes the national policy embodied in the antitrust laws."

The basic Commission philosophy regarding approval of agreements, including the kind of showing which must be made by the parties seeking approval, is stated as follows:

"Thus, the question of approval under section 15 requires (1) consideration of the public interest in the preservation of the competitive philosophy embodied in the antitrust laws insofar as consistent with the regulatory purpose of the Shipping Act and (2) a consideration of the circumstances and conditions existing in the particular trade involved which the anticompetitive agreement seeks to remedy or prevent.

"The weighing of these two factors determines whether the agreement is to be approved. The essential ingredient in this process is, of course, information or data for without it no intelligent judgment as to the probable future impact

of the particular agreement upon our commerce would be possible. Almost uniformly, the kind of information necessary to this judgment is in the hands of those seeking approval of the agreement and the resultant exemption of the proposed anticompetitive combination from the operation of the antitrust laws; and it is incumbent upon those in possession of such information to come forward with it. \* \* \* Presumptively all anticompetitive combinations run counter to the public interest in free and open competition and it is incumbent upon those who seek exemption of anticompetitive combinations under section 15 to demonstrate that the combination seeks to eliminate or remedy conditions which preclude or hinder the achievement of the regulatory purposes of the Shipping Act."

Consideration must also be given to the Commission's statement regarding the *Swedish American Case* which held that before the Commission could disapprove an agreement it "must find as a fact that the agreement operates in one of the four ways set out by Congress" in section 15. The Commission said:

"But this cannot mean that in passing on future agreements we must 'find as a fact' that the agreement 'really will operate' to the detriment of our commerce or really will be contrary to the public interest. Such a finding is without the realm of the possible. The most that can be done in such cases is to draw upon past experience and expertise and make a reasoned judgment, or perhaps prediction is a better word, as to the probable future impact of the agreement."

The Commission concludes this aspect of the case by saying:

"\* \* \* a section 15 agreement is not a 'sacrosanct private arrangement' with which only the parties thereto have rights. It is rather 'a public contract impressed with the public interest and permitted to exist only so long as it serves that interest.'"

In deciding that section 15 prohibits retroactive approval, the Commission stated:

"Section 15 actually renders unapproved agreements unlawful in two situations. First, section 15 requires that agreements when reached must be 'immediately' filed with the Commission. Thus, an agreement which is made but not filed for approval is unlawful even though no action is taken by the parties under it. \* \* \* where as here an agreement has been filed and is pending approval it is only unlawful for the parties to carry out the agreement, the agreement itself is not unlawful.

"Section 15 does not distinguish in any way between conduct under an agreement which is beneficial to commerce and conduct which is detrimental to commerce—it prohibits all conduct prior to approval of an agreement. \* \* \* The granting of an exemption from the antitrust laws on condition that the anticompetitive combinations be brought under government control could not contemplate an *ex post facto* control which from the standpoint of effectiveness is no control at all. \* \* \* we conclude that section 15 clearly prohibits approval of an agreement or any modification or extension thereof which bears an effective date earlier than the date of our approval."

The Commission approved the agreements involved in this case but it did so: "Because of the circumstances present here we will approve the agreements bearing their earlier effective dates, but we wish to stress that future agreements filed with the Commission will not receive such approval."

This important decision gives the industry the views of the Commission in unmistakable language and provides the staff with firm policy guidance in their consideration of section 15 agreements filed with the Commission for approval.

*Recommendation 4. The Federal Maritime Commission should maintain strict surveillance over the conference system in order to protect American commerce from discrimination. If the conference system cannot withstand public scrutiny, it is not entitled to antitrust immunity and should be discontinued.*

The May 27, 1965, hearings before the Sub-committee under this recommendation, referred to the tools and powers which the Commission must use in its effort to obtain the needed information about conference activity to enable the Commission to maintain adequate surveillance over such activity and outlined the steps being taken or proposed. The present posture of each of these items is as hereinafter outlined.

#### *Institution of a system of electronic data processing of freight rates*

Numerous rate studies, analyses, comparisons, etc., have been undertaken by the staff in the past and much additional work is contemplated in these areas in the future. A tremendous amount of time has been spent on tariff examination

retrieving rates manually. Rates are the basis for almost every complaint received by the Commission. With over 3,000,000 rates on file and the thousands of changes made every year thereto it is extremely difficult and time consuming through manual process to retrieve great data. It is, therefore, logical to expect that the Commission will exert its efforts toward the institution of a system which will permit expeditious assembling of rate data. The results of the feasibility study and tests conducted by the General Services Administration clearly indicate the value of a program for electronically processing tariff data pertaining to rates in our oceanborne foreign commerce. Standardization, unification, and simplification of tariffs under General Order 13 has enabled the staff to transpose tariff data into machine language in a minimum of time. The machine system will eliminate current manual procedures which are both slow and costly. Specific examples of the type of review and analysis to be accomplished by data processing equipment are:

1. Percentage of rate increase or decrease.
2. Disparities in inbound and outbond rates.
3. Current level of rates on a given commodity in any given trade or trades.
4. Comparison of rates by trade areas.
5. Variances in rates between United States ports.
6. Departure from any legally established spread between contract and non-contract rates.
7. Conversion of a rate basis in one trade to the rate basis of another. For example, conversion of \$50 per 1,000 kilos in terms of dollars per ton.
8. Conversion of stowage factors in order that rates in reciprocal trades may be analyzed. For example—shoe laces, \$50 per ton of 2,240 lbs. vs. a rate on shoe laces of \$10 per measurement ton (40 cubic feet).

Comparisons, correlations, analyses, etc., may be made almost as rapidly as tariffs, rates and changes are filed. The possibility of errors occurring will be reduced to a bare minimum. Under the current manual system the chance of error is high, almost solely because of the sheer volume of rates on file. The institution of an electronic data processing system will release untold hours to examiners thus enabling them to handle additional case work. Without such a system productivity will be at a minimum or marginal. The Commission desires to correct any impediment to the flow of our foreign commerce arising as a result of rate discrimination, unreasonably high or low rates or other rate situations. To achieve its goal the Commission has geared itself to the institution of an electric data processing system of freight rates. Such a system will bring about maximum efficiency on the part of the staff, better control where compliance is sought and required, and enable the Commission to carry out its obligations consistent with and specifically provided for in the shipping statutes.

Pursuant to the results of the General Services Administration feasibility study a pilot program is now underway providing for the coding of tariffs of conferences and carriers operating between certain United States Atlantic, Gulf and Great Lakes ports and those of the United Kingdom as well as selected ports of continental Europe. The rates in these tariffs, while significant to the pilot program, represent a small percentage of the more than 3,000,000 rates currently on file with the Commission, many of which are subject to change each year. The staff is also designing and developing specific ADP programs for the creation and maintenance of a data bank and special reporting routines to provide examiners with an effective management tool useful in rate determination and in policing the various rate requirements of the shipping statutes. More significantly, it is anticipated that the program will provide the Commission's staff with a substantive analysis of rate conditions prevailing in the foreign trades.

In Fiscal Year 1967, it is planned to complete the coding of selected tariffs between United States and additional European ports including the Mediterranean and Baltic Sea ports. The tariff data bank developed during the current year will be expanded and fully utilized in the examination of rate changes and rate level studies.

#### *Rule on shippers' requests and complaints*

The rule on shippers' requests and complaints is covered in my statement.

#### *Self-policing reports.*

As I reported last year, our General Order No. 7 requires all rate-fixing groups that operate under approved agreements to file with the Commission reports of all actions taken under the self-policing provisions of their agreements. With

the exception of a few inbound conferences, all such reports are being submitted as required. In most instances the reports are negative because action against agreement violators has not been required. In those few instances in which the reports indicate an action against a member line we have been fully apprised of the particulars of the matter and the results of the group's handling of the situation. I believe, on the basis of the information disclosed under this reporting requirement, that the self-policing of agreements is being handled satisfactorily by the groups and that our interference in this area can be kept at an absolute minimum.

We are having some difficulty in obtaining compliance with General Order No. 7 from a few inbound conferences domiciled abroad. The old jurisdictional argument is the basis for this lack of compliance. We have recently instituted a number of formal proceedings under which the agreement of such groups could be disapproved for continued refusal to comply with the General Order. These matters are now pending.

#### *Minutes review*

As already noted under the subject of Bloc Voting—Recommendation 3, the Commission has now issued its final rule requiring conferences and other rate-making groups to file minutes with the Commission and to incorporate appropriate provisions in the agreements outlining in full the reporting requirements.

#### *Semi-annual reports of approved pools*

In my last appearance before the Committee I reported that semiannual reports on the results of pool operations must now be submitted to the Commission as a condition of approval. These reports are being reviewed to ensure that the pools are actually operating in accordance with the approved agreements.

*Recommendation 5. The Commission's new regulatory actions, including its investigations of freight rates, conference ratemaking, neutral bodies, pooling agreements, surcharges, and its more positive attitude toward regulation, should be continued.*

#### *Discriminatory freight rates on government cargo*

The present position of the Commission's efforts to eliminate discriminatory freight rates on Government Cargo and the status of the hearing involving rates on Government Cargo is set forth in my statement.

#### *Surcharges*

In my testimony before this Committee last May, I reported on the Commission's past concern regarding the inclination of Conferences and Carriers to assess surcharges over and above basic rates for the purpose of off-setting alleged congestion and vessel detention conditions at certain ports. Since that time the Commission has continued to exercise surveillance over surcharges in order to make certain that they are warranted by existing circumstances and that they are not assessed at a level which would impeded the flow of goods in our foreign trade. A record level of the Commission's most significant activities since May, 1965 with respect to surcharges is shown below:

*Vietnam.*—A comprehensive report of the Commission's efforts in concert with other interested Federal Agencies is set forth in my statement. I might here add that subsequent to the reduction of \$2.00 per ton effected in the War Risk Compensation Charge by the Conferences serving Vietnam, the Commission contacted the various independent carriers operating in that trade and assessing the higher charge, requesting that they give serious consideration to a similar reduction. As a result, most of the independent carriers reduced their charge to the \$5.00 per ton level, commensurate with the reduction previously established by the conferences.

*Piraeus, Greece and Alexandria, Egypt.*—Early in 1966, certain conferences serving these ports announced surcharges to take effect in March 1966 on all cargoes destined thereto. The surcharge at Piraeus was proposed at a 20% level and the Alexandria at a 15% level. However, based upon the fact that alleged congestion at these ports showed marked improvement, the surcharges were either cancelled or suspended prior to becoming effective. To date there has been no further activities on the part of the lines to establish a surcharge at Alexandria. However, with respect to Piraeus the conferences and carriers recently revised their tariffs to place into effect a surcharge of 20% in most instances. Immediately following the filing of the Piraeus surcharge, the Com-



mission contacted the conferences and carriers in an effort to determine whether existing conditions would justify the additional charge and if so what is being done to alleviate such conditions. The conferences indicated that this surcharge is subject to reconsideration in the light of actual conditions at the port which are subject to change. It is hoped that some appropriate remedy to the problem may shortly be found. However, the Commission will not hesitate to exercise its full statutory authority should it obtain information that the surcharge is contrary to our statutes and/or inhibiting the movement of our goods to Piraeus.

*Manila, P.I.*—One facet of the problem of a surcharge port of Manila has already been covered in my testimony. However, recently the various conferences and independent lines serving the port and maintaining a surcharge of \$5.00 per ton revised their tariffs proposing to increase such charge to \$10.00, effective June 1, 1966. The Commission promptly obtained information to indicate that conditions at the port of Manila had considerably improved. We, therefore, contracted the lines providing them with such information and suggesting that they reconsider their intended increase. While this matter has not yet been wholly resolved, I am pleased to report that the conferences and independent carriers have now deferred their intended increase until September 1, 1966 and have indicated to us that they will not raise the surcharge if presently improved port conditions continue. Again, the Commission will carefully watch this situation to insure the welfare of the movement of our goods to this port.

*Colombo.*—Alleging severe congestion conditions, The India, Pakistan, Ceylon and Burma Outward Freight Conference and certain independent lines established a surcharge of 50% on all cargoes destined to that port. The Commission took serious concern in this matter, particularly with respect to the high percentage of the surcharge level. In contacting other Federal Agencies concerned with the movement of goods to Ceylon, the Department of State through its embassy in Colombo expressed concern over the surcharge providing us with statistical data to indicate that port conditions were such that the level of the surcharge would be unwarranted. The Commission immediately notified the conference that it was in possession of such data and raised serious question concerning the propriety of the surcharge. Further, a representative of the Ceylon Embassy here in Washington was in direct negotiation with the conference in this matter. In July, 1965, the conference reduced its surcharge to 30% and certain independent carriers took similar action. Both the conference and the carriers finally cancelled their surcharge at this port in November, 1965.

*Bombay.*—In September, 1965, The India, Pakistan, Ceylon and Burma Outward Freight Conference, together with certain independent lines, established a surcharge of 25% on all cargoes consigned to that port. The Commission promptly informed the conference of its serious concern in this matter and requested that it provide us with detailed information to indicate that the surcharge is warranted. Shortly thereafter, the conference postponed the effective date of this proposed surcharge to January 1, 1966. Prior to this date, the surcharge was completely cancelled without ever taking effect.

*Jidda, Saudi Arabia.*—In March, 1965, certain carriers established a surcharge of 30% on cargoes from United States Eastern ports to Jidda. There is no conference operating in this trade. The Commission requested from appropriate sources a report on conditions at this port. At the time we received the necessary facts some of the lines voluntarily cancelled the surcharge which was in effect a relatively short period. The Commission promptly contacted the remaining lines which continued to maintain the surcharge and as a result all voluntarily cancelled same.

*Recommendation 6. More adequate information should be developed regarding pools and other anticompetitive agreements, the cost and profitability of shipping companies, and the principles the steamship companies have used in setting freight rates. Consideration should be given to an international conference to explore methods of developing such basic information.*

We do not believe that any steps should be taken at this time looking towards an international conference to explore methods of developing basic information concerning the fixing of rates in international trade. At the end of the executive session held Thursday, May 27, 1965, by the Subcommittee on Federal Procurement and Regulation of the Joint Economic Committee, the Chairman of this committee indicated that he was in favor of delaying any efforts to establish an international conference, since as he expressed it, "once in cartels, it is hard to get out." We agree with that view.

As discussed in the statement, negotiations between the Federal Maritime Commission and the State Department on behalf of the United States and 14 foreign governments, there has been made available to the Commission information not heretofore obtainable. It is hoped that as discussions with the various foreign governments concerned progress, we will be successful in arranging for a continuing exchange of the type of information needed to evaluate the freight rate structures in the applicable foreign trades. Additionally, we are hopeful that the final report in Fact Finding Investigation No. 6 will produce much additional information with respect to the functions of conferences and other anticompetitive agreements affecting our foreign commerce. The status of that investigation is as follows:

*Status report of factfinding investigation No. 6*

This proceeding was instituted by Commission Order of October 22, 1963, as a non-adjudicatory factfinding investigation, a comprehensive factual study for the Commission's guidance in establishing basic policies, including legislative recommendations.

The Celler Committee report, House Report No. 1419, 87th Congress, Second Session, recommended such an investigation as did Secretary of Commerce Hodges, as reported to the Joint Economic Committee, in his letter dated July 12, 1963. It is the first overall comprehensive study of the Conference system and its effect on United States commerce by the Commission or its predecessor agencies. It embraces numerous questions raised before the Joint Economic Committee, the Celler Committee and the Bonner Committee.

The staff in charge of the investigation, using as a basis various questions raised in testimony before the Joint Economic Committee, the Celler Committee and the Bonner Committee, has prepared a comprehensive outline of the subsidiary areas of investigation. Since shortly after the institution of the investigation the Commission staff has been engaged in screening and assembling material already available to the Commission on these various questions. In addition, lists of several hundred shippers were obtained from the Department of Commerce and those shippers who expressed an interest on the basis of correspondence were interviewed for the purpose of developing a slate of witnesses. Basic aspects of all Conferences will be studied and, in addition, a selected cross-section of Conferences will be studied "in depth."

A series of hearings to receive the testimony of shipper interests, including representatives of government agencies who utilize ocean transportation were held in New York, New Orleans, Chicago, San Francisco, Seattle and Washington, D.C. The Washington hearings also included witnesses from the Department of Commerce. Hearings to receive the testimony of conference and carrier witnesses had been held in New York City and New Orleans. Additional hearings in New York are planned for May 23, 1966. It is also contemplated that carrier witnesses on the Pacific Coast will be scheduled in June or July. Altogether, testimony of fifty witnesses covering over 3,600 pages of testimony and over 200 documentary exhibits has been received in evidence.

Although it was recognized that recommendations on most problems would require completion of all the hearings, an interim report was prepared on the basis of the record of the shipper hearings. This interim report was presented to the Commission in May, 1965. One of the principal recommendations was that the Commission in cooperation with other government agencies pursue a program of shipper education in dealing with freight rate problems. Pursuant to this recommendation, the Commission, with the assistance of the Department of Commerce, has prepared a shipper booklet or guide which should be ready for publication and distribution on May 9, 1966.

The interim report also recommended that the Commission concentrate attention toward studying the effects of certain overall rate structure patterns which may evidence discriminatory treatment as between the various coastal areas. Within this realm of activity is the currently pending investigation of the O.C.P. rate structure.

Chairman DOUGLAS. Senator Jordan has been a most cooperative and splendid member of this committee.

Senator JORDAN. Thank you, Mr. Chairman.

Admiral, I just have one or two questions.

You were talking about the studies you made with respect to eight trade routes. In how many of those studies did you find the rates

to be discriminatory, and in how many studies did you find the rates to be not discriminatory?

Admiral HARLLEE. We have found them to have apparent adverse disparities, in three cases, very clearly, and in two other cases we have not as yet been able to reach a conclusion, due to the fact that we don't have, as yet, quite enough information, and we have not finished our analysis.

In the other three, that is about half of them, the situation appears to be all right.

Senator JORDAN. About half of them, you found the rates to be not discriminatory?

Admiral HARLLEE. Yes, Senator; that is, I mean not significantly and importantly discriminatory.

Senator JORDAN. Not sufficient so it could—

Admiral HARLLEE. To create a major problem there.

Senator JORDAN. Yes.

You were discussing your docket 1114, and I refer you to that case, and I am interested in the conclusion you reached, that, and I quote, you found:

. . . that the iron and steel rates subject to the proceedings were not unlawful, but the full record in that case indicated that American domestic prices on almost all iron and steel rates subject to the proceeding were too high to enable those commodities to penetrate foreign markets.

Does this condition obtain in a good many commodities? Have your studies disclosed that, or is this peculiar?

Admiral HARLLEE. It obtains in some, Senator, but in a good many others it does not obtain.

For example, in the matter of tractors, of electronic equipment, computers, agricultural goods, there are many commodities that it does not, but there are other commodities besides these steel products where it does apply, of course.

Senator JORDAN. I just wondered how extensive is the list of commodities where we find our domestic producers are priced out of the market before the effect of any ocean freight rates.

Admiral HARLLEE. It applies to a good many commodities, but there are a great many others to which it does not apply, Senator.

Senator JORDAN. Now, I want to ask you a couple of questions here.

Has the Commission been able to obtain the needed information that you want concerning conferences' activities? Have they been cooperative with you?

Admiral HARLLEE. We have obtained the information that we needed, generally, from the outbound conferences that are domiciled in the United States.

Senator JORDAN. Yes.

Admiral HARLLEE. In the case of the inbound conferences, which are domiciled abroad, but which do have a tremendous effect, of course, on American trade and commerce, we are now engaged in a very difficult consultative process with the foreign governments, because the inbound conferences do not wish to give us what we believe is adequate information, and this is a fight we have remaining on our hands.

No, the direct answer is, we are not getting enough from the inbound conferences, but we have not finished the fight yet, and the State Department is with us in this matter, and the deadline on that is now

the 1st of July, and by that time, we are going to demand and insist, and I believe that we will prevail in our efforts to get adequate information from the inbound conferences.

Senator JORDAN. I presume you would find varying degrees of cooperation, especially in the inbound conferences.

Admiral HARLLEE. There is slightly varying degree, Senator Jordan, but the maritime nations of Western Europe have more or less agreed in opposition in these matters.

Senator JORDAN. When you get their cooperation, what does that involve? For instance, do you have access to the voting procedures, or the minutes, or what data do you explore, when you get into these records?

Admiral HARLLEE. Well, in the matter of inbound conferences, of course, we are getting filings of their tariffs. We know exactly what the freight rates and the various rules and regulations which surround them are.

They are using dual-rate contracts that we have prescribed, which give a lower rate to an exporter who gives exclusive patronage to the conference, but these dual-rate contracts need to have in them some protection to the exporter and importer, and to the independent, non-conference line.

They are doing that. They are carrying out our dual-rate contracts. They are filing tariffs, and in many instances they are using the self-policing systems and carrying out our other rules.

But in the matter of minutes of the conferences, we need to get adequate information on what is going on with them, that is where we have the remaining problem, getting complete enough minutes.

Senator JORDAN. Yes.

Admiral HARLLEE. In these conferences.

We have, after very lengthy consideration, issued an order called General Order 18, which the State Department requested us to delay, to permit further consultation for a period of 60 days. We are doing that, and at the end of that time, I believe that we will be able to get compliance and adequate information.

In other words, we are getting information in many ways, but the minutes themselves of the conferences remain a problem, for inbound conferences.

Senator JORDAN. The situation is improving, you think?

Admiral HARLLEE. Yes, sir, it is.

Senator JORDAN. One final question.

Do you feel, Admiral, that the regulatory activity of the Federal Maritime Commission has in any way harmed the U.S.-flag steamship lines, while it has helped our U.S. exports, and our U.S. foreign commerce?

Admiral HARLLEE. Unfortunately, there are some representatives of certain segments of the American merchant marine who have claimed that our activities have been harmful to the American merchant marine.

There are, of course, certain publications that have been, I think, heavily influenced by foreign advertisers and so forth, who have maintained an editorial attack on what we are doing.

But I like to look at facts and numbers, and I think in fact that the case, in my mind, could not be more clear cut, Senator, the fact is they are making more money than ever.

The fact is, Senator, that I think we are helping them in five different ways.

First, there is an increase in American export and import commerce, which is more rapid in these last couple of years than ever before, which means there are more cargo carryings for them, even aside from the Vietnamese war.

Second, we are insuring that they get good treatment at the hands of the conferences, which is not so much of a recent problem, but it is a historic problem, and one of the reasons the 1916 act was enacted.

Third, we are seeing that foreign governments do not discriminate against them.

There are problems, particularly in South America, most recently in Uruguay, which we moved in on. We have statutory authority along those lines. There is a problem right at the moment in Guatemala. Guatemala wants to have U.S. vessels use only one port, and they are complaining about that.

Fourth, we are helping them, I think, in the matter of their dealings with the freight forwarders.

Now, ocean freight forwarders control a great deal of cargo. They are like travel agents for ocean freight, except that they handle cargo instead of passengers. There had been some problems with the freight forwarders, possibly too much control of cargo, and the rules which we have put out about the freight forwarding industry have met with approval both of the carriers and the freight forwarders. They are a very important and necessary industry.

Fifth, we have helped them in matters of terminal problems.

So I think the increase of overall trade and commerce, giving them more cargo and helping them with the conferences, with discrimination by foreign governments, and helping them with the terminals, and with the freight forwarders, indicate that actions of the Federal Maritime Commission are favorable to the U.S.-flag steamship lines. These are all indirect matters, because our job is not to promote the American merchant marine.

That job rests clearly and squarely by law, after 3-year-long congressional investigations, that responsibility remains with the Maritime Administration of the Department of Commerce, and our responsibility is the regulatory one, directed more toward the exporter, importer, consumer, and auxiliary industries, and also the merchant marine. But I do think, and I am convinced, and the Commission is convinced, that indirectly, we have helped them.

Certainly, they have had some expenses in giving us reports. Certainly they can say it cost them a few hundred dollars or a couple of thousand dollars to give us some reports. And certainly no red-blooded American businessman likes to be regulated.

But they cannot prove they have been harmed. They have had chances before committees, and they have not been able to prove it.

Senator JORDAN. Thank you, Admiral.

The statement that was filed with respect to earnings of U.S.-flag carriers would seem to support your statement. Although the earnings have gone up in dollar volume—45 percent—the percent of net worth has increased from 5.2 to 6.6, indicating that there has been a substantial increase in the net worth in the last 6 years, too.

The increase in the earnings as a percent of net worth is not 45 percent, as the dollar volume of earnings has increased. It does indi-

cate that there has been a substantial ratio of investment to net worth.

Admiral HARLLEE. May I make one other comment?

Senator JORDAN. Yes.

Admiral HARLLEE. There is just one other thing, Senator, I would like to say. The American merchant marine, and I would like to emphasize this, has sometimes felt that when regulation has been applied, it affects them unfairly vis-a-vis the foreign lines, because we have more power over the American lines, of course, than we do over the foreign lines. We have been very careful, however, in the orders and the regulations that we have promulgated not to put out orders and regulations to the American lines that we could not get compliance with from the foreign lines.

I could cite examples, but perhaps time does not permit that at the moment. Rebating abroad is one of the big problems, which means that the conference rates are supposed to be the same for everybody, but if a foreign line can rebate abroad, it gives it an unfair advantage over an American line, and this is one of the big complaints of the steamship industry. But wherever we have heard, and get knowledge of these unfair practices, these rebates, we have moved in, and we have taken action. We have fined foreign lines for these matters, and successfully. The Department of Justice has successfully prosecuted, and in addition to that, we have had them implement in accordance with the law self-policing systems which they themselves seek in order to establish fair competitive practices.

And the 10 maritime nations of Western Europe and Japan agreed in a note of understanding on December 1 of 1963 which prohibited the same kind of practices now prohibited by the Shipping Act, for example, unfair competition, misdescription of cargo, misclassification, and rebates. We feel that our regulatory activities, which had been underway ever since 1955, created an atmosphere which brought this thing to a head, and caused them to implement their own fair practices acts, you might say. We think this puts the American merchant marine on a better footing with the others, even though I must admit that there probably still are some malpractices that will never be cleared up. But we think that they are reduced.

Senator JORDAN. Thank you, Admiral.

Chairman DOUGLAS. Thank you, Senator Jordan.

Thank you, Admiral Harllee.

Admiral HARLLEE. Thank you very much, Mr. Chairman, Senator Jordan.

Chairman DOUGLAS. I want to also congratulate a man who has been silent this morning, Commissioner Barrett, but who evidently has been a good supporter and cooperator in this program, so we would like to rescue him from the anonymity of regulatory service and single him out for commendation, as well as for the other members of the Commission.

Thank you, Admiral.

Admiral HARLLEE. Thank you very much.

(On June 21, 1966, Admiral Harlee submitted the following letter concerning his testimony:)

FEDERAL MARITIME COMMISSION,  
Washington, D.C., June 21, 1966.

HON. PAUL H. DOUGLAS,  
Chairman, Subcommittee on Federal Procurement and Regulations, Joint Economic Committee, U.S. Senate, Washington, D.C.

DEAR SENATOR DOUGLAS: Reference is made to my appearance before your Committee on May 6, 1966, at which time, among other things, I referred to a rate disparity study completed by the staff of the U.S. Atlantic/Gulf Japan trade. At that time I stated that the study and Commission's conclusions were the subject of discussion between the Commission and the Japanese Government. This discussion and subsequent negotiations were predicated upon the Japanese Government's expressed hope that the matter could be resolved without resort to formal proceedings. This is to inform you of the progress of negotiations with the Japanese Government.

On April 19, 1966, we proposed to the Japanese Government, through the Department of State, that a working group composed of representatives of the Japanese Government and the Commission be created for the purpose of developing: (1) criteria for the analysis of ocean freight rate disparities; and (2) detailed information, facts, and statistics necessary for the evaluation and resolution of the current problem to the mutual satisfaction of both Governments.

On May 24, 1966, the Japanese Government advised that they were favorably disposed to accepting the United States' proposal for the establishment of a working group provided the following conditions were acceptable to the United States.

1. The bilateral contact should be limited to clarification of the technical problems raised at the Paris meeting of the Maritime Transport Committee of the Organization for Economic Cooperation and Development in Paris on January 28, 1966, and therefore the working group should not commit itself to broaden the scope of the study without approval of the 14 Governments who attended the meeting.

2. The working group should not try to obtain additional information from shipowners or conferences without prior consultation among the 14 Governments who were signatories to the Agreed Minute of December 15, 1964, under which the 14 Governments had agreed to obtain certain information from their shipowners and conferences and to furnish this information to the Commission through the OECD.

3. The Federal Maritime Commission should refrain from publishing any information or initiating any formal proceedings in connection with the freight rate problems until the working group concludes its activities.

We have carefully reviewed the response from the Government of Japan and we are unable to agree with their views regarding the conditions placed upon the establishment of the proposed "work group". It is our opinion that our proposal could be adopted and implemented without any intrusion upon the commitments reached by the various governments in the December 1964 and January 1966 meetings. We regret exceedingly this turn of events. However, we intend to request the Japanese Government to reconsider their position, and if it refuses, other appropriate action will be taken by the Commission.

We shall continue to keep you informed of our progress with respect to this matter.

Sincerely yours,

JOHN HARLEE,  
Rear Admiral, U.S. Navy (Retired), Chairman.

Chairman DOUGLAS. The next witness is Mr. Robert C. Moot, the Deputy Assistant Secretary of Defense for Logistics Services, Installations and Logistics.

We are very glad to have you, Mr. Secretary.

**STATEMENT OF ROBERT C. MOOT, DEPUTY ASSISTANT SECRETARY OF DEFENSE, LOGISTICS SERVICES, INSTALLATIONS AND LOGISTICS; ACCOMPANIED BY MARVIN MORSE, OFFICE OF GENERAL COUNSEL**

Mr. Moot. It is nice to be here, Mr. Chairman.

Mr. Chairman, I have a prepared statement. With your permission, I would like to read it.

Chairman DOUGLAS. Yes, sir. Certainly.

I notice it is a brief one.

Mr. Moot. Mr. Chairman, this opportunity to report on the Department's plans to improve its practice in the procurement of ocean freight services is appreciated.

While our letter to you, Mr. Chairman, dated April 2 of this year, did advise the subcommittee of our decision to make a significant change in procurement practice, that letter was remiss in one important respect.

It did not say—as it should have—that the comprehensive hearings on ocean freight rates held by this subcommittee every year since 1963 were of the greatest help to the Department in its evaluation of this subject.

Earlier this year, Secretary McNamara, in testifying before this committee, stated that the Department's improved management program owes much of its inspiration to the work of the Joint Economic Committee and its individual members. This revision in ocean freight service procurement is one more example of such constructive assistance.

Chairman DOUGLAS. Mr. Moot, we deeply appreciate these words of commendation, and your action and that of Secretary McNamara were really almost unique in the record of dealings between administrative agencies and congressional committees.

Very frequently we make suggestions to administrative agencies which they later put into effect, as though they thought them up first, and there is a general tendency on the part of officials to downgrade the efforts of Congress to work cooperatively, and to make all forward movements their own affair.

So we deeply appreciate this, and we know your hard work and devotion.

Mr. Moot. Thank you, sir.

The Department of Defense through its operating agency, the Military Sea Transportation Service, is procuring commercial ocean freight services at an annual rate of more than \$400 million in shipping costs.

Approximately 50 percent of these ocean freight shipments move in berth or liner service. Rates applicable to these shipments for the most part are negotiated between MSTS and carrier organizations which have been granted antitrust immunity by the Federal Maritime Commission pursuant to section 15 of the Shipping Act of 1916.

Procurement of ocean transportation service to move the above-mentioned volume of cargo has been for all practical purposes on a sole source basis. No price competition is involved. After the initial MSTS cost negotiation, adjustments in rates have considered only increases in specific items of operators' cost. There has been no review of the total operating costs.



Rates have been negotiated with the intent of excluding costs such as brokerage fees and cargo handling expense which are not applicable to the movement of military cargo to the same extent as such expense is involved in the movement of cargo for commercial shippers.

A revision in procurement practice has now been announced under which the Department intends to actively seek price competition to the maximum extent practicable, and, in the absence of such price competition, to negotiate on the basis of total applicable costs, rather than differential costs.

In following this new policy, the DOD will be dealing only with individual shipping operators, and not with rate-making groups or associations.

Chairman DOUGLAS. I cannot commend you too highly for this, Mr. Moot. This is a marvelous forward step. You and Admiral Donaho deserve the fullest praise for this, and Secretary McNamara deserves the fullest praise.

I know that efforts are being made to reverse this policy, and I want to say that so far as I am concerned, for what it may be worth, you have my complete support, and I think the public opinion of the country will uphold you, if this issue can be made clear.

Mr. Moor. Thank you, Mr. Chairman.

The legislative requirement that the Armed Services procure transportation services only from U.S. ships stems from the act of April 28, 1904, which, as revised and codified as section 2631 of title 10, U.S. Code, provides as follows:

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 Forces, or Marine Corps. However, if the President finds that the freight charged by those vessels is excessive or otherwise unreasonable, contracts for transportation may be made as otherwise provided by law. Charges made for the transportation of those supplies by those vessels may not be higher than the charges made for transporting like goods for private persons.

Chairman DOUGLAS. In other words, differential rates, adverse to the Government, are prohibited by law.

Mr. Moor. That is right, sir.

The contract law in force at the time of the passage of the Cargo Preference Act of 1904 made it mandatory for the Army and Navy to utilize the transportation provided by the company submitting the lowest bid.

The effect of the 1904 law was to restrict bidding to U.S. shipowners. Therefore, the opening of competition to foreign shipowners is not at issue in connection with the newly announced change in DOD procurement practice; neither is the question of world conferences of U.S. and foreign-flag carriers directly involved.

#### LEGISLATION ON PURCHASING

Overall armed services purchasing techniques were revised as a result of the Armed Services Procurement Act of 1947, which provides that DOD procurements shall be by formal advertising, with the exception of 17 numbered instances, where negotiation is permitted.

In procuring ocean contract carriage services by negotiation, the Military Sea Transportation Service has been utilizing exception No. 10, which permits other than formal advertising when "the purchase or

contract is for property or services for which it is impracticable to obtain competition."

MSTS has traditionally negotiated for ocean common carriage under exception No. 17, which permits other than formal advertising when authorized by law. The law relied on by MSTS is 49 USC 65 (a), as interpreted by the Comptroller General.

It is clear that the exceptions which permit negotiation are permissive, and not mandatory. Regardless of such exceptions, the major intent of the Armed Services Procurement Act of 1947 was that procurement be conducted on a competitive basis to the maximum practicable extent.

The policy of the Armed Services Procurement Act was outlined by the President in his statement to the Secretary of Defense upon the signing of that bill. He stated, in part, at that time:

This bill grants unprecedented freedom from specific procurement restrictions during peacetime. That freedom is given to permit the flexibility and latitude needed in present day national defense activities. The basic need, however, remains to assure favorable price and adequate service to the Government. To the degree that restrictions have been diminished, therefore, responsibility upon the Defense Establishment has been increased. There is danger that the natural desire for flexibility and speed in procurement will lead to excessive placement of contracts by negotiation and undue reliance upon large concerns, and this must not occur.

Directly pertinent to the procurement of transportation services are the objectives outlined in the 1962 Presidential message to the Congress relative to the transportation systems of the United States, wherein the President stated:

The basic objective of our Nation's transportation system must be to assure the availability of fast, safe, economical transportation services needed in a growing and changing economy to move people and goods, without waste or discrimination, in response to private and public demands at the lowest cost consistent with health, convenience, national security, and other broad public objectives . . . This basic objective can and must be achieved primarily by continued reliance on unsubsidized privately owned facilities, operating under the incentives of private profit and checks of competition to the maximum extent practicable.

#### DEFENSE EMPHASIS ON PRICE COMPETITION

In keeping with this legislative intent of Congress, the Defense Department for all goods and services has since 1961 been steadily increasing the proportion of procurement contracts awarded on a competitive basis, in contract with a sole source basis.

This committee has followed the progress of increased competition very closely, and is aware that since the beginning of fiscal year 1961 the percentage of price competitive contracts has been increased from 33 percent in 1961 to over 43 percent of the total value of awards.

Savings accrued through the first half of fiscal year 1966 from this shift in more than \$4 billion in annual procurement funds are estimated to amount now to \$1 billion per year.

Chairman DOUGLAS. That is a 25-percent saving.

Mr. MOOR. That is a 25-percent saving.

All audits of this program, Mr. Chairman, as Mr. McNamara mentioned in the earlier hearing with you, show higher than 25 percent, but we have used 25 percent as the estimated savings.

As related to commercial maritime operations, Secretary McNamara, in 1962, expressed himself as feeling very strongly that

the fundamental premise on which we develop our transportation programs must be based on reliance on unsubsidized privately owned facilities, operating under the incentives of private profit and the checks of competition to the maximum extent practicable.

The decision to seek price competition in the acquisition of ocean freight services is, therefore, consistent with the overall objectives of the Department.

Chairman DOUGLAS. As one who has been interested in this matter for over 15 years under both Republican and Democratic administrations, may I say that this is the first Secretary of Defense who has really moved to get competitive bidding.

Mr. Moor. Thank you.

Early in 1965, a new steamship line initiated service between the United States east and gulf coasts and Europe/United Kingdom at rates substantially below shipping contract rates then in effect. Other steamship lines—subsidized and nonsubsidized—met the competition of this new line.

The effect of the rate reduction on MSTS ship space cost was significant. In the case of MSTS general cargo, the space was reduced by more than 25 percent.

Chairman DOUGLAS. For the sake of the record, would you identify the new steamship line which came in, which introduced lower rates?

Mr. Moor. Yes, sir. The new steamship line referred to in my statement was the Sapphire Steamship Line.

Chairman DOUGLAS. You say the space rate was reduced by more than 25 percent. What did that come to in the course of a year, in terms of dollars?

Mr. Moor. I would like to put that in the record, so that I could give you an accurate total on it. It is still in effect, of course, and I need to bring it up to date. It has been in effect just about a year at this time.

Chairman DOUGLAS. But it is more than 25 percent.

Mr. Moor. In terms of percentage?

Chairman DOUGLAS. Yes.

Mr. Moor. Oh, yes, sir, it is.

Actually, in terms of the general cargo, it computes on a cost per cubic foot occupied. It computes at about 28 percent, actually. (The dollar savings to the DOD in the past year, as a result of the rate reductions, total \$14 million.)

Chairman DOUGLAS. Do I understand that the Sapphire Line has experimented with container shipments?

Mr. Moor. The Sapphire Line has made a proposal to the Department of Defense which would involve container ships, yes, sir.

Chairman DOUGLAS. Well, two things: containers, and container ships. The Sapphire Line uses containers?

Mr. Moor. Oh, yes, sir. In its current operation. It has also made—

Chairman DOUGLAS. And that reduces loading and unloading charges?

Mr. Moor. Yes, sir, it does.

Chairman DOUGLAS. And also makes the problem of stowing the materials in the hold much easier?

Mr. MOOT. Yes. Containers, I think to both the operators, and in our case, the Department of Defense, have several fairly obvious advantages.

They do speed port turnaround time. They do sharply reduce pilferage and damage, and they have the advantage of easier stowing and easier handling. This has resulted, of course, in—

Chairman DOUGLAS. The pilferage on the docks is quite high, is it not?

Mr. MOOT. Well, pilferage in terms of pinpointing the exact location in the pipeline of the pilferage is somewhat difficult to determine, because it is a continuous flow operation, but there is little doubt that pilferage on the docks has been a constant and fairly chronic problem throughout the years.

Chairman DOUGLAS. But if you have the goods in a container, it is very hard to walk off with a container. Isn't that right?

Mr. MOOT. Yes, sir, particularly if it is a metal container. It is hard to break into.

Chairman DOUGLAS. And the metal containers are being used now, rather than wooden containers?

Mr. MOOT. That is right, sir.

This successful experience with price competition in the acquisition of ocean freight service occurred during a period when the Department was reviewing its procurement practice in this area.

Against the background of clear legislative intent and a positive management objective to secure maximum competition in procurement, the Department's review of all available data—including that published by this committee and that provided by U.S. steamship operators—led to the inescapable conclusion that the introduction of price competitive procurement was timely, feasible, and potentially beneficial to all parties.

A major objective of the Merchant Marine Act of 1936 is to develop a merchant marine sufficient to carry our domestic waterborne commerce and "a substantial portion" of our waterborne export and import foreign commerce.

Since U.S. ships already have a near monopoly on Government cargo, the only real place for expansion lies in the realm of commercial cargo.

The effect of the new DOD policy, with its emphasis on competition, should be to equalize the relative profitability to the operator of defense cargo, and to thus increase his aggressiveness in obtaining commercial cargo.

He is thus encouraged to give more attention to providing service for commercial shippers, and to become less dependent on Government cargo for his profits. Such service improvements as express service, new cargo handling techniques, more careful handling of perishable commodities, and through rate billing, should be undertaken, as well as efforts to reduce costs through shipboard automation and higher ship time utilization.

#### DEFENSE IMPLEMENTATION PLANS

In the implementation of this revised practice for procurement of ocean freight services, it is important to understand that DOD considers itself in a unique customer relationship with the shipping industry.

By law, all military cargo must move on U.S.-flag ships, when they are available, which means that the world's largest volume shipper has constraints under national policy as to the scope of carriers it can use.

It is against this background of a single, large volume shipper dealing exclusively with U.S.-flag operators that competitive price procurement procedures will be developed.

The Secretary of the Navy is the single manager within the DOD for ocean transportation, and the Military Sea Transportation Service is the Defense agency charged with the operational responsibility. The Navy, therefore, will develop the implementing procedures. It is expected that the program will be initiated beginning with procurements for fiscal year 1967.

Although methods and procedures cannot be prejudged until the Navy completes the development phase, it can reasonably be expected that the Military Sea Transportation Service will seek proposals from interested shipping lines on an annual basis for a guaranteed minimum amount of tonnage over fixed trade routes.

Awards will be made on the basis of service, responsiveness, and cost, with the objective of obtaining the lowest overall cost for the Government and the taxpayer.

To the extent that the total requirements of the DOD for service cannot be covered by price competition, MSTS will negotiate on a total cost basis with individual lines to obtain the most favorable rate level.

Under this program, individual steamship lines will be able to compete for DOD traffic on the basis of their own individual costs and pursuant to their own individual management decision. They will have definite knowledge of the minimum amount of DOD traffic that they can expect during the contract period, and will be able to plan their commercial operations accordingly.

Also, since DOD would not expect to commit all of its annual requirement—inbound and outbound—under a firm fixed buy, additive traffic would from time to time during a contract period possibly be put out for competition.

The availability of such traffic, over and above a contractor's firm award, could well provide a degree of competitive opportunity that would place operators in a position to capture additional commercial traffic which might otherwise be lost to them.

The Department of Defense feels strongly its obligation to obtain the commercial transportation services it requires at the lowest ultimate overall cost to the Government.

It believes just as strongly that the program for procurement of ocean transportation which is being adopted is consistent with our national procurement policy, that it is consistent with the basic objectives of national policy as they relate to the transportation system of the United States, and that it will prove beneficial to the U.S. merchant marine.

Mr. Chairman, this completes my prepared statement.

With me today is Mr. Marvin Morse, from our Office of General Counsel. We will be happy to answer questions to the extent of our ability.

Chairman DOUGLAS. Thank you.

I want to again congratulate you on the decisions which you have taken, and through you, congratulate Admiral Donaho, as well.

Now, the steamship industry, as you know, is taking steps to try to prevent this policy of competitive bidding from going into effect, and they say that it would be disastrous.

My friend and colleague, Senator Magnuson, introduced into the Congressional Record for May 3 a memorandum which he stated has been prepared by the steamship lines, and I think the record should show that this is not a Magnuson memorandum, but a memorandum which he presented by request, and I think it should also be emphasized that Senator Magnuson withheld judgment as to whether the competitive bidding was or was not correct, but the bill which he introduced would prohibit competitive bidding.

(The memorandum referred to follows:)

#### CARRIAGE OF MILITARY CARGOES BY U.S.-FLAG VESSELS AT REDUCED RATES

Mr. MAGNUSON. Mr. President, on behalf of the Senator from Maryland [Mr. BREWSTER] and myself I introduce a bill requested by major carriers now participating in the movement of defense cargoes by sea. It is reported that the Department of Defense intends in the next few weeks to reverse a policy for procuring space for MSTs ocean shipments that has been in effect for almost 20 years. These companies assert that the proposed change would seriously disrupt the service needed by Defense as well as cause adverse effect on the readiness of the merchant fleet. If this is true, it should be known before the changes become effective. Accordingly, Senator BREWSTER will begin hearings on May 9 and 10 before the Committee on Commerce's Merchant Marine and Fisheries Subcommittee.

The bill introduced today would authorize the system of group negotiation, uniform rates and allocation of cargo among the carriers regularly serving the trade which is now in effect. But it would also provide statutory authority for reduced rates on defense cargoes, would authorize the Department of Defense to call for cost and price data, and would empower the Federal Maritime Commission to determine, if the parties could not agree, fair and reasonable rates on the established principles of rate regulation now developed for domestic and offshore commerce.

I do not know whether this bill of the Department of Defense competitive or bidding proposal is the better solution to this important problem. That will be determined by the committee on the basis of the hearing record. In the meantime I am hopeful that the Department will not inaugurate its new system while the matter awaits congressional decision.

I ask unanimous consent that a memorandum prepared by the merchant marine supporters of this bill be included in the RECORD.

The PRESIDING OFFICER (Mr. WILLIAMS of New Jersey in the chair). The bill will be received and appropriately referred; and, without objection, the memorandum will be printed in the RECORD.

The bill (S. 3297) to authorize the carriage of military cargoes by U.S.-flag vessels at reduced rates which are fair and reasonable, introduced by Mr. MAGNUSON (for himself and Mr. BREWSTER), was received, read twice by its title, and referred to the Committee on Commerce.

(The memorandum presented by Mr. MAGNUSON is as follows:)

#### MEMORANDUM IN SUPPORT OF BILL AMENDING SHIPPING ACT TO AUTHORIZE THE CARRIAGE OF MILITARY CARGOES BY U.S.-FLAG VESSELS AT REDUCED RATES WHICH ARE FAIR AND REASONABLE

##### I

Ever since the close of World War II, defense cargoes have been carried at uniform rates with the cargo allocated among all U.S.-flag berth carriers in the trade. Ever since 1950, the rates have been set by the Military Sea Transport Service as a result of discussions with groups of carriers serving the several trades.

For a year past, the U.S.-flag berth lines and MSTs have been in dispute or uncertainty as to whether rates under the MSTs shipping contracts were fair and reasonable. To help resolve that dispute, the Federal Maritime Commission has carried forward an elaborate investigation, FMC docket 65-13. For their

part, the carriers in all the principal trades have produced searching cost studies which broke new ground in steamship accounting. These studies indicate that MSTs rates are substantially less than the commercial rates on comparable goods.

On April 4, 1966, a witness for the Department of Defense announced in FMC docket 65-13 a new policy for the carriage of defense cargoes. This would be done under contracts procured by competitive bidding by the individual lines or, in cases where this was not feasible, by individually negotiated contracts. The commander, Military Sea Transportation Service, has recently declared his intention to open bids and have the system in operation by July 1.

## II

The steamship industry believes that any such system spells disaster to the industry and will preclude the Department of Defense traffic agencies from accomplishing their mission. They summarize their position as follows:

1. The effect on the lines: (a) For nearly a century, without known exception, rate competition among ocean steamship berth lines has always produced a rate war in which rates were driven far below costs.

(b) This uniform history is not an accident, but results from the fact that over 75 percent of the costs of a berth operation are fixed, so that any return over the 25 percent of variable costs is better than free-space. In the case of the FIO defense cargoes, about 83 percent of the costs are fixed.

(c) The MSTs cargo represents close to half of the outbound cargoes carried by the U.S.-flag lines on the principal MSTs trade routines. None of the lines on those routes can do without this cargo.

(d) Under a competitive bidding system, each line will in normal times be forced to bid low enough to insure that it obtains at least its share of this indispensable cargo, with the inevitable and classic result of bids below fully distributed costs and approaching the added costs of cargo handling and vessel loading time costs for the MSTs cargoes.

(e) The apparently proposed absence of restriction upon bidders will in all likelihood stimulate the formation of transient steamship lines which will offer low bids for selected routes when vessel charter rates are low and desert the damaged trade when these rates rise.

(f) The unsubsidized lines will be forced to abandon U.S.-flag service almost immediately after the return to a normal period of excess tonnage. The subsidized lines could hang on longer, but with up toward half their cargoes carried at a loss their eventual survival would be equally doubtful.

2. The effect on MSTs: (a) MSTs has often enough indicated its need for berth services and for fast modern ships. There will be no vessel replacement for services conducted at a loss, and MSTs would sooner or later be forced into sole dependence upon its own fleet. The costs, we believe, would greatly exceed those resulting from use of the berth lines.

(b) MTMTS, which is responsible for Department of Defense traffic management and terminals, was opposed last September to any system of competitive rate bidding on the ground that it could not discharge its functions if it had to deal with line-by-line routes, rates and priorities. It was not consulted on the Department of Defense policy announced on April 4.

(c) The Department of Defense negotiates with rate bureaus, not individual roads, to obtain railroad rates. It accepts the CAB determinations for fair rates for military cargoes and personnel. The steamship industry, with its unvarying history of destructive rate wars whenever rates are fixed by competition, would seem the last, not the first, transportation industry in which to procure rates by competition.

(d) For 15 years past, the berth lines have felt themselves obliged to meet all MSTs requests, whether or not the voyage would produce a loss and whatever their competing obligations to commercial shippers. One simply cannot expect an MSTs contract holder, who obtained his contract by competitive bidding below the cost of service, to be willing to take on costly obligations beyond the perimeter of his contract. Negotiations and special costs will replace automatic and uncompensated compliance with special requests.

(e) At this moment something of a rarity in steamship history the lines are not short of cargoes. In 1966, but not as a rule, we should expect a sharp increase in MSTs freight rates if competitive bids are substituted for continuing contracts.

Do you want to make any comments on this?

Mr. Moot. We have the bill that was introduced by Senator Magnuson, Mr. Chairman. We are analyzing it. We have a hearing with the Senate Commerce Committee on Monday morning. We have not completed our analysis.

It is our opinion at the moment that the bill is inconsistent with our objective, and that it should be opposed by the Department, but we have not yet completed our analysis.

Chairman DOUGLAS. Well, I hope you hold to that point of view.

Senator Jordan?

Senator JORDAN. Mr. Moot, about 50 percent of the ocean shipping paid for by the Department of Defense is now on a competitive bid basis?

Mr. Moot. That is right, sir.

Senator JORDAN. That includes shipping to Vietnam?

Mr. Moot. It includes shipping worldwide, mostly, of course, in the Pacific these days.

The basic break, Senator, is between what is characterized as contract carriage versus common carriage. Where we are chartering full ships on a time charter basis, the awards are made on a competition basis.

Senator JORDAN. Now, what happens, Mr. Moot, when a carrier must delay unloading because of the inadequacy of port facilities at the terminal, and must stand off for days and days, or may even have to go some place for repositioning?

What happens to your rate structure then? Is that carrier reimbursed, and if so, how?

Mr. Moot. If it is a berth line operator, Senator, he incurs demurrage, and charges us with demurrage.

If it is a time-chartered vessel, for which we are paying so much per day, then we are incurring that cost each day that the ship is delayed.

Senator JORDAN. Can the carrier make more standing by waiting his turn to unload than he could if he unloaded promptly and made another trip?

Mr. Moot. Well, there is a difference, not very significant, in the fee paid per day for being in port versus being underway. So in a minor way, it is not to the advantage of the contract in this case, the general agency agreement operator, to be sitting in port, but it is not very significant, Senator.

Senator JORDAN. Thank you.

Thank you.

Chairman DOUGLAS. Thank you, Senator Jordan.

Mr. Moot, before you came, I read an introductory statement, in which I tried to point out that as a result of the current subsidy policy, that the unsubsidized lines can be unfairly penalized.

The subsidized lines will be able to make lower bids than the unsubsidized lines, so that they can really use the subsidy as an unfair advantage over the unsubsidized lines, and I suggested that an appropriate agency consider this matter, and withhold the subsidy on that portion of the trade carried for Government agencies.

Mr. Moot. There is little doubt that what you say, Mr. Chairman, is true, and Mr. McNamara recognizes this, and he has made a decision with this recognition.



The operating subsidies, of course, are effective only for berth-line movements, in that contract carriers who do business with the Defense Department do not receive subsidy payments.

For the berth-line operators who do business with the Defense Department, the movement of military cargo is included in the movement for which they receive an operating differential. Therefore, there is a cost advantage in the operation of the berth-line ships which are under subsidy.

It is not completely one sided, however, in that there are certain disadvantages that go along with subsidies, in terms of required sailings, and the ports of call, and so forth, so a subsidized berth-line operator has certain disadvantages in terms of rigidity of movement that a nonsubsidized operator does not have.

However, there is little doubt that from an overall point of view, he is in a more cost favorable position to bid.

Mr. McNamara feels, however, that under these circumstances, until something changes, that the Defense Department must accept the lowest cost proposal, and he would expect that the lowest cost proposal, all other things being equal, would come from the subsidized operator.

Chairman DOUGLAS. Is there any way of protecting the unsubsidized operator whose costs really are lower, but is not able to make a low bid because he is not getting a handout?

Mr. Moot. There are several ways. I think they are primarily questions for Commerce and I know the Department of Commerce is considering several methods or techniques, and we would hope that the situation would clarify, so that no one segment of the industry had an undue advantage over any other segment of the industry.

I might point out, however, that we are receiving proposals from steamship operators, nonsubsidized operators, which would result in the movement of military cargo at significantly lower cost than we are currently paying to subsidized operators, so again, the workings of the marketplace, and private enterprise, and the stimulus of competition, we believe, will allow all to compete, if the stimulation of imaginative, creative improvement in effectiveness is as we expect it will be, sir.

Chairman DOUGLAS. And if the subsidies are removed?

Mr. Moot. Yes.

As you probably know, the Intra-Agency Task Force report on the maritime policy did make a recommendation that subsidies not be paid on the movement of defense cargoes.

Chairman DOUGLAS. Does the Department of Commerce have a man here?

Mr. FRANKLIN (Philip E. Franklin, economist, Office of the Under Secretary for Transportation, U.S. Department of Commerce). Yes, sir.

Chairman DOUGLAS. I wish you would advise Assistant Secretary Boyd that I intend to ask this question of him when he comes to testify on the 19th, and I will press him very closely on this matter.

Mr. FRANKLIN. Yes, sir.

Chairman DOUGLAS. And time is of the very essence in this, because you will be awarding your contracts very soon, will you not?

Mr. Moot. Yes, sir, we have not completed developments of the procedures yet, but I would expect that it would be early in fiscal year 1967 that we will be in operation under this procedure.

Chairman DOUGLAS. Now, do I understand that the Military Sea Transportation Service was withholding—was at one time withholding funds on its contracts with steamship lines because it felt it was being overcharged by as much as 25 percent?

Mr. MOOR. Yes, sir.

I cannot talk with any finite amounts in mind. This perhaps is a better question for Under Secretary Baldwin, and Admiral Donaho, when they appear, but the facts are, yes, they were withholding.

Chairman DOUGLAS. Is it still withholding?

Mr. MOOR. I don't know, Mr. Chairman. I believe the Navy Department made a determination to release the withheld funds. Whether they have made the release or not, I do not know.

Chairman DOUGLAS. They made a decision to release these. Well, now, Mr. Moot, you are Deputy Assistant Secretary for Logistics Services, installations, and logistics. You are a very fine public servant. Don't you know whether or not they issued an order to stop withholding these funds?

Mr. MOOR. Yes, sir, they have made the decision to release the funds.

What I did not know, and do not know, I can put in for the record, whether or not the funds have been released, sir.

Chairman DOUGLAS. Yes, but they will be released?

Mr. MOOR. I am sure they will be, sir.

Chairman DOUGLAS. Now, why is the Navy Department doing this? Why is it conniving with these excess charges which, I might add, have been clearly demonstrated? And which would seem to me to be—their actions would seem to be in violation of the general principle which Secretary McNamara has laid down for them to follow.

Mr. MOOR. Well, I would say this, Mr. Chairman: That the Navy Department, namely, the Military Sea Transportation Service, Admiral Donaho and his staff, have been and are negotiating with the carriers concerning differences of opinion on rates, and I don't believe that this has reached the point where the Navy Department has determined not to press its position concerning the discrepancy. So I don't think that the release of the withheld funds necessarily is conclusive evidence that the Navy does not intend to press for the return of the difference.

Chairman DOUGLAS. Once you let those funds go, they are gone, and millions of dollars are involved in this.

Now, Mr. Moot, you say that you are going to set up a committee to help implement the new policy?

Mr. MOOR. This is a Navy committee, Mr. Chairman.

Chairman DOUGLAS. Yes, and who is on that committee?

Mr. MOOR. The committee is a three-man committee, Mr. Chairman, set up to advise the Navy Department, remembering, of course, that the procedures are being developed by Admiral Donaho, and this is an advisory committee, concerning the efficacy of the procedures as they are going to be developed.

Chairman DOUGLAS. Well, Mr. Moot, you still have not answered my question.

Mr. MOOR. OK, sir.

Chairman DOUGLAS. Who is on the committee?

Mr. MOOR. There are three members of the committee, and I will do my best to remember their names.

There is Clarence Morse—

Chairman DOUGLAS. Who is he?

Mr. MOOR. Clarence Morse is a lawyer who was previously a member, I believe, of the Maritime Commission.

Chairman DOUGLAS. Yes, this frequently happens, you know. Members of these regulatory commissions go into private practice.

Who are his present clients?

Mr. MOOR. Well, I do not know for certain who his present clients are. It is my understanding that in the clearance of this committee, and in the security clearance of this committee, that it was determined that there was no conflict of interest.

I would therefore assume that there are no large maritime or shipping interests that are his clients.

Chairman DOUGLAS. This is a very careful statement on your part. It does you credit, in not wishing to imply any improper relationship.

I have no wish to imply an improper relationship, but I would again like to ask, who are his present clients?

Mr. MOOR. I don't know, sir. But I would be glad to have the Navy—

Chairman DOUGLAS. Does he have shipping lines as his present clients—without specifying which specific line?

Mr. MOOR. It is my understanding that he does not have, but I would like to supply that answer for the record. (The Navy will provide the requested information if desired by committee.)

Chairman DOUGLAS. Well, who are the oldest members of the committee?

Mr. MOOR. The second member—and I certainly hope I can think of the third before we get to him—the second member is Mr. Alex Cocke.

Chairman DOUGLAS. Who is he?

Mr. MOOR. He is a retired vice president of Lykes Brothers Steamship Lines, I believe.

Chairman DOUGLAS. They are pretty large shippers, I believe.

Mr. MOOR. And I believe is currently a management consultant in New Orleans.

Chairman DOUGLAS. And the third?

If you cannot remember his name, perhaps your assistant can.

Mr. MORSE. I think not, sir.

Chairman DOUGLAS. Is there anything Freudian about your failure to recollect the name of this man? [Laughter.]

Mr. MOOR. Mr. McDowell, and—

Chairman DOUGLAS. Who is McDowell?

Mr. MOOR. And the reason I can't remember the name is because I can't remember his background, obviously.

Chairman DOUGLAS. Well, is there anyone who can tell us about Mr. McDowell?

Can you, Mr. Morse?

Mr. MORSE. No, Mr. Chairman, I cannot.

Mr. FRANKLIN. He is connected with the marine insurance interests.

Mr. MOOR. Oh, yes. Now, I recall, sir. He is a marine underwriter from New York, sir.

Chairman DOUGLAS. Well, now, this is interesting, that you appoint a committee composed of people entirely outside the Department of Defense, or the Navy Department, one of whom is certainly definitely a representative of a shipping company.

Mr. Moor. No, sir, there is no representative of a shipping company. He is a retired vice president, sir.

Chairman DOUGLAS. Oh, I see. Retired. So whose past affiliations have been with the private shippers. And the other two are of indeterminate relationships; one is an attorney.

Well, now, why did you have to create this committee to set up your actions? I would expect them to bring in a report opposing competitive bidding, and I am being generous.

Mr. Moor. Let me say this, Mr. Chairman. The responsibility for developing the procedures is, of course, the Navy's, and Admiral Donaho is developing the procedures.

The Navy, who is the single manager in this area, felt it necessary to get expertise to assure that the procedures as developed would be the best possible.

Chairman DOUGLAS. Do they have any powers to correct the procedures submitted by Admiral Donaho?

Mr. Moor. Oh, no, sir, their charter is purely recommendation, and not determination.

The committee, the three members of the committee—I would like to assure you, Mr. Chairman, even though I might sound as though I don't know much about them, and I really don't—was established under very close regulations of the Executive Department, the President and Mr. McNamara, wherein each of the members fill in a form, and their background is determined, and there is a question of review for potential conflict of interest, and there is actually White House clearance on such committees.

So that this committee, insofar as its membership is concerned, has been reviewed, and the determination has been made that there is, nor should be, no conflict of interest involved.

And I would expect that they would make an objective appraisal of the procedures as they develop.

Chairman DOUGLAS. When will this committee make its report?

Mr. Moor. The committee was initially targeted, I believe, for about May 20, but I believe there has been some slippage, so that I believe they are now with a deadline somewhere in June, sir.

When Mr. Baldwin testifies on May 19 I am sure that he will have the exact date for you.

Chairman DOUGLAS. Well, you notice that has been set after the date of our hearings, so that we will not be able to find out what the recommendations will be.

Mr. Moor. I would again like to assure you of this: that there is no question, insofar as Mr. McNamara's direction to me is concerned—we are going to have price competition, and we are going to develop the best procedures for that competition, so if you have concern concerning or relative to committee recommendations which would change the course of Secretary McNamara's decision, I would like to assure you now that there will be no such effect.

Chairman DOUGLAS. Well, thank you very much. But beware of being Gulliver.

Mr. Moor. Yes, sir. I heard the silken thread story.

Chairman DOUGLAS. I have a paperbacked edition of Gulliver's Travels, which I will be very glad to give to you.

I have no further questions.

Senator JORDAN. No, sir.

Chairman DOUGLAS. Well, thank you very much, Mr. Moot.

Mr. Moot. Thank you, sir.

Chairman DOUGLAS. Persevere in well-doing, and do not fall a victim of frustration.

Mr. Moot. Thank you, Mr. Chairman.

(Whereupon, at 12:25 p.m., the subcommittee adjourned, to reconvene Thursday, May 19, 1966.)

## DISCRIMINATORY OCEAN FREIGHT RATES AND THE BALANCE OF PAYMENTS

THURSDAY, MAY 19, 1966

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 S-407, the Capitol, Hon. Paul H. Douglas (chairman of the subcommittee) presiding.

Present: Senator Douglas.

Also present: John R. Stark, deputy director; Thomas H. Boggs, Jr., consultant to the subcommittee; Donald A. Webster, minority economist, and Hamilton D. Gewehr, administrative clerk.

Chairman DOUGLAS. The committee will come to order.

This morning we are continuing our hearings on discriminatory ocean freight rates and the balance of payments, and the related topic of rates on Government cargoes.

Before we proceed, I would like to ask unanimous consent to place in the hearing record, correspondence received from the Renegotiation Board, the Alaska Steamship Co., the Port of Toledo, and Edward Gottlieb & Associates; a statement from Mr. Marshall Safir, chairman of the board of Sapphire Steamship Co.; a statement from Jerome Siegel, chairman, the Titan Industrial Corp.; and an article appearing in Traffic World magazine by Commissioner George Hearn, of Federal Maritime.

Hearing no objection to this unanimous-consent request, this will be done.

(The documents referred to follow:)

THE RENEGOTIATION BOARD,  
*Washington, D.C., May 9, 1966.*

Hon. PAUL H. DOUGLAS,  
*Vice Chairman, Joint Economic Committee,  
U.S. Senate, Washington, D.C.*

DEAR SENATOR DOUGLAS: I am pleased to respond to your letter of April 28, 1966 concerning the rates charged by U.S. flag operators to the Department of Defense for transportation services. You state that the matter was referred to the Board by MSTs last year, and you request a statement indicating the Board's decision and the reasons therefor. Presumably you are referring to Admiral Donaho's letter to the Board, dated March 30, 1965, which was introduced into the Subcommittee hearings on April 7, 1965 (p. 48).

As you know, Section 106(a)(4) of the Renegotiation Act of 1951, which exempts contracts and subcontracts with common carriers for transportation under certain circumstances, was amended in 1954 to provide in part as follows:

"... In the case of the furnishing or sale of transportation by common carrier by water, this paragraph shall apply only to such furnishing or sale which is subject to the jurisdiction of the Interstate Commerce Commission

under Part III of the Interstate Commerce Act or subject to the jurisdiction of the Federal Maritime Board under the Intercoastal Shipping Act, 1933, and to such furnishing or sale in any case in which the Board finds that the regulatory aspects of rates for such furnishing or sale, or the type and nature of the contract for such furnishing or sale, are such as to indicate, in the opinion of the Board, that excessive profits are improbable; (1954 amendment in *italics*)."

Pursuant to this authority, the Board each year has exempted, after the close of the year, amounts received or accrued by U.S. flag operators from MSTs shipping contracts and shipments under Government bills of lading. Each year, when considering whether the exemption should be extended, it has been the practice of the Board to request from MSTs and the Federal Maritime Commission information with respect to rate increases during the year under consideration. For each year prior to 1964, in addition to furnishing the requested data, MSTs provided the Board with a further statement to the effect that, after appropriate allowance for stevedoring costs, MSTs contract rates were no higher overall than comparable commercial rates. Last year, however, MSTs declined to furnish such a statement with respect to 1964, and set forth its reasons in the letter of March 30, 1965 already mentioned.

At that time, in view of the various inquiries then being made by the Government into the reasonableness of MSTs rates, the Board decided to postpone action on the exemption question until it could obtain and review additional data. Among other things, the Board granted representatives of the shipping industry a hearing on November 5, 1965, at which time they submitted material and made argument on behalf of their request for exemption. The Board learned at this meeting that, in response to a request of Admiral Donaho, berth operators carrying MSTs cargo were engaged in a detailed cost study which was likely to be useful to the Board in passing upon the exemption question. After submission of the study to MSTs under date of January 31, 1966, copies were furnished to the Board. The study formed the principal basis of the Board's decision on April 5, 1966 to extend the exemption through 1964. No action has yet been taken on the matter of exemption for 1965.

I turn now to an explanation of the Board's action in granting exemption for 1964.

As your Subcommittee knows, the Federal Maritime Commission does not have the authority to regulate ocean shipping rates to the same extent that it regulates domestic rates. Notwithstanding, Congress in the 1954 amendment to Section 106(a)(4) of the Renegotiation Act provided an exemption for water transportation contracts in foreign commerce in any case in which the Renegotiation Board finds that the regulatory aspects of rates are such as to indicate that excessive profits are improbable. Presumably, therefore, Congress was satisfied that full regulatory power was not indispensable to exemption under Section 106(a)(4).

In reaching its decision to continue the exemption for 1964, the Board was not required to determine that particular carriers did not realize excessive profits in that year. Neither was the Board required to consider whether excessive profits resulted from particular contract rates, voyages or voyage legs. The issue before the Board was whether, under the regulatory situation prevailing in 1964, there was a sufficient indication that, on an overall fiscal year basis, excessive profits from MSTs contracts for ocean transportation were improbable. Advices from other Government agencies concerned with ocean shipping, although of value and interest to the Board in resolving this issue, were, of course, not conclusive upon the Board in the exercise of its nondelegable responsibility under the Renegotiation Act.

In granting the 1964 exemption, the Board relied primarily upon the operating results reported by the carriers in the study dated January 31, 1966 previously mentioned. The study sets forth the operating results, before subsidy, of the four major trade routes for the last quarter of 1964. Receipts of the members of the four conferences studied represent approximately 80% of the amounts expended by MSTs under all contracts and TGBL shipments in the quarter. The results for such period were considered sufficiently representative to enable the Board to form a judgment with respect to the profit probabilities for the entire year.

The study shows that on outbound MSTs shipments the carriers realized a profit of \$2,896,000 on revenue of \$26,684,000. It also shows a loss of \$6,182,000 on all inbound shipments, but makes no allocation of this loss between MSTs and commercial business.

For our purpose, in order to ascertain the profitability of MSTs business, it was necessary to make such an allocation. It is normal practice in the shipping industry, to record revenue and expenses for both book and tax purposes, on a round voyage basis. This method of accounting is equally appropriate in renegotiation. Generally, a vessel engaged in carrying military cargo to a foreign port under a MSTs contract returns with less than a full cargo, or in ballast. Accordingly, in renegotiation, the contractor is not limited to the costs of the outbound voyage alone, but is allowed an allocable portion of the return voyage costs as well.

In order to estimate round voyage costs, the Board allocated the inbound loss to MSTs business on the basis of the ratio of space occupied on outbound voyages. Such ratio was 48%, and accordingly the Board allocated 48% of the inbound loss of \$6,182,000, or \$2,967,000, to the MSTs shipments. After deducting this loss from the profit on the outbound shipments, it was ascertained that, for the last quarter of 1964, an aggregate loss of \$71,000 was incurred by the carriers included in the study. These figures are set out in the following table:

Revenues from MSTs outbound shipments.....	\$26,684,000
Profit on MSTs outbound shipments.....	2,896,000
Allocable portion of inbound loss .....	2,967,000
Aggregate net loss.....	71,000

On the basis of the foregoing, the Board was satisfied that excessive profits from MSTs shipping contracts were improbable in 1964. It is possible, of course, that some rates may have been too high, when compared with commercial rates, but the Board found it unnecessary to make any such comparisons, or to compare the profits on MSTs contracts with those on commercial shipments.

I trust that you will find this statement sufficient for the purposes of your Subcommittee.

Sincerely yours,

LAWRENCE E. HARTWIG, *Chairman.*

ALASKA STEAMSHIP CO.,  
Seattle, Wash., May 2, 1966.

Hon. PAUL H. DOUGLAS,  
*Chairman, Subcommittee on Federal Procurement and Regulation, Joint Economic Committee, Senate, Washington, D.C.*

DEAR SENATOR DOUGLAS: We have read in the Congressional Information Bureau bulletin No. 79 of April 25, that hearings on the subject of maritime regulation and rates paid for transportation of Government-sponsored cargo are to be resumed in Washington on May 10, and further, that you have asked the subcommittee to insert in its official record statements received prior to May 10 from industry and union officials, as well as shippers. We further understand that the Subcommittee hearing will consider the Defense Department's new policy which relies on competitive bidding instead of a system of negotiated rates.

Alaska Steamship Company feels it appropriate to express its opinions on this subject to your Subcommittee for your consideration. Our company operates only in the trade between Puget Sound ports and ports in the State of Alaska. As a common carrier by water in the noncontiguous domestic trade, we operate, of course, without subsidy of any kind and all our commercial rates are subject to regulation by the Federal Maritime Commission, or in certain cases, by Interstate Commerce Commission. There is no conference in the Alaska trade which would permit carriers to negotiate rate matters as a group.

For many years we have carried Department of Defense cargoes under contracts negotiated with Military Sea Transportation Service. In large part MSTs rates have been negotiated for the trade, and any carrier entering the trade and desiring to do so could enter into such a contract at the rates currently in effect. This system provided reasonable stability in such rates and provided transportation for the account of the Department of Defense at a cost substantially lower than that paid by commercial shippers.

In the Alaska trade, in addition to the MSTs shipping contract, Department of Defense cargoes are moved on so-called "Tenders" between points in the 48 contiguous states and points in the railbelt of Alaska. These tenders are now, and for many years have been, submitted on a competitive basis with the various



carriers in effect bidding against each other for such traffic. It is our considered opinion that the result of competitive bidding in these tenders has been to depress rates to a point where military cargoes are not paying their fair share of the fully distributed costs of the carriers involved. Alaska Steamship Company believes that the adoption of competitive bidding in all cases could well prove disastrous and might well serve to drive certain carriers from the trade, thus depriving the shipping public of such service.

We believe it appropriate to point out that Congress, through the Interstate Commerce Act, the Shipping Act 1916, and the Intercoastal Shipping Act of 1933, has provided for the strict regulation of rates applying to the shipping public. No shipper, regardless of size, is permitted under the law to achieve any advantage over other shippers similarly situated. Under today's conditions the United States Department of Defense has become perhaps the largest shipper in the world, and the proposal for competitive bidding for DOD cargoes would mean that this largest of all shippers would achieve an advantage which is specifically forbidden by law to any commercial enterprise. It is our opinion that the reasoning behind this regulation of commercial rates applies equally to cargoes moved for the United States Government.

Ideally, in our opinion, government cargoes should move under rates determined by the appropriate regulatory body to be just and reasonable subject to protest by interested parties and further subject to full investigation in open hearings as necessary.

We recognize that support of the position suggested in the foregoing paragraph would be difficult if not impossible to achieve. Failing such a solution, it is our considered opinion that the practice of MSTs, which has been followed for many years, of negotiating rates with carriers or groups of carriers for certain trade routes, leads to stability, protects the interest of the shipping public and provides reasonable assurance to both the government and the commercial shipper of the continuance of essential shipping services.

We appreciate this opportunity to express our views to your Subcommittee.

Sincerely,

D. E. SKINNER, *President.*

cc: Mr. Henry W. Clark,  
Alaska Steamship Co.,  
1026 17th Street, N.W.,  
Washington, D.C.

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KAISER JEEP INTERNATIONAL CORP.,  
*Toledo, Ohio, April 19, 1966.*

Mr. D. W. OBERLIN,  
*Manager of Trade Development,*  
*Toledo-Lucas County Port Authority,*  
*Toledo, Ohio*

DEAR MR. OBERLIN: AS Traffic Manager for Kaiser Jeep International Corporation I am directly responsible for the shipment of commercial vehicles and service parts overseas. Since the opening of the St. Lawrence Seaway in 1959, to date, our company has shipped in excess of 21,000 Jeep commercial vehicles through the Port of Toledo in addition to hundreds of tons of service parts. These are commercial vehicle shipments and do not include any United States military movements. The average savings enjoyed by using the Port of Toledo and the St. Lawrence Seaway is approximately \$30.00 per vehicle, as compared with shipments by Atlantic Coast ports. Most of our shipments through the lakes move on conference vessels as they do through the Atlantic.

While I am not in the military traffic department I have considerable general knowledge of the subject since our company produces large numbers of military vehicles for shipment overseas. In most instances the commercial vehicles have similar shipping characteristics to the military version.

Our records indicate that only a nominal amount of military shipments were made through the Lakes in 1965 and that only small quantities, compared to the total amount shipped overseas, were sent through Lake ports in previous years.

Our company is only one of a number of firms producing military vehicles in this area. Kaiser Jeep has a plant located in South Bend, Indiana and military vehicles in large numbers are produced by other firms having plants in Fort Wayne, Indiana; Lima, Ohio; Lansing, Michigan and the greater Detroit area.

The production of military vehicles in plants located immediately adjacent to Great Lakes ports is continuing as evidenced by a new contract just awarded to Kaiser Jeep in the amount of \$90,919,411.39 for 17,676 four-wheel drive cargo trucks. A large number of these vehicles will ultimately be sent overseas and they will all be produced in our Toledo plant.

Very truly yours,

R. J. HART, *Traffic Manager.*

PORT OF TOLEDO,  
TOLEDO, LUCAS COUNTY PORT AUTHORITY,  
Toledo, Ohio, May 10, 1966.

MR. JOHN STARK,  
*Deputy Director, Joint Economic Committee,  
New Senate Office Building,  
Washington, D.C.*

DEAR MR. STARK: Enclosed are the notes on the rates being charged by American-flag lines which we discussed over the phone today. I hope that you and the Senator will find them helpful.

Please call on me if I can be of any further assistance.

Cordially,

D. W. OBERLIN,  
*Manager of Trade Development.*

[Entered into FMC Docket 65-13 as Exhibit 438]

NOTES FROM FMC DOCKET NO. 65-13, APRIL 25, 1966

Q. What do the results of these studies show? A. Our studies show that the main reason the military cargo is not moving in volume by the Lakes on the high volume items such as vehicles is the excessive steamship rate quoted. Now, these rates are contract rates in the case of the continent which were negotiated by MSTs and AGAFBO for the carriage of military cargo.

Q. Have you made any comparison of the commercial rates on vehicles between the Great Lakes and the East Coast? A. In general, yes, I have. In general, the commercial conference rates on all cargo to the Hamburg-Bremen range from the Great Lakes is the same or nearly the same as conference rates from the East Coast. Now, as a matter of fact, the commercial rates on many vehicles is actually lower out of the Great Lakes than from the East Coast; and, this is very interesting, because of the same steamship lines who are in the conference on the Great Lakes are also the members of the same conference on the East Coast.

Mr. MADDY. Excuse me a minute. Could you identify the conference members that serve both areas.

Mr. OBERLIN (the Witness). Hamburg-American is one; French Lines; and North German Lloyd. Those are the three that I referred to.

Mr. SToudenMIRE. No American-Flag Lines?

The WITNESS. No American-Flag lines belong to the conference in the Lakes as yet.

Q. Have you compared the military rates on vehicles as between the Great Lakes and the East Coast? A. Yes. The fact is that the military contract rates out of the Lakes to the ports—in this case we are talking of Hamburg-Bremen range—are substantially higher than the contract rates out of the East Coast and also out of the Gulf Coast.

I'd like to illustrate this: I'd like to talk about in particular a Jeep vehicle since this is made very close to the dock, as the plant is right in Toledo. To illustrate, the *commercial conference* rate for moving an unboxed Jeep vehicle via the Great Lakes is \$26.50 a measurement ton. Now, the corresponding rate via the East Coast conference rate, *commercial conference* rate, is \$31.25 a measurement ton. I'd like to point out at this point that the commercial rate includes stevedoring charges and is not an F.I.O. rate. It is 15% less out of the Lakes than it is out of the East Coast. This is the *commercial conference* rate we are speaking of.

Notwithstanding this fact, the AGAFBO shipping contract rate to the Government for unboxed vehicles out of the East Coast and the Gulf Coast to the Hamburg-Bordeaux range is \$26.60 a measurement ton. Now, this is an F.I.O. rate and does *not* include stevedoring. At the same time, the contract rate out of the Great Lakes is \$31.40 a measurement ton; again an F.I.O. RATE. If we were to compare these to commercial rates to get some sort of a valid com-

parison, we'd have to add the stevedoring charges or the terminal costs. When this is done, the military rate out of the East Coast is approximately \$29.92 a measurement ton; and, that compares to \$36.12 from the Great Lakes.

In other words, *from the East Coast, the effective rate on vehicles to the Government is less than the commercial rate.* On the other hand, *the effective rate out of the Great Lakes is substantially higher, some 36% higher, than the corresponding commercial conference rate.*

Q. Well now, have your studies led you to any conclusion on this subject of military rates, steamship rates out of the Lakes? A. Yes. The facts are that the contract rates which are negotiated by MSTs with AGAFBO for the handling of high-volume military cargo such as vehicles are not competitive regardless of the yardstick applied; and, the net result is discrimination against the Midwest American ports. If realistic rates were available, we believe the Government could make substantial savings just as Kaiser Jeep and other industries make substantial savings through the Great Lakes.

Q. Have you compared American-flag commercial rates on the East Coast with American-flag commercial rates on the Lakes? A. The American-Flag Line rates, commercial rates, that are quoted by the American-Flag lines on the Lakes are substantially higher than the conference on the Lakes; but, this is not true on the East Coast.

Q. You say substantially. How much higher? A. Well, I have to consult a note here. They are almost twice according to my records the present rate. I show a record of the present American-Flag rate on unboxed vehicles as \$43 a measurement ton.

Q. Do you have any general statement as to what type of military cargo is generated in the Great Lakes states and their hinterland? Is it manufactured items? Is it bulk cargo or what? A. As I testified before, 40% of all the heavy industry, of all the major industry, is in the Great Lakes and its hinterland; and, this is the whole point. All of this cargo originates right in our back yard; and, yet for some strange reason—and, I use that word strange quote—for some strange reason, it is more economical for the government to move it through the East Coast but for industry it is more economical to move it through the Great Lakes; and, we can't understand it.

NOTE.—Testimony has been condensed for the sake of brevity only.

#### MERCHANT MARINE ACT OF 1936 (AMENDED)

##### TITLE VI.—OPERATING DIFFERENTIAL SUBSIDY

Sec. 602. Now reads as follows:

"No contract for an operating-differential subsidy shall be made by the commission for the operation of a vessel or vessels to meet foreign competition, except direct foreign-flag competition, until and unless the Commission, after a full and complete investigation and hearing shall determine that an operating subsidy is necessary to meet competition of foreign-flag ships."

Addition of the following to Sec. 602 should correct many inequities:

"No monies for operating differential subsidies shall be paid for the operation of any vessel or vessels unless the Maritime Commission has first certified that the Operator is not charging ocean transportation rates to the Government which, when adjusted to a similar basis, exceed the competitive commercial conference rates on a particular trade route."

#### RECOMMENDED CHANGES TO LANGUAGE OF MAGNUSON-BREWSTER BILL S-3297

In the proposed new Section 45, the following changes are recommended:

1. (c) Should be changed to read as follows:

"The rates and charges for the ocean transport of Department of Defense cargoes shall be fair and reasonable and the rates and charges provided in any contract made under subsection (b) hereof shall not exceed the commercial conference rates on the same trade routes for the transport of like commodities for private industry."

2. (e) The sentence "Such rate shall be determined with due regard to the level of commercial tariff rates in the trade." should be changed to read "Such

rate shall be determined with due regard to the level of commercial conference tariff rates in the trade."

3. (f) Should be changed to read as follows :

"In procuring transportation under this section, the Secretary of Defense, shall utilize an equitable system for the allocation of military cargo in order to obtain the lowest total over-all transportation cost to the Government; and in support of the national policy to promote a strong United States Merchant Marine, shall, on each of the four seacoasts, employ United States-flag common carrier operators to the maximum practicable extent."

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EDWARD GOTTLIEB & ASSOCIATES, LTD.,  
Washington, D.C., May 16, 1966.

MR. JOHN R. STARK,  
Deputy Director, Joint Economic Committee,  
New Senate Office Building, Washington, D.C.

Dear Mr. Stark: I am enclosing a statement presented on behalf of Jerome A. Siegal, Chairman of The Titan Industrial Corporation, New York City, for the record of the Subcommittee on Federal Procurement and Regulation, Joint Economic Committee on the Economic Report, in connection with the current hearings on Maritime Regulation.

We appreciate very much your interest in this statement and the opportunity offered by you to have it included in the record of the hearing.

As you may know, The Titan Industrial Corporation is one of the nation's largest export trading companies and Mr. Siegal has had many years' experience in connection with the problems under consideration in the current hearing. Mr. Siegal is a member of the Action Committee of the National Export Expansion Council on Ocean Transportation, Freight Rates and Export Expansion. The report of this committee was recently released by Mr. John T. Connor, Secretary of Commerce, on behalf of the National Export Expansion Council. As indicated in the statement, Mr. Siegal considers the problem of ocean transportation and freight rates to be of fundamental importance in connection with the expansion of exports and I am sure he would be willing to assist the committee in whatever way you consider appropriate.

With thanks and best wishes,  
Sincerely,

GORDON L. SMITH, *Vice President.*

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STATEMENT OF JEROME A. SIEGEL, CHAIRMAN, THE TITAN INDUSTRIAL CORP.,  
NEW YORK CITY

My name is Jerome A. Siegel. I am founder and now chairman of the board of the Titan Industrial Corporation, with headquarters at 777 Third Avenue, New York City.

The Titan Industrial Corporation is one of the largest independently owned and operated steel export companies in the world and has been engaged in the international export trade since it was organized in 1946.

On the basis of my twenty years' experience trading steel in all of the markets of the Free World, I am certain that the elimination of discriminatory ocean freight rates is of primary importance to the continued economic health of America's export trade.

Ocean freight rate charges that impose on American exporters extra cost burdens can only result in loss of business abroad.

The Action Committee of the National Export Expansion Council on Ocean Transportation, Freight Rates and Export Expansion, of which I have the honor of being a member, underscored this point earlier in May in its report to Secretary of Commerce, John T. Connor.

"The basic problem," the report said, "is that the transportation system of the United States generally has not been geared to the necessities of international competition."

Evidence of this can be found in the rate of \$8.50 per ton charged on certain types of steel between Antwerp-Rotterdam and Buenos Aires and the \$28 charge on the same goods moving from New York to Buenos Aires.

The elimination of discriminatory freight rates depends upon the cooperative efforts of the Maritime Commission, the ocean carriers, the exporters themselves and the U.S. flag lines.

I would recommend for a start that a competitive rate schedule be established applicable to those items of export considered of priority importance such as fertilizer to India. Similar competitive rates could subsequently be set for heavy machinery, for instance, needed by emerging nations in the creation of their modern-day economies.

But in the long run the goal must be established for all exports of an ocean freight rate structure that permits U.S. goods to move to foreign markets without the handicap of top-heavy ocean shipping costs.

This hearing is immediately concerned with ocean freight rates, but nevertheless serious consideration should also be given to rates charged by railroads and other inland carriers on export goods moving to seaboard, in a move similar to one urged by the Export Expansion Council with respect to export coal.

The Maritime Commission should be empowered to open discussions with the inland carriers aimed at development of a special rate structure for goods moving directly into the export market. Giving export goods the advantage of less-costly charges for transportation to seaboard would be one means of off-setting the direct subsidies often enjoyed by foreign exporters.

To be sure, ocean freight rate disparities are not the only drag on expansion of exports.

Tax changes beneficial to the export trade have been proposed by the Council and recently the Export-Import Bank of Washington announced a series of 17 moves to liberalize existing export insurance, guarantee and direct lending programs.

Taken together, these developments point to an awakening realization that our export trade can grow and prosper only with the same helpful understanding in Congress and the administrative agencies that prevails in the Administration.

For some 30 years expansion of world trade and American participation in that trade has been an objective of our liberal foreign trade policies, a position restated by President Johnson in proclaiming World Trade Week for 1966.

Because of the importance placed by the Administration on expanded export trade, I believe that now is the time for modernizing the Federal rules under which exporters work.

Not only should there be a revision in ocean freight rates to remove inequities that hamper our shipments abroad, but serious consideration should be given to the tax proposals of the Council, and to the possibility of improved inland freight rates on export goods moving to U.S. ports.

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STATEMENT OF MARSHALL P. SAFIR, ON BEHALF OF SAPPHIRE STEAMSHIP  
LINES, INC.

Mr. Chairman and Members of the Subcommittee:

My name is Marshall P. Safir. I am the Chairman of the Board of Directors of Sapphire Steamship Lines, Inc. Sapphire Steamship Lines is a recently formed American company operating American flag ships in berth service. I last appeared before the Subcommittee on April 8, 1965. My testimony dealt with:

(1) The reasons for the formation of Sapphire Steamship Lines; (2) the obstacles to entry established by American flag operators and others; and (3) the reactions of the Department of Defense to Sapphire's proposals of substantial savings for the carriage of household goods and general military cargoes.

In my testimony of April 8, 1965, I explained that Sapphire Steamship Lines was formed simply because our inland moving companies which transported military household goods were unable to obtain realistic transatlantic ocean freight rates for household goods from the member lines of AGAFBO—the Atlantic and Gulf American Flag Berth Steamship Operators. One of our companies, beginning in September of 1964, proposed to the Department of Defense modifications in its procedures for the carriage of household goods. These proposals contemplated a saving to the Department of Defense of \$5 per cwt. on the transportation of household goods. For example, when a sergeant is transferred from the United States to post in Germany, the Government rate for the transportation of his household effects would be \$25.60 rather than \$30.60 per cwt.

This reduction would be made possible by the utilization of reusable containers which reduce handling costs and make possible other savings. It anticipated a rate for the ocean carriage of military household goods which took cognizance of the facts that, first, containerized cargo is easy to handle with a lower inland freight rate, and, second, military household goods move in substantial amounts

in both directions across the Atlantic and for this reason should not be subject to a freight rate which was based primarily on eastbound carriage. On December 29, 1964, the Department of Defense approved our proposal, stating that it would become effective April 1, 1965, as it did. Our moving company, however, was not successful in its attempt to secure a downward revision in ocean freight rates from the established American flag lines. Consequently, Sapphire Steamship Lines was organized to provide an American flag berth service which would make available to our companies and others a reasonable ocean freight rate on the carriage of household goods.

While the impetus for the organization of the Sapphire Steamship Lines was the carriage of household goods at reasonable rates, Sapphire Steamship Lines does not limit its service to the ocean carriage of such goods. Staffed by experienced steamship men, it is engaged in a regular berth service to carry in either direction across the Atlantic commodities for commercial shippers and for governmental organizations, including the Department of Defense. Sapphire's tariffs represented reduced rates on household goods and on general Defense cargoes. For example, Sapphire's rate for general Defense cargoes is 40¢ per cubic foot. This rate was 14½¢ lower than the rate charged by the lines which belong to the Atlantic and Gulf American Flag Berth Steamship Operators.

Last year I described to the Subcommittee the efforts members of AGAFBO (most of whom are subsidized U.S. flag operators) to put Sapphire Steamship Lines in a position where it could not remain in business. I would like to say simply that such efforts have continued.

However, Sapphire Steamship Lines have won two significant victories.

Last year, as soon as we began operating ships on the North Atlantic, all members of AGAFBO reduced their rates on a selective basis. However, on March 1, 1966, the AGAFBO lines gave up the rate battle and raised their rates back to the levels existing before Sapphire entered the steamship business. Sapphire Steamship Lines has maintained the same low rates.

Last year we indicated that Sapphire's rates would result in savings to the Department of Defense of at least \$5 million per annum. The Department of Defense has estimated that its savings approximated \$14 million during the one year period in which the lines met Sapphire's low rates. Furthermore, as is known to the Subcommittee, the Department of Defense has announced that it will no longer procure ocean steamship service on a negotiated rate basis with AGAFBO and its counterpart on the West Coast, WAGAFBO, but will seek competitive bids should competitive bidding assure fair and reasonable rates for military cargoes.

Sapphire has shown that the rates charged in the past by AGAFBO carriers were unreasonably high. Sapphire Steamship Lines in recent months has been making a profit on each voyage in spite of the difficulties which AGAFBO has put in its way. In the past year, it has been able to purchase three vessels and need no longer rely on chartered vessels. Although we have been successful in the past, we expect an even brighter future. Our competitive spirit was a catalyst to the Department of Defense and perhaps is responsible for the new procurement policies recently announced. Our response to competition is to continue to seek new and more efficient methods of ship construction and operation. We believe that our new ideas will result in additional significant changes in the maritime policies of the United States.

The Maritime Administration announced on May 9, 1966, that it would guarantee the mortgage for the construction of three fast container ships for an unsubsidized company providing a liner service. Sapphire Steamship Lines demonstrated to the Maritime Administration that it is feasible to build ships in American shipyards without subsidy and to operate them under our flag without subsidy. I might mention that this is the first time the Maritime Administration has supported an unsubsidized liner company by providing Title II Insurance.

In summary, Sapphire Steamship Lines has satisfied the Maritime Administration that an unsubsidized service under the American flag employing unsubsidized American ships and American seamen is feasible. In its past operations, it has established that the Department of Defense has paid unnecessarily high freight rates and that it can achieve substantial savings through requiring competitive bidding for ocean transportation service.

Although we fully support the new procurement policies of the Department of Defense, we do believe that American subsidized lines should be denied subsidy on that portion of their cargoes for which no foreign flag competition exists.

Finally, Mr. Chairman and Members of the Subcommittee, we would like to express our support for the efforts which Admiral Harlle and the Federal Maritime Commission have undertaken to fairly regulate both American and foreign flag steamship lines operating in our foreign commerce. As you are aware, the Maritime Commission has been investigating for almost a year the level of rates on government cargoes, and it was in Docket Number 6513 that the Department of Defense announced its new procurement policies.

Thank you, Mr. Chairman.

[From Traffic World]

**"INTERVIEW"—FMC MEMBER PROPOSES UNIFORM ACCOUNTING SYSTEM FOR SHIP LINES IN FOREIGN TRADE—COMMISSIONER GEORGE H. HEARN, OF FEDERAL MARITIME COMMISSION, ENLARGES ON PROPOSAL MADE IN DISSENTING OPINION AND IN ADDRESS AT TULANE UNIVERSITY TO PROVIDE NEEDED COST DATA IN RATE CASES**

(By Lewis W. Britton)

*Commissioner George H. Hearn has been a member of the Federal Maritime Commission since July 22, 1964. The proposal he advanced for a uniform system of accounting for shipping lines serving the foreign trade of the United States, which gave rise to this interview, was made out of a transportation background of some extent.*

*From 1961 until he became a member of the FMC, Commissioner Hearn served as a special assistant to Commissioner G. Joseph Minetti of the Civil Aeronautics Board. Prior to that he was associated with a New York City law firm specializing in admiralty matters and he has served, by appointment of judges of federal courts, as special master in admiralty and as a commissioner to hear and determine various questions of admiralty law.*

*In view of objections of foreign governments to the furnishing of data on commodities carried by their shipping lines in U.S. foreign trade, exploration of Commissioner Hearn's idea for a uniform system of accounts for ship lines in U.S. foreign trade seemed desirable. Traffic World's request for an interview for that purpose was granted by Commissioner Hearn. The interviewer's questions and the commissioner's answers follow.*

In your speech at Tulane University on March 23 you advocated a uniform system of accounts to be used by all carriers in the U.S. foreign commerce. The new section 43 of the 1916 act empowers the Federal Maritime Commission to "make such rules and regulations" as are necessary to carry out the provisions of the act. Would you anticipate the same or similar objections by foreign governments as were made to the section 21 orders?

First of all one important point to remember, is that the Federal Maritime Commission's mandate from the Congress under the shipping act is the promotion of the foreign commerce of the United States. Common carriers by water are only one essential adjunct in this endeavor. Freight forwarders, terminal operators, ports, etc. are also essential and important parts of this undertaking and consequently we must remember that we regulate the foreign commerce to insure fairness for all participating therein. We are not charged with the responsibility of promoting the United States merchant marine, but the foreign commerce of the United States, which necessarily plays such an important role in the overall entire economy.

Consequently, in my speech at Tulane University on March 23 I was restating my published dissent to the Commission's order of investigation in docket No. 65-45, Investigation of Ocean Rate Structures in the Trade Between United States North Atlantic Ports and Ports in the United Kingdom and Eire (T.W., Jan. 1, p. 49). My remarks at Tulane were in accordance with my opinion as previously stated in that case last December. In the North Atlantic Ports-United Kingdom case I indicated that meaningful findings under section 18(b) (5) of the shipping act, without knowing the carriers' cost of doing business, could not be made and that section 43 of the act, passed on the very same day as section 18(b) (5), authorizes the Commission to "make such rules and regulations as may be necessary to carry out the provisions of the act." Since one of the provisions of section 18(b) (5) is a mandate to strike down unreasonably high or low rates, then our obligation to explore seriously—and I might

even say carefully—the feasibility of a uniform system of accounts is indicated and necessary. The person who sets the rates must have some basis, reasons, costs or indications to support or to justify the existing rate or a rate increase.

The fact of the existence of objections by foreign governments to a rule which requires the filing of uniform accounts is not the issue and might even be considered irrelevant. If the objections raised, however, are similar to those raised with respect to the orders that issued from the Commission under section 21 of the act, I am of the view that such objections would not prevail. In any event, that is a matter that will be decided, ultimately, by the courts and in my mind, since we have the daily experience, under international law, of foreign courts upholding decrees and orders of courts in other lands, in the absence of any legislation in a foreign country actually conflicting with the decree, a court order of the United States enforcing our accounting order would, I am sure, be upheld and enforced.

I have long held the view that while our foreign commerce is open to the vessels of all flags which desire to serve, that open invitation to participate in our commerce is not without some conditions. Historically, many of the conditions run the gamut from health and immigration requirements to contraband regulations, local pilotage rules, and dangerous cargo rules. Interestingly enough, these conditions have been satisfied without a murmur of opposition. Now Congress, through the shipping act of 1916, (the golden anniversary of which we will celebrate on September 7) codified a system of economic regulation applicable to common carriers by water who engage in our foreign commerce. Section 18(b) (5), in my opinion, casts upon the Commission a very demanding obligation regarding freight rates in our foreign commerce. As I said, in section 18(b) (5), at least insofar as it recognizes extremes, i.e., extremely high or extremely low rates, requires the Commission to make findings akin to those same findings which are daily made by other regulatory bodies in general rate cases. I do not know of any regulatory body which is called upon to make rate judgments without first having knowledge of a rate base, or, in effect, the actual cost of doing business of the person supplying the service. In my view, the Commission now cannot make more than an educated guess as to whether an individual rate or an entire rate structure is “unreasonably high or low.” In my view, a knowledge of the carrier’s cost of doing business is necessary to make a judgment under section 18(b) (5), and since carriers in our foreign commerce are not willing voluntarily to provide us with this information, I believe we are under an obligation to require the information by a rule promulgated under Sections 21 and 43.

Now, an important point to be noted here is that the economic justification which was mentioned in my concurrence in the Iron and Steel case, (docket No. 1114, Iron & Steel Rates, T.W., Dec. 11, 1965, p. 138), wherein I first participated concerning the “disparity” issue, set up a guideline which, in effect, said that when there is a rate *disparity* in a *reciprocal* trade on *similar* commodities, and when it is shown under these three criteria that the movement of goods, under a higher rate has been *impaired*, then, in that situation, the carrier making or quoting the rate must *demonstrate* that the disparate rate is reasonable.

There may be many reasons to justify the existence of disparate rates and if the carrier can justify them, then they would not be considered unreasonable and would then not be in conflict with either section 15 or section 18(b) (5). Hence, they would be lawful.

In the Iron and Steel decision, I was of the opinion that continued investigation of disparate rates on *ad hoc* approach would result in no rule or guide to the industry or to the public. For the Commission to continue to look at one commodity or even an entire trade, would not provide the needed solution to the general disparate rate problem especially since there are indications that our entire commerce is honeycombed with disparate rates.

I felt, as I outlined in my decision in No. 65-45, commonly known as Trade Route 5 Investigation, that the Commission could more productively discharge its responsibilities and aid in our foreign commerce, give criteria or guidelines to the industry and at the same time shorten and render less expensive our investigations, if we utilized our authority under section 43 and came up with either a general rule or suggest legislation, which legislation I said I thought was premature, on how to handle the disparate rate issue. To continue to handle them on an individual case basis, in my mind, would not be fruitful and would be harassingly expensive to all of the carriers and people serving our trades. But I feel that, by a system of cost accounting, which has proven very worthwhile in our domestic offshore trade, we would be equipped with the tools



based on the information received from the rate setter, to make the judgment whether or not a rate was justified as being fair and reasonable.

In our domestic trade we have the power of suspension, which we may invoke if we do not know whether a proposed rate increase is fair and reasonable. The Commission can suspend while it investigates an increased rate and the act of invoking a period of suspension, puts the onus or burden on the rate setter, the carrier, to justify the increased rate. In our foreign trade where there is no suspension authority, the carrier merely files his rate increase and the burden then rests upon the Commission or shipper, or anyone who protests the rate, to prove that the rate is unreasonably high or low to the detriment of our commerce. The shifting of this burden away from the rate quoter to my mind is an unfair shifting of the burden since I am sure that the person setting or quoting the rate must have the information upon which to make the judgment to increase the rate. Since the shipper, and particularly the Commission, cannot obtain cost data voluntarily they are unable to obtain the reasons or the evidence supporting the rate increases. It is very difficult to prove that the increase is unfair and unreasonable without cost data. Under the existing approach, the unlawfulness of a rate established by a shipping company, is very difficult if not impossible to determine.

I have gone into some detail in answer to the first question, because it was necessary to indicate that my proposal at Tulane University stemmed from thoughts about the situation previously presented to the Federal Maritime Commission and the need to arrive at some guidelines based on facts and existing impediments preventing a quick and intelligent assessment of "disparities" in our trades.

Do you contemplate an accounting system as revealing as that prescribed by the Interstate Commerce Commission for the railroads?

The type of accounting system, or the information required, would be similar, as I said before, to that which the Federal Maritime Commission requires pursuant to its existing General Order 11 requiring filings by common carriers by water in our offshore domestic trades. I am convinced that that system has worked well for shippers and carriers alike and has afforded the Commission a ready tool for discharging its responsibilities under the Intercoastal Shipping Act of 1933.

Would you expect foreign-flag lines to report, in the dollar amounts, aid granted by their governments?

No, I would not expect foreign-flag lines to report, in detail dollar amounts of aid granted by their governments.

If they did not do this, would the accounting reflect such costs of operation as payment by the Dutch government of part of the cost of maintaining merchant marine cadets on merchant ships, or the 20 per cent surcharge on the value of imported goods which Chile levies when the goods are not brought in on ships flying the Chilean flag?

I do not believe that capital placed at the disposal of a common carrier by its government should form the basis for the earnings or profit on that capital. Similarly, I do not believe that a government's contribution to a private carrier's labor costs should form the basis for the carrier's profit. In essence, a carrier should be entitled to a reasonable return on his own prudent and wisely managed contribution to his enterprise. He would be entitled to a profit on his capital necessarily employed in his endeavor. For example, if a common carrier invests one dollar of capital and his government matches that with another dollar, the carrier's allowable return should be based on his one dollar, not on the total of his and his government's investment. In the same vein, if a government contributes 15 per cent of the carrier's labor costs then the costs properly chargeable against the operation for the purpose of determining the carrier's return should be based upon the carrier's 85 per cent contribution to the labor costs of operation.

How much of such accounting information is at present reported to either the Federal Maritime Commission or the Maritime Administration by American-flag lines?

I assume you are asking exclusively about vessels engaged in the foreign commerce of the United States. I am not in a position to state precisely what accounting information American-flag operators file with the Maritime Administration, but in the case of subsidized operators I know that it is considerable. However, they file no broad accounting information with the Federal Maritime Commission. The Commission, as you know, regulates without regard to flag. American-flag operators and foreign-flag operators stand in the same posture before the Commission and under the shipping act. Whatever uniform ac-

counting system that might be adopted would apply to all carriers subject to our jurisdiction. At the present time there is a foreign-flag carrier engaged in our domestic off-shore trade. That carrier is filing cost accounting data as do all other operators engaged in that trade.

If the system of uniform accounting were adopted by all flag lines, would their own auditing be accepted, or would auditing firms be employed, as in the case of the policing systems of the shipping conferences?

Normally, we would expect to accept, as valid, the reports from the shipping lines. The purpose of the uniform system is to collect meaningful data, not to impose penalties. I would imagine that the particular way of reporting would be resolved in the rulemaking proceeding.

Would the Federal Maritime Commission, assuming data were made available under uniform accounting, be able to use such information in establishing rate bases where rates have been complained of by shippers, or where a rate investigation has been instituted by the Federal Maritime itself?

Emphatically, yes. Assuming the efficacy of uniform accounting in the foreign trades, the Commission would definitely be able to use the data to determine whether rates are reasonably high or low under section 18(b) (5) of the shipping act. However, we would certainly not use the information to set or make rates ourselves, since we feel that this would invade the managerial discretion of the carriers participating in the trades.

Would you use the machinery of the conferences to effect the returns under the uniform accounting system?

I do not think so, and I lean toward the negative. Because the requirements for filing would devolve on the individual carrier who may operate in several trades as a member of several different conferences, or may be an independent operator. I think costs differ depending on the prime source of business costs, for example there is a difference between Japanese, British and American costs. I would not want to accept averages, however an average might be necessary since a conference rate would probably ultimately be quoted by those in the particular trade.

Would the uniform accounting system take into account the movement toward diversification, especially if diversification resulted in a "most-favored" position for a producing company owned by the shipping line?

I feel that a carrier offering or engaging in common carriage cannot discriminate as between shippers, whether one of them is an affiliate or not, vis-a-vis any other person. Sections 16 and 17 of the shipping act prohibit discrimination or preferential treatment of shippers. The rate on file at the Federal Maritime Commission, published, is offered and available to all shippers and must be charged to all. This principle has recently been firmly established and re-emphasized by the Commission in Special Docket No. 377, *Lugwig Mueller Co., Inc. v. Peralta Shipping Corp.*

Would the Federal Maritime Commission have power, under section 43 of the 1916 act, to impose penalties on carriers who failed to comply with the uniform accounting system, or made incorrect reports?

The purpose of the system of uniform accounts would be to obtain meaningful cost information. The Commission is not primarily concerned with imposing penalties for failure to comply, although I recognize that the existence of penalties for failure to comply constitutes a strong reason for compliance. I hope we would not have to use the necessary penalty provisions of the act, but under the general tenor of the act, I would hope we would be trying to accumulate data for the benefit of all participating in our foreign commerce, rather than obtaining pecuniary damages.

Have you any idea of how members of Congress would react to the idea?

I do not have any idea as to the reaction of members of Congress to this concept. I would imagine, if they feel as strongly as I do that this would aid the Commission in its administration of the shipping act by requiring a carrier to justify a rate—which I do not think is an unreasonable thing to ask—the members of Congress would approve the idea. I have no personal knowledge. I have never discussed it with a member of the Congress nor received an opinion on this from a member of the Congress. Section 212(f) of the 1936 merchant marine act, in effect authorizes the Commission to request legislation from the Congress along desired lines, to meet a particular problem. In the Iron and Steel case, I said that I did not think investigating alleged rate disparities can properly be done with our present tools. Therefore, I said, we could request specific legislation. I do not think it is called for yet, since I would rather do

it by general order first, but the authority to request same reposes in the Commission under the act. I suggest that we avail ourselves of the existing power which the Commission has, i. e., to issue a general order adopting a system of cost accounting.

The fact that our own vessels are not carrying substantial portions of our foreign commerce—that commerce which plays such an important role in a healthy United States economy—coupled with the fact that we rely heavily upon the tonnage of other nations, whose primary interest is not necessarily the advancement of United States commerce, is a valid reason for our concern with the level of ocean freight rates. Since our duty is to insure that our exporters are quoted the most economical rates, due regard being had for profitable carrier operations, is it any wonder that we seek to know that the rates quoted to our shippers are justified so that we as a nation can maintain our place in international commerce, and can continue to compete in the market places of the world with our exports?

(On May 26, 1966, a statement was submitted by States Marine Lines which is included herein :)

STATES MARINE LINES,  
New York, N. Y., May 26, 1966.

HON. PAUL H. DOUGLAS,  
*Chairman, Subcommittee on Federal Procurement and Regulations, Senate Committee on Commerce, Washington, D. C.*

DEAR SENATOR DOUGLAS: States Marine Lines, Inc. and Isthmian Lines, Inc. appreciate the opportunity of submitting this statement for the record of the Subcommittee's recent hearings.

States Marine Lines and Isthmian Lines are unsubsidized American owned companies maintaining world wide cargo services from all coasts of the United States. Currently, we own 49 American-flag ships and we generally have on charter another 20 or 30 additional American-flag ships. As you know, American-flag vessels cost \$1,400 or \$1,500 a day more to operate than foreign flag vessels, and in all of our trades we are faced with this cost disparity. Military cargoes which are reserved for American-flag ships are extremely important to our services. In some trades, particularly during times of emergency, military cargoes are the principal cargoes carried by our ships while in other trades military cargoes offer a vital nucleus which when combined with commercial cargo enables us to maintain American-flag service in competition with foreign lines.

In recent years, military cargo rates have been fixed by negotiation with MSTs. The level of military rates is barely sufficient to support unsubsidized American-flag operation. Unsubsidized American-flag operators have not been profiteering; our margin of profit is extremely narrow. Any slash in the level of military rates which is not accompanied by some rearrangement of cargo allocations or of service required would have a devastating effect on unsubsidized lines.

Some of the support for competitive bidding as an instrument of military procurement has come from a feeling that military rates have in the past been too high. For our part, as unsubsidized carriers, we have no doubt that military rates have not only not been too high, but have in fact been too low to permit the modernization of the unsubsidized merchant marine. If there is any question as to the level of rates, rates can be regulated in the same way as rates are regulated by Commissions overseeing railroad rates, air rates and domestic water rates. We are sympathetic to the objectives of providing the cheapest and most efficient transportation for military cargo, and we believe we have provided such transportation for many years.

The general experience in ocean shipping is that the large fixed costs incurred in ownership of vessels and the large fixed expenses incurred when a voyage is scheduled generate constant pressure on all carriers to fill their ships by offering rates below cost to large shippers. In general, ocean carriers will go after cargo which yields a few dollars above out-of-pocket costs when space is open on a sailing. The United States government is the largest shipper on American-flag lines, its economic leverage is enormous, and a competitive procurement program could well lead to an open rate war among American-flag lines.

In any competitive bidding for military cargo between subsidized lines and unsubsidized lines, the unsubsidized lines would be at a terrific disadvantage.

Consider, for example, a situation where on a given trade route the military is offering a block of cargo sufficient to fill 50% of the space on sailings offered by our line or by a subsidized competitor. A subsidized competitor, if it feels it needs the military cargo, can bid for it at rates below ours since the subsidized line will receive full subsidy of approximately \$1,400 a day per vessel—over a half million dollars a year for each ship—whether it carries all commercial cargo, or 50% military cargo.

Under the present system of military procurement, rates are set at a level which permits unsubsidized lines to survive. The payment of subsidy to our competitors is a disadvantage to us, but not one which threatens the existence of our services. With competitive bidding, subsidy would become a direct weapon against us enabling our subsidized competitors to undercut us in competition for cargo which can only move by American-flag ships. This result would be paradoxical, and completely contrary to the purposes of the Merchant Marine Act of 1936 under which subsidy is paid. Subsidy is paid supposedly to meet *foreign* competition. Military cargo is not subject to foreign competition and subsidy should not be paid to allow subsidized American-flag lines to underbid unsubsidized American-flag lines for cargo which is *not* subject to foreign-flag competition.

The prospect of bidding where one group of lines is subsidized and others are not has another paradoxical aspect. Presumably the purpose of competitive bidding is to obtain the lowest price transportation for the government, and hence to cost the taxpayer the least. If one group of lines is being paid a subsidy, the actual out-of-pocket cost for cargo moving by subsidized lines should be computed by adding to the price paid for the transportation the amount of subsidy being paid to perform such transportation. This subsidy cost is estimated at over \$35,000,000 a year.

It seems most surprising that the Department of Defense, while supporting competitive bidding because of anticipated cost savings, has been unwilling to recognize the fact that the taxpayer would be paying for transportation out of two pockets if bids by subsidized lines are considered on the same basis as bids by unsubsidized lines. It is narrow policy to look only to the costs of one department of government instead of total costs.

Unsubsidized United States flag services such as ours are valuable to the national economy and the national defense. The annual operating subsidy for our fleet—if it were subsidized—would exceed \$30,000,000 a year. To drive such unsubsidized services out of business would be poor economy if the "savings" realized are not real savings but only a partial return of subsidy which was paid to sustain a merchant marine.

At the minimum, if there is to be competitive bidding for military cargo, the bidding cannot be fair unless subsidy is withheld to the extent the subsidized lines are carrying military cargo. In other words, if 50% of the cargo carried by a subsidized line is military cargo not subject to foreign competition, then that line should only be paid at most 50% of the subsidy for that voyage. Even this reduction will not equalize the competitive situation, since the remaining 50% of the subsidized lines' ships would be filled with commercial cargo. Subsidized and unsubsidized lines both receive the same revenue from commercial shippers, but the subsidized lines in addition receive subsidy on half the cargo being carried.

In summary, we have opposed competitive bidding for military cargo because of the grave threat we see to continuation of unsubsidized American-flag service. We have not opposed and we do not oppose regulation of the rates paid on military cargo to assure that rates are fair and reasonable. If competitive bidding is instituted for military cargo, it is absolutely vital that subsidized and unsubsidized lines compete for such cargo on an equal basis. While representatives of the Department of Defense and the Department of Commerce have testified to your Committee that they agree in principle on such equality, there is as yet no firm policy which will assure such equality. Accordingly, we appreciate your concern with the threat to unsubsidized services, and we urge your Committee to keep a careful watch over the policies developed by the Department of Commerce and the Department of Defense in order to assure that the policies are administered in a way which will preserve the unsubsidized American-flag merchant marine.

Respectfully,

ROBERT G. STONE,  
*President, States Marine Lines, Inc.*  
A. E. KING,  
*President, Isthmian Lines, Inc.*

(Finally, on May 31, 1966, the subcommittee received a letter from AGAFBO concerning the statement of Marshall Safir submitted on May 19, 1966. This letter is printed in the record at this point.)

ATLANTIC & GULF,  
New York, N.Y., May 31, 1966.

Senator PAUL DOUGLAS,  
Senate Office Building,  
Washington, D.C.

DEAR SENATOR: In Mr. Safir's prepared statement which is included in the record of the hearings held by your committee on May 19, 1966 there are certain statements as to which we would like to correct the record.

Mr. Safir outlines his proposal to the Department of Defense relative to the movement of Military Household Goods on through Government bills of lading. He states that Sapphire Steamship Lines was formed because he could not obtain "realistic transatlantic ocean freight rates from the member lines of AGAFBO" and "to provide an American flag berth service which would make available to our companies and others a reasonable ocean freight rate on the carriage of household goods." But he does not state that as brought out in the testimony in Docket 65-13 he carried almost no such household goods for "other" companies and less than 50% of "our companies" captive household goods business. Further he does not state that he has, since the AGAFBO rate reverted on March 2, 1966, been offered and rejected household goods for Baltimore, Philadelphia and New York from "other" companies. Admiral Donah's figures on savings reflected a total of \$13,899, 291.24 of which \$6,073,950.60 is household goods which was almost entirely carried by member lines of AGAFBO.

Mr. Safir contended that Sapphire Steamship Lines "is engaged in a regular berth service to carry in either direction across the Atlantic commodities for commercial shippers and for Government organizations, including the Department of Defense". Again the testimony and evidence in Docket 65-13 makes it perfectly clear that Sapphire has been operating almost exclusively as a military contract carrier enjoying a unique preference never before accorded any commercial carrier by MSTs.

As to Mr. Safir's allegations that "members of AGAFBO" have and continue to make efforts "to put Sapphire in a position where it could not remain in business" it was just such charges as these made by Mr. Safir when he previously appeared before your committee that led AGAFBO to also join in your request for a hearing before the Federal Maritime Commission to determine their validity. Based upon the record in Docket 65-13 we believe these charges have been demonstrated to be groundless.

Mr. Safir stated that "Sapphire has shown that the rates charged in the past by AGAFBO carriers were unreasonably high". However, as of this date this has not been proven. Again the record in Docket 65-13 has clearly shown that Sapphire rates were so unreasonably low that even operating with special preference on a limited port basis substantial losses were incurred. Had Sapphire operated as a common carrier serving both commercial shippers and the military over the range of ports he proposed to serve with parcel lots of military cargo instead of ship loads, his rates would have been even less realistic.

One very important fact not mentioned by Mr. Safir is that Liberty-Pac International Corp. had been notified on May 11, 1966 that no further shipments would be offered to it until it furnished to MTMTS evidence of its financial capability and ability. This action was taken because of outstanding indebtedness on a world wide basis to agents and ocean carriers including but not limited to carriers who are members of AGAFBO.

Although Mr. Safir stated that "Sapphire Steamship Lines has satisfied the Maritime Administration that an unsubsidized service under the American flag employing unsubsidized American ships and American seamen is feasible", yet in Docket 65-13 Mr. Safir testified that he was convinced that no American flag operator could operate in the foreign commerce of the United States without subsidy.

Many of the matters raised by Mr. Safir are at issue in Docket 65-13, now pending before the FMC. Hearings have now been completed. We believe that this tribunal having developed a full record and delegated by Congress to pass upon these issues is the appropriate place for these contentions to be passed upon.

We believe that the record should reflect the facts and since Mr. Safir's prepared statements were inserted in the record we would request that this letter also be made a part of the record.

Very truly yours,

R. L. HANSEN, *Secretary.*

Chairman DOUGLAS. We expect to hear this morning from the Under Secretary of the Navy and the Commander of the Military Sea Transportation Service. These gentlemen are to be congratulated for their new competitive procurement policies for ocean transportation. They are expected to explain to the subcommittee the methods by which these policies will be implemented.

Before we hear from the Department of the Navy, the Honorable Alan Boyd, Under Secretary of Commerce for Transportation, will testify.

A few weeks ago, on behalf of the subcommittee, I wrote the Under Secretary and asked three specific questions: First, whether the Department of Commerce would withhold or reduce subsidy payments to American-flag ship operators who charged discriminatory rates; second, whether the Department of Commerce would continue to pay subsidies on that portion of cargo carried by subsidized lines which is shipped by the Department of Defense; and third, whether the Department of Commerce would favor the transfer of all cargo preference functions, with the exception of Defense cargoes, to the Department of Commerce, as suggested by the Department of Agriculture and AID last year.

On May 16 of this year, Under Secretary Boyd responded to my letter and stated he would address himself to these questions this morning.

We are pleased to have as our first witness the distinguished Under Secretary of Commerce, Mr. Boyd.

We know you want to be excused by 10:45, Mr. Boyd, so we will move along rapidly.

**STATEMENT OF ALAN S. BOYD, UNDER SECRETARY OF COMMERCE FOR TRANSPORTATION, ACCOMPANIED BY DANIEL F. O'KEEFE, JR., ASSISTANT GENERAL COUNSEL FOR TRANSPORTATION, DEPARTMENT OF COMMERCE; AND IRA DYE, CAPTAIN, U.S. NAVY, CHIEF, OFFICE OF PROGRAM PLANNING, U.S. MARITIME ADMINISTRATION**

Mr. BOYD. Thank you, Mr. Chairman.

I am accompanied by Mr. Ira Dye, Chief of the Office of Program Planning for the Maritime Administration; and Daniel F. O'Keefe, Jr., Assistant General Counsel for Transportation.

Mr. Chairman, I wish to thank you for this opportunity to discuss some of the economic problems in international maritime transportation.

I would like to begin by referring to your recent letter to me on the role of the Department of Commerce in your investigation. Your letter referred to the "final" report on departmental research made on June 30, 1965, and asked two penetrating questions about the payment of subsidy to U.S.-flag carriers and one in regard to the centralization of cargo preference administration.

First, I want to report on the Commerce Department's continued interest in the economic research area. As you may recall, last June certain restrictions prevented a full disclosure in the testimony of the Department before your committee with regard to a study on ocean transportation costs carried out by Ernst & Ernst. These restrictions were imposed by the provisions of the Federal Reports Act of 1942 (5 U.S.C. 139) and the criminal sanctions against the disclosure of trade secrets found in 18 U.S.C. 1905.

Cost information of this type is an important reference base in our data collection and analysis program for the maritime industry. For this reason, late last summer, the contract with Ernst & Ernst was extended to explore availability of alternative sources of information other than the official cost reports made to the Maritime Administration by the carriers involved. The objective of the second phase of the study was the development of new cost figures which could be made public. Earlier this month, Ernst & Ernst advised my office that:

Facts and figures concerning cargo handling cost have been scarce. As you know, an effort was made to establish contact with MSTs, MTMTs and other Government agencies which ship large quantities of cargo throughout the world so that we could review their records. These arrangements were only recently made and a review of their records indicated cost data from these sources is of little value. However, we have since had some promising success in dealing with commercial firms engaged in various aspects of cargo handling and it appears the data source problems in this category may be resolved. If not, an alternative study approach which considers cargo handling costs indirectly is possible and we will discuss this with you should it become necessary.

Senator DOUGLAS. Just a moment.

This committee first asked this vital and crucial question in 1964. We have been slow-balled ever since then, Mr. Secretary. Now you come before us and say the study will not be completed until August, and you know that will be toward the end of the session when we will be busy and, in effect, this means you won't reply to us until next year.

Very frankly, Mr. Secretary, this is a common device of administrative agencies in trying to delay and impede the inquiries of the Congress, and I don't like it.

Mr. BOYD. Mr. Chairman, I could not disagree with you more strongly. If we are failing in our activities in his regard, I am completely unaware of it.

Chairman DOUGLAS. I just remind you of the record. How long does it take for us to get a reply from an administrative agency? We first asked this vital first question, namely, as to whether you would continue to grant subsidies to American lines which practice discriminatory rates against American exports. We asked that question 2 years ago. In 2 years you would think it would be possible for you to give an answer.

Mr. BOYD. I will give you an answer, sir. I have it a little further in my testimony.

Chairman DOUGLAS. All right. But I object to this Ernst & Ernst slow-ball business.

Mr. BOYD (reading:)

Since a considerable delay was experienced in making arrangements to review the data of the Government agencies, the target date for completion of our study will necessarily be extended. We now anticipate completing our report by no later than the end of August.

When this unclassified cost information is received, the Department will review the feasibility of continuing the research program jointly developed in cooperation with your committee several years ago—including the type of analysis that former Assistant Secretary Brimmer suggested during his testimony before you last June.

Chairman DOUGLAS. In other words, we will begin to start to commence to prepare to get underway to give an opinion by the end of August.

Mr. BOYD. I would like to call to the committee's attention the publication of the shippers handbook which was discussed in our previous testimony. The Federal Maritime Commission and the Department cooperated in the preparation of this document entitled "Ocean Freight Rate Guidelines for Shippers." It will be a significant aid in meeting the needs of small and potential exporters for information about the rate aspects of ocean transportation, and we are pleased with the widespread distribution it has already received.

Mr. Chairman, I also want to mention the support which the Department of Commerce has given to a special transportation action group of the National Export Expansion Council. I understand that you made the report of this group part of the committee record on May 6 because a number of its resolutions called for action in areas which are of interest to this committee. You may be pleased to know that at the last meeting of the National Export Expansion Council, this transportation group was given a status of permanency by the council.

Chairman DOUGLAS. That is very reassuring.

Mr. BOYD. There is a need for deeper consideration of the export expansion aspects of our national transportation program and I anticipate a productive relationship with the transportation action group. More specifically, with a continuation of our unfavorable balance of payments position, I plan to look further at the transportation facets of the problem with the objective of encouraging remedial measures which are consistent with national policy.

I would now like to turn to the specific questions raised in your letter. My remarks, of course, will be circumscribed by the fact that the future configuration of maritime policy is a matter currently under review by the administration.

First, should the Department reduce or eliminate operating differential subsidy payments to U.S.-flag carriers who charge rates determined to be discriminatory by the Federal Maritime Commission?

This question should be considered in the context of where within the Federal Government responsibility is lodged for performing ocean shipping regulatory functions. The Federal Maritime Commission, under provisions of the Shipping Act of 1916, is responsible for the regulation of shipping in our foreign commerce.

Regulation in this field primarily concerns surveillance over the practices of ocean shipping conferences—organizations of common carrier lines—established primarily to work out rate agreements. The Federal Maritime Commission has the power, as provided by law, for approving or disapproving agreements establishing these conferences and is responsible for policing their operation.

If the Federal Maritime Commission determines that specific conference practices involving U.S.-subsidized lines are discriminatory, the Department of Commerce is then faced with the question of how



such practices by U.S.-subsidized operations affect the promotional responsibilities exercised pursuant to the Merchant Marine Act of 1936.

It is the policy of the Department of Commerce to await a statutory finding of unjust discrimination by the Federal Maritime Commission prior to taking action. The facts relating to whether such discrimination exists are complex, and the FMC has the appropriate legal mechanism to make such findings assuring due process to all concerned.

However, if unjust discrimination has been legally determined, the Department of Commerce would strive to eliminate such discrimination, to prevent its recurrence and to prevent subsidy from continuing to be paid to a carrier found to be charging unjustly discriminatory rates or engaging in discriminatory practices.

Chairman DOUGLAS. Mr. Boyd, the interagency task force made a report in 1965, I believe.

Mr. BOYD. Yes.

Chairman DOUGLAS. Did that interagency task force make a finding that the rates on exports of American goods tended to be higher than the rates on foreign goods coming into this country?

Mr. BOYD. I don't recall that finding. We had considerable concern above the movement of cargo on Government bills of lading.

Chairman DOUGLAS. On page 11 of this report, the recommendation is: Subsidized operators would be required to obtain the permission of the Maritime Administration prior to joining a conference or other agreement. The Maritime Administration would maintain surveillance over subsidized operators' participation in conferences, pools, or other agreements to determine whether such association is compatible with the objectives for which the merchant marine is subsidized.

Criteria used in judging compatibility would include, for example, findings by the Maritime Subsidy Board that agreements were maintaining freight rates that tend unfairly to impede the flow of U.S. commerce or encouraging practices discriminatory to U.S. trade or denying to the U.S. Government requests for legitimate information, and that ship operators under proposal A would be encouraged to operate outside of the conference structure where possible. There is no mention of the Maritime Commission in this report.

Mr. BOYD. I can clear that up, Mr. Chairman. In my testimony I am discussing what is. In our task force report we are discussing what ought to be, at least in the judgment of a very few dedicated, conscientious public servants.

Chairman DOUGLAS. Aren't you a dedicated, conscientious public servant?

Mr. BOYD. Yes, I am.

Chairman DOUGLAS. What is your opinion? Do you believe on the basis of the study you have given to this subject that there are discriminatory practices operating against American exports? I ask you as a high-minded, conscientious, devoted public servant.

Mr. BOYD. Let me answer it this way, Mr. Chairman, by saying that I was chairman of the task force committee.

Chairman DOUGLAS. That is what I thought, and this report is your report.

Mr. BOYD. Yes, sir; and I subscribe to it 100 percent. But that is not the law of the land today.

Chairman DOUGLAS. I ask you as an individual. Do you believe that there are discriminatory practices against American exports?

Mr. BOYD. I do not know. I have not studied the report which was submitted by my office to this committee, and I do not know.

Chairman DOUGLAS. What was the report submitted by your office? Your office indicated that there were discriminatory practices in Brimmer's study. You haven't studied that report?

Mr. BOYD. No, sir; I have not.

Chairman DOUGLAS. Mr. Boyd, I think you ought to know what is going on in this field, what your own groups report, rather than pleading ignorance.

Mr. BOYD. I am ignorant, Mr. Chairman, but I make no apologies for it.

Chairman DOUGLAS. I don't think you should make any apologies. I think you ought to make confessions and ask absolution.

Mr. BOYD. I will appear at the altar for absolution.

Chairman DOUGLAS. I can't grant you. The deity above is the only one that can do that.

Mr. BOYD. I will say this, Mr. Chairman, that down at the other end of Pennsylvania Avenue there are still only 24 hours in a day.

Chairman DOUGLAS. You haven't had time? This is an important subject.

Mr. BOYD. Yes, sir; I appreciate that.

Chairman DOUGLAS. It is a highly important subject. We have been developing evidence on this matter for 3 years. All the accumulation of evidence indicates that there are discriminatory rates against American exports, and that these impede American exports and stimulate imports. They adversely affect our balance of trade, probably to the tune of hundreds of millions of dollars a year. This is one of the primary concerns of the Department of Commerce.

You are the Under Secretary in general charge of all the agencies of transportation. Your Department prepared a study showing there was discrimination in ocean freight rates, yet you come in here and plead that you haven't had time to go over it and you must suspend judgment.

I am deeply disappointed, Mr. Boyd; particularly, I had better hopes for you after this report.

Evidently you had some knowledge of the subject at that time because you moved toward a position of shutting off subsidies to American lines which discriminated against American exports.

Mr. BOYD. The fact remains, Mr. Chairman, that Mr. Brimmer's study does not constitute a legal finding so as to have any impact on the operations of the Federal Maritime Commission or the Maritime Administration of the United States.

I support fully the findings and conclusions which we put in the Inter-Agency Task Force and I have done what I reasonably feel I could to try to get some change on policy in the administration and in the Congress to effectuate that.

Chairman DOUGLAS. That may well be true. But the acid test is what are you going to do on these subsidies? Why should you reward concerns that discriminate against the United States of America? That is the question.

Mr. BOYD. That is not the question, if I may differ with you. The question is whether or not the Federal Maritime Commission makes

a finding of discrimination. We have no power in the Department of Commerce to make a finding of discrimination that has any legal impact whatsoever.

Chairman DOUGLAS. You haven't studied the question sufficiently to give any opinion as to what kind of a finding they should make, in your judgment?

Mr. BOYD. Well, I think it would be presumptuous for me, except on the record before the Federal Maritime Commission, to express such an opinion, whether or not I have studied it. This is a matter which is covered under the Administrative Procedures Act.

Chairman DOUGLAS. It is such things as this that are making the American people fed up with the redtape which is always thrown in the way of any attempt to protect American industry, American labor, or the American consumer. There was never more redtape than the public has in dealing with regulatory officials in the Government, except for a few courageous men such as Admiral Donaho.

Mr. BOYD. The laws under which we operate are the laws which you and your colleagues have enacted, Mr. Chairman.

Chairman DOUGLAS. Let's go on. Otherwise, this situation is likely to become worse between us.

Mr. BOYD. Second, should the administrative responsibility for all nonmilitary cargo preference programs be placed within the Department of Commerce?

In my view, it would be unwise to centralize the responsibility for cargo preference programs in the Department of Commerce. The agency responsible for arranging for the shipment of Government cargo should be primarily concerned with obtaining the best price and terms for such shipment, but should not be responsible for the promotion of the cargo carriers.

This is not to say that it may not be to the Government's advantage to centralize the "booking" or shipping arrangements for all cargo preference cargoes in one agency, thereby providing the maximum opportunity for greater efficiency through consolidation of shipments and the price leverage that the larger volumes under one agency would give. However, such a central chartering agency should not be under the same official who is responsible for maritime promotion.

Third, under the new MSTS competitive bidding policy, should subsidy payments to U.S.-flag ships carrying Department of Defense cargo in liner operation be reduced so that subsidized and nonsubsidized U.S.-flag operators may be able to compete for military shipment on an equal footing?

In prepared testimony, the Navy Department has outlined a study, which is now underway, to establish a new shipping procurement program for carrying out the recently announced policy of the Secretary of Defense. The Navy has indicated that it is still too early to provide the Joint Economic Committee with findings by its advisory committee or by internal MSTS studies, but that final plans should be available to the committee within the next few weeks.

The Department of Commerce is aware of the instructions given to the advisory committee to guide this study. However, as indicated by the Navy, work of the MSTS under this project has not been made available to any organization or individual outside of the Department of Defense. Until this Department is fully aware of the procure-

ment procedures which finally are established by the Navy Department, we believe it would be premature to comment specifically upon their impact on maritime promotional programs.

The Department, however, does believe that subsidized and nonsubsidized U.S.-flag operators should compete for MSTC cargoes on an equal basis.

Chairman DOUGLAS. I am glad you say that.

Mr. BOYD. That is, the subsidized operators should not have a competitive advantage as a result of the subsidies they receive. The Department has responsibility for promoting all segments of the U.S. merchant marine and recognizes that the presently unsubsidized segment is a vital part of our merchant fleet and that its continued existence must be fostered. We realize that the procurement policy outlined by Defense may necessitate certain adjustments in the present subsidy program if we are to assure that no unfair advantage of subsidized lines over the unsubsidized competitors is permitted. The Department is also firmly opposed to the provision of a "double subsidy," for example, through simultaneous payment of operating subsidy and higher freight rates which are not economically justifiable.

This is another subject to which we adverted in our task force report.

Until more precise information is available on the procedures to be followed in carrying out the Department of Defense policy, the Department of Commerce is not prepared to state precisely its recommendations on these issues. This Department has been asked for guidance by the Navy Department's advisory panel on a number of these issues and the subject is currently under study.

As you well realize, decisions to overturn practices of the past 30 years must be carefully assessed in terms of their prospective economic impact and legal implication. For example, consideration must be given to (1) creation of an equitable system for prorating subsidy; (2) the relationship of any revised subsidy procedures to statutory requirements; and (3) existing contractual arrangements which the Government has with subsidized operators.

Since the Department of the Navy anticipates that it will report to you within a few weeks on its proposed procedures, the Department of Commerce requests that it be given an opportunity to study these new procedures once they are issued before providing the committee with more definite answers to this last question.

In conclusion, I should also reiterate that these questions also closely relate to maritime policy considerations which are now under review within the Administration and any revised subsidy scheme must be developed in the light of these considerations.

Thank you, Mr. Chairman.

Chairman DOUGLAS. Mr. Boyd, you are aware of the fact that the Navy Department has set July 1 as the deadline for the issuance of their new procurement policies?

Mr. BOYD. Yes, sir.

Chairman DOUGLAS. Do I understand you to say you will do nothing until July 1 has come and then study these proposals?

Mr. BOYD. No, sir; that is not the import of my testimony. The import of my testimony is that we are unable to study the proposals until we know what the proposals are.

Chairman DOUGLAS. How can you study these new procedures once they are issued? That would mean you would only do it after July 1.

Mr. BOYD. It is a very poor choice of words on my part, Mr. Chairman. By "issued" I meant made available to the Commerce Department for study.

Chairman DOUGLAS. Have you addressed your thought to the possibility, which I hope will be a reality, that the Navy Department will announce that they will have competitive bidding? What would you do then? Suppose they make permanent their present policy which Admiral Donaho has courageously put into effect?

Mr. BOYD. The way I view our role is to make whatever efforts we can in the context of the procedures established by the Navy Department to ascertain that the subsidized and the unsubsidized carriers are able to bid on an equal, competitive basis.

Chairman DOUGLAS. In drawing up war plans for any military or naval operation, you can't wait until after a given move is made. You have to draw plans in advance. If A is done, and what do we do then: suppose B is done, what do we do then?

You consider the capabilities and the intentions of the other party. It seems to me we ought to have some commonsense of military planning introduced into civilian planning.

Have you ever considered this: Assume that Admiral Donaho's policy of competitive bidding is carried out, and that they don't agree to permit the pools and cartels to dictate the rates. Under those conditions, what should be done with the subsidies?

If you give subsidies to lines on traffic carried for the Defense Department, you are, in effect, subsidizing them against the mavericks who have never been in the cartels, who are fighting the cartels.

Mr. BOYD. We are working on these contingencies, Mr. Chairman.

Chairman DOUGLAS. Are you really?

Mr. BOYD. Yes, sir. I give you my word, we are. I do want to say this to you, sir: We have, within the Maritime Administration, and within the Department of Commerce, a number of lawyers who have responsibilities in this area, and there is a grave difference of opinion about various legal aspects of this subsidy business.

Chairman DOUGLAS. Would you be willing to take the opinion of the General Accounting Office on this matter?

Mr. BOYD. So far as I am concerned; yes, sir.

Chairman DOUGLAS. I am going to ask that we ask for an advisory opinion from the General Accounting Office on this issue, and copies be sent to you. So if you don't ask them, we will. We will address the letter tomorrow. Mr. Stark, will you see that this is done?

Mr. BOYD. It would be very helpful.

Chairman DOUGLAS. We are together, then.

Mr. BOYD. We are together on more things than you seem to appreciate, Mr. Chairman.

Chairman DOUGLAS. I hope that may be so.

I was greatly encouraged by this report of October 4, 1965, but not so encouraged by your statement on the 19th of May 1966.

Mr. BOYD. I reiterate, Mr. Chairman: I am discussing on May 19 the situation as it exists, and this is none of my making. It is of your making, Mr. Chairman.

Chairman DOUGLAS. We want to move from what is to what should be.

Mr. BOYD. Yes, sir. I reiterate there that I have done everything that I could do in attempting to have the task force suggestions obtain the status of law.

Chairman DOUGLAS. This is a great game of "Button, button, who has the button." It passes from one agency to another. Then the agency comes back to Congress. The great question is whether you are moving under the authority which you already have. The policy of the United States is against discrimination, against the use of pools and discriminating (a) against the American commerce; (b) against the individual shippers; and (c) against other shipping lines.

Mr. BOYD. It is also the policy of the United States that those findings shall be made by the Federal Maritime Commission.

Chairman DOUGLAS. The public must have a defender. To throw this burden on individual shippers is too heavy a burden. I was greatly encouraged by the previous Secretary of Commerce, who evidenced a real concern on this matter. We had the help of the previous Secretary of Commerce and we hope for the cooperation of the present Secretary and Under Secretary.

I have no further questions.

Mr. BOYD. Mr. Chairman, I would like to say we are attempting in every way we know how to cooperate with you and with this committee. If we have failed in any way, I would like very much to know about it in order that we can improve our operation.

Chairman DOUGLAS. I appreciate those kind and conciliatory words. I don't know whether I can reciprocate in truth, but I will try to reciprocate in gentility. I know some of the difficulties in modern bureaucracy, and I know something of the efforts of the shipping cartels to cover up, conceal, delay, and continue in the policies which they have carried out.

It reminds me of Ibsen's Peer Gynt, when Peer Gynt contested with the fog and was not able to deal with it very well.

Thank you very much.

Mr. BOYD. Thank you, Mr. Chairman.

Chairman DOUGLAS. We also appreciate the attendance of the Under Secretary of the Navy, the Honorable Robert H. B. Baldwin, and Vice Adm. Glynn R. Donaho.

We will reserve questioning until both of you have finished your statements.

**STATEMENTS OF HON. ROBERT H. B. BALDWIN, UNDER SECRETARY OF THE NAVY, AND VICE ADM. GLYNN R. DONAHO, U.S. NAVY, COMMANDER, MILITARY SEA TRANSPORTATION SERVICE; ACCOMPANIED BY ROBERT CARL, SPECIAL ASSISTANT ON TRANSPORTATION MATTERS TO THE UNDER SECRETARY**

Mr. BALDWIN. I want to introduce Mr. Robert Carl, my special assistant on transportation matters.

Mr. Chairman, I appreciate the opportunity to appear before this committee and would like to present a statement I have prepared covering the subject of ocean transportation rates charged to the military by commercial steamship lines.

I expect to oversee the implementation of the policy detailed before this committee by Mr. Moot wherein he outlined the competitive

procurement negotiations to be instituted by MSTs on approximately July 1.

Since this policy represents a new concept in the procurement of ocean transportation, I feel that it is necessary to secure the best advice obtainable, not only from experts within MSTs, but also from those outside, in order to achieve a formula which will provide the Defense Department with the most economical and efficient means of procuring ocean transportation.

Chairman DOUGLAS. May I violate my own rule? I said I would postpone questions until the end. Apparently you wish to oversee and decide whether the policy announced by Mr. Moot is to be carried out.

Mr. BALDWIN. No, that is not correct, sir.

Chairman DOUGLAS. Mr. Moot was speaking as a representative of the Secretary of Defense. The Secretary of Defense is your superior.

Mr. BALDWIN. That is correct. I plan to see how that policy is carried out, not to see whether it is carried out.

Chairman DOUGLAS. You accept the principle of competitive rates? Mr. BALDWIN. I do.

With that idea in mind, I recently formed an advisory committee composed of the following members: Dr. Carl McDowell, former professor, Graduate School of Business, Stanford University, and author of the book "Ocean Transportation." His academic background in this field is well known, I am sure, to most of the committee; Mr. Clarence Morse, former Chairman of the Maritime Administration, and a distinguished admiralty lawyer; and Mr. Alex Coker, of New Orleans, a maritime consultant who has had over 35 years of extensive background in ocean rates and traffic.

Chairman DOUGLAS. I have had the pleasure of meeting Mr. Alex Coker, who is a most amiable and charming gentleman. I haven't met the other two men. You are emphasizing their nonpartisan relationship. Is it true that Mr. McDowell was formerly an employee of the Pacific Transportation Lines?

Mr. BALDWIN. I don't believe that is correct, however, I will supply this information for the record.

(Information subsequently received:)

Dr. Carl McDowell was a member of a consultant group hired by Pacific Transport for a study of the line's economic potential when it applied for a subsidy under the 1936 Act. He was at no time hired as an individual by Pacific Transport.

Mr. BALDWIN. Let me give you the background on Mr. McDowell that I have. During the war he served in the Navy in the Port Director Service in the Pacific area and as Deputy Assistant to the War Shipping Administrator.

He is a past president of the National Council of Seamen's Agency and has been special assistant to several chairmen of the U.S. Maritime Commission.

He is the executive vice president of the American Institute of Maritime Underwriters, an instructor of general shipping procedures at the College of New York and a consultant to the United Nations on general containerization development.

Chairman DOUGLAS. This will be inserted into the record in connection with this examination.

Is it true that Mr. Cocke was for many years vice president of Lykes Bros.?

Mr. BALDWIN. Yes, sir.

Chairman DOUGLAS. And probably their most active representative before the public. He has only recently become a maritime consultant, is that correct?

Mr. BALDWIN. That is correct, sir.

Chairman DOUGLAS. Is it true Mr. Morse was former president of the Pacific-Far East Lines?

Mr. BALDWIN. Yes, sir.

Chairman DOUGLAS. So here you have a committee, two of whom have been leading officials in shipping companies which are members of the shipping conferences, shipping cartels, admittedly so. The third man, whom we believe to have been a former employee of Pacific Transport Lines.

Do you think this is a nonpartisan committee?

Mr. BALDWIN. Yes, I do, sir. I will tell you why. You point out the 2 years Mr. Morse, from 1960 to 1962, was president of the Pacific-Far East Lines. But from 1955 to 1960 he was Chairman of the Federal Maritime Board.

Chairman DOUGLAS. Which permitted these practices and which at the time, I believe, said that anyone who didn't join the conferences would be deprived of a subsidy. In other words, the subsidy system was used when Mr. Morse was Chairman of the Maritime Board to force lines into the conferences which then, in the overwhelming evidence we have produced, discriminated against American shipping.

The subsidy system was used to support a conference system which discriminated against American exports.

Mr. BALDWIN. Mr. Chairman, when I went out to set up this committee, I went out to pick out the three men that I could find who were the outstanding men in this business. One I hoped to have an academic background, one with a business background and one with a Government background. I checked all of the industry. I checked in the Government and I checked the academic world.

For instance, in the case of Carl McDowell, I talked to Dr. George Baker, the head of the Harvard Business School. I checked with a number of academicians and he was admittedly the man they felt was the outstanding man from the academic world.

Chairman DOUGLAS. We are not questioning the integrity of these gentlemen. I am not indulging in any character assassination at all. But it seems to me you have chosen a committee whose affiliations and past loyalties were primarily with the conferences which have practiced discriminatory practices against American exports and which have favored imports and which have been the prisoners in the conferences, the willing prisoners.

Mr. BALDWIN. Mr. Chairman, I think you are insinuating that these people have a bias in favor of the conferences and these steamship lines and I resent that.

Chairman DOUGLAS. I am merely citing their past affiliations. The policy of the Maritime Board under the chairmanship of Mr. Morse was to use the subsidy system to force lines into the conferences and to penalize any of those who came out, and who tried to introduce competition.



Mr. BALDWIN. I picked the men and I stand behind them. I am very proud of this group. I worked very hard to get them. I believed, and still believe, that they are the men that are most qualified to do this and will do a very sound job. The job I have asked them to do is to tell me how we can implement competitive bidding.

As I understand it, that is what you are interested in, too. That is what they are doing.

Chairman DOUGLAS. To implement competitive bidding?

Mr. BALDWIN. To implement competitive bidding.

Chairman DOUGLAS. It will be very interesting to see their report. When do you expect to get this report?

Mr. BALDWIN. I will have the first draft next week.

Chairman DOUGLAS. The policy of competitive bidding is to go into effect the 1st of July?

Mr. BALDWIN. Or as soon as we can thereafter.

Chairman DOUGLAS. Or as soon as you can thereafter?

Mr. BALDWIN. That is correct, sir.

Chairman DOUGLAS. That opens a loophole. I thought it was the 1st of July.

Mr. BALDWIN. Mr. McNamara said we would like to do it the 1st of July or as soon thereafter as practical and I am going to see that it is done as soon thereafter as I can. This is a very complicated process which I think you understand as well as I do.

Chairman DOUGLAS. There are complications, but the other question is a moral question. People love to throw up intellectual complications in order to postpone or prevent a decision on a moral issue.

Mr. BALDWIN. I don't see the moral issue of trying to decide all the implications of this, Mr. Chairman.

Chairman DOUGLAS. The implications are that it would save the American Government a great deal of money if you carry out the policy of competitive bidding.

Mr. BALDWIN. Have I said that we are not going to put into effect competitive bidding?

Chairman DOUGLAS. No, you have not said anything, Mr. Baldwin, but I know something of the influences at work.

Go ahead.

I am sorry to break my own rule, but circumstances called for it.

Mr. BALDWIN. This committee has been in consultation with MSTs experts and those in other Government agencies with the intent of recommending procedures which will be instituted as quickly as possible.

In coordination with Mr. Moot and Admiral Donaho, I have submitted to the committee the subjects which in my view require consideration if the Government is to determine fair and reasonable rates for the shipment of military cargo worldwide.

I would like to read to you the memorandum I have addressed to members of the Advisory Committee. [Reading:]

This Committee is being convened to assist the Navy in the development of procurement procedures for use in the acquisition of ocean freight services to the maximum extent practicable through price competition and, where price competition is not practicable, through negotiation based on total applicable costs.

Chairman DOUGLAS. Where price competition is not practicable?

Mr. BALDWIN. Yes.

Chairman DOUGLAS. Why isn't price competition practicable?

Mr. BALDWIN. It might not be where you have a trade route where there is only one person providing the service.

Chairman DOUGLAS. But where there are two or more then you could have price competition?

Mr. BALDWIN. That is correct.

Chairman DOUGLAS. So you are going to carry out competition where there are two or more lines, is that right?

Mr. BALDWIN. That is the idea.

Chairman DOUGLAS. That is the idea, that is the policy.

Mr. BALDWIN. That is correct.

Chairman DOUGLAS. That is what you are going to hold to?

Mr. BALDWIN [reading]:

Recommendation of the Committee should be developed as soon as possible, preferably within thirty days.

Senator DOUGLAS. When was this issued?

Mr. BALDWIN. About the 18th of April.

Chairman DOUGLAS. Then 30 days expired yesterday.

Mr. BALDWIN. Mr. Chairman, this is me trying to push this thing through as fast as I could to meet this July 1 deadline.

In going to get these gentlemen, each of them had other things that they were involved in, and to get these people I had to allow them to go back to their own affairs a few days in between, so it is taking longer.

A couple of them turned it down on the basis that they had to put their full time on this thing. I felt it was important enough to get these three men who I considered outstanding to take the few days delay within this period. That was a decision I made. [Reading:]

The duration of the Committee, however, can be modified within reasonable limits in consonance with the indicated progress of interim reports.

Chairman DOUGLAS. What is a reasonable limit?

Mr. BALDWIN. As I told them, I hoped to have everything wrapped up by July 1. That was the best limit I could see. They are going to do everything they can. The first report is coming in next week. The first report from MSTs and their internal group is coming in next week.

We are going to pitch right in and go on beyond that, and work with these other agencies. We want to review it with Alan Boyd.

Chairman DOUGLAS. Are you sending the memorandums over to Mr. Boyd as fast as they come in to you?

Mr. BALDWIN. I thought that was the point of your question. You can be assured that we will, and to everybody who has an interest in this matter within the Government.

We want to keep these findings quiet, within the Government, until we come up with a final policy. [Reading:]

The work of this committee will be viewed as confidential material available solely to the Department of Defense.

The work scope of the Committee should include the following areas and any other directly related areas considered pertinent by the Committee:

1. Development of implementing procedures to provide for procurement by price competition and total cost negotiation in accordance with the concept expounded by Mr. Moot on 4 April at the Federal Maritime Commission Hearing.

Chairman DOUGLAS. He declared a similar policy before this committee.

Mr. BALDWIN. This was before your committee met. I was answering at that time. I was in the process of forming this committee anyway.

Chairman DOUGLAS. Do you accept the policy Mr. Moot laid down before this committee?

Mr. BALDWIN. Yes, sir.

Chairman DOUGLAS. This is governing and controlling?

Mr. BALDWIN. That is the same policy, I believe.

Chairman DOUGLAS. That declared it was the policy of the Department of Defense to have price competition.

Mr. BALDWIN. That is correct.

Chairman DOUGLAS. All right.

Mr. BALDWIN (reading):

2. Review of all trade routes for applicability of price competition or total cost negotiation.

Chairman DOUGLAS. Which ones have price competition and which have total cost negotiation?

Mr. BALDWIN. I can't answer that right now.

Chairman DOUGLAS. You previously said you were going to have price competition in all routes where there were two or more lines. Now you say you don't want to answer.

Mr. BALDWIN. I just don't have the facts. They are going to present that to me, Mr. Chairman.

Chairman DOUGLAS. I see.

Mr. BALDWIN (reading):

3. Review of alternative bases for requesting price proposals with evaluations of various methods such as space occupied, dock measurement, volume of cargo, etc.

Chairman DOUGLAS. Alternative bases to what? Price competition?

Mr. BALDWIN. That is correct, sir.

Chairman DOUGLAS. It is a wide area opened now when you can negate the policy of Admiral Donaho and Secretary McNamara.

Mr. BALDWIN. I don't think so, sir. I think you have to find out what you are going to ask for their price bids on and you have to determine how that is going to be done. You have to set up your request for procurement. This is one of the most important and difficult parts of this thing.

Admiral Donaho, I believe, and his men, are working just as hard as we are. This is going to be coordinated between the two.  
[Reading:]

4. Review of the extent that cargo consolidation can be accomplished under the constraints of military priorities for delivery of cargo.

5. Development of formats and analysis techniques for submission and evaluation of price competitive proposals and total cost proposals for negotiation.

6. Review and recommendations concerning contractual media to be used to include such aspects as time duration, clauses of special significance, etc.

7. Review and recommendation concerning procedure for offsetting maritime subsidies against gross applicable cost when procurement is on a cost negotiation basis.

Chairman DOUGLAS. Do you accept the principle that where a line carries a defense cargo receiving a maritime subsidy, the maritime subsidy should not be used to enable this line to underbid and undercut a nonsubsidized line?

Mr. BALDWIN. I want to wait until I hear the report from the Committee and make up my mind.

Chairman DOUGLAS. Do you mean the Advisory Committee composed of these three members that you mentioned?

Mr. BALDWIN. This is correct. This is a very complex subject. We want to talk to Commerce and the Maritime Administration.

This is a very difficult part of the whole thing.

Chairman DOUGLAS. Do you mean that? Aren't you going to share this with the Department of Commerce?

Mr. BALDWIN. The original drafts. But when we come up with our final thing, we will have it there until our determination.

Chairman DOUGLAS. Read the next sentence.

Mr. BALDWIN (reading):

Under no circumstances should any part or any recommendation of the study be made available to organizations or individuals outside the Department of Defense.

Chairman DOUGLAS. You are not going to make recommendations available to the Department of Commerce and Mr. Boyd?

Mr. BALDWIN. We can, but they are not to.

Chairman DOUGLAS. You say it will not be made available to organizations or individuals outside the Department of Defense. Mr. Boyd is outside.

Mr. BALDWIN. We are telling them not to make it. We are the ones that take that responsibility, if we want to make it available to them. [Reading:]

The Committee will no doubt wish to draw on existing information and data within the Department of Defense from agencies like the Military Sea Transportation Service and the Military Traffic Management Terminal Service, among others.

In order that you may have free access to whatever information you need from these agencies, I will ascertain that agency heads are apprised of your project and will enlist their cooperation for your program.

In addition, you will wish to consult with government agencies outside the Department of Defense, such as the Maritime Administration. As the study progresses, a program for these consultations can be arranged. On completion, the study should be submitted to me.

Chairman DOUGLAS. That is the end of your memorandum to the Advisory Committee of three?

Mr. BALDWIN. That is correct.

As you can see, this covers a wide area —

Chairman DOUGLAS. Now you are speaking of this committee in the next paragraph, the Joint Economic Committee?

Mr. BALDWIN. No, I am talking of the Study Committee.

Chairman DOUGLAS. The Study Committee or Advisory Committee?

Mr. BALDWIN. The Advisory Committee.

As you can see, this covers a wide area and I am sure the Committee, in coordination with MSTs, will develop the necessary guidance to assist the Navy Department in establishing formulas and methods to move smoothly into new procurement programs.

While it is still too early to provide the Joint Economic Committee with any findings, either by my Advisory Committee or by "in-house" MSTs, I shall be happy to forward to your Committee within the next few weeks the final plans for the institution of competitive procurement by MSTs. We are making every effort to complete the study as quickly as possible.

I have been concerned about ocean rates and have taken an active interest in MSTs' responsibility in this area.

This interest has led me to recommend to MSTs to utilize a container service to certain areas in the Far East.

Chairman DOUGLAS. Is it not true, Mr. Safir is the originator of the container system?

Mr. BALDWIN. No.

Chairman DOUGLAS. One of the originators?

Mr. BALDWIN. No, sir.

I am afraid you would have to say he is a Johnny-come-lately to that business, sir.

A recommendation which will materially reduce the total transportation costs charged the military. This container concept provides what we call a total system concept or in clearer terms from source to user.

We must give continuing attention to responsive cost analysis programs which will enable Commander, MSTs, to exercise vigilance over commercial ocean rates charged to the military.

Chairman DOUGLAS. Mr. Baldwin, you mentioned the two committees—no, you mentioned one committee which you have advising you. You refer to it as a public committee, I think. I think it could be characterized as an industry advisory committee.

Is there another committee working on this?

Mr. BALDWIN. Yes, sir.

Chairman DOUGLAS. You didn't mention that.

Mr. BALDWIN. I mentioned that in the prepared statement. I will give you the names, if you like. This is chaired by Capt. J. W. Lipscomb, Jr., Head, Commercial Water Traffic Division, MSTs. Other members are J. A. Brogan, Deputy Director of Operations, MSTs; W. L. Morse, counsel, MSTs.

Chairman DOUGLAS. That is a different Morse?

Mr. BALDWIN. That is Wilbur Morse. L. G. Butts, Deputy Comptroller, MSTs; L. C. Kendall, Commercial Shipping Adviser, MSTs, and Lt. Comdr. E. C. Matheson, recorder.

Chairman DOUGLAS. Are these committees of equal importance?

Mr. BALDWIN. I am going to look at both their findings on this, sir. One is a committee that is working through Admiral Donaho to me. The other is reporting directly to me.

Chairman DOUGLAS. Suppose there should be a difference in their recommendations?

Mr. BALDWIN. They will have to be resolved.

Chairman DOUGLAS. By whom?

Mr. BALDWIN. By myself and other people in the Department of Defense as to what policy we are going to follow.

Chairman DOUGLAS. What about the overriding policy as stated by the Secretary of Defense, announced by Mr. Moot speaking for the Secretary?

Mr. BALDWIN. That is basic to all that we are doing, sir.

Chairman DOUGLAS. Thank you.

Now I would like to recognize a great public servant, Admiral Donaho, Head of the Military Sea Transportation Service.

He has served this Nation in time of war and is serving the Nation with equal devotion in time of peace.

I want to express my personal appreciation to you, Admiral, for your work. I have had no personal contact with you but I have been watching your work. I want to express my gratitude.

I think you heard me give hell to some Government officials, but so that you won't think I have prejudice against them, I want you to know that I think you are a great public servant and a great patriot.

Admiral DONAHU. Thank you, Mr. Chairman.

Unaccustomed as I am to being complimented that way—I have a prepared statement that I can read or submit to the record as you wish.

Chairman DOUGLAS. I wish you would present it.

Admiral DONAHU. I thank you for this opportunity to report the financial savings which have accrued to the Department of Defense as a result of competition in the North Atlantic trade, initiated a little over a year ago, by the Sapphire Steamship Co. operating in the trade.

The North Atlantic trade consists of the routes between the United States east and gulf coast ports, and the United Kingdom and European Continent between Bordeaux, France, and Hamburg, Germany.

The North Atlantic trade is served normally by eight steamship lines. Four are subsidized.

The major portion of the military cargo in this trade moves out of New York, Philadelphia, Baltimore, Norfolk, and New Orleans.

The largest percentage of the cargo is moved off the east and gulf coast by the Waterman Steamship Corp. and other carriers in the following order of descending amount of cargo lifted:

United States Lines Co. (east coast only).

States Marine-Isthmian Agency.

Sapphire Steamship Co.

Lykes Bros. Steamship Co. (gulf coast only).

Moore-McCormack Lines, Inc. (east coast only).

Bloomfield Steamship Co. (gulf coast only).<sup>1</sup>

American Export-Isbrandtsen Lines (east coast only).

All of these carriers, with the exception of Sapphire Steamship Co. are members of the Atlantic and Gulf American Flag Berth Operators, commonly known as AGAFBO. This association was established under section 15 of the Shipping Act of 1916 to negotiate ocean shipping rates for military cargo with Commander Military Sea Transportation Service. The AGAFBO membership currently consists of 14 operators; eight of them are subsidized.

During the period between April 1, 1965, and March 31 of this year, cost reductions on military shipments in this range, as compared with prior costs, totaled \$13,899,291.24, according to our records.

(The following letter was received as a result of this testimony:)

SHEA & GARDNER,  
Washington, D.C., May 24, 1966.

In re May 19, 1966 hearings.

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

DEAR SENATOR: We have been asked by our clients to request either that the record of these proceedings be corrected or that this letter be included in the record. Our correction is directed to two arithmetical inaccuracies, and does

<sup>1</sup> Bloomfield Steamship Co. has just recently suspended berth line service. We have all of their ships on charter.

not seek to debate the many matters of policy and of opinion as to which we also differ.

1. You reached an anticipated saving of \$100,000,000 a year from competitive bidding for defense cargoes by applying an assumed 25% rate reduction to "total shipping costs" of \$400,000,000 a year [Tr. 171]. This was derived from an "ocean transportation" expenditure of \$362,000,000 in 1965 raised by you and Admiral Donaho to an estimate of \$400,000,000 for 1966 because of Vietnam [Tr. 167].

The "total shipping costs" included all forms of ocean transport, such as tramps, tankers, charter hire and possibly the MSTs nucleus fleet, not merely the liner carriage to which the 25% reduction could alone be applicable. MSTs freight paid liners in calendar year 1964 was \$186,121,000 [Table II of Ex. 217 in F.M.C. 65-13, prepared by Maritime Administration]. The speculation of \$100,000,000 of saving is, according, even if all else were accepted, about twice too high.

2. A smaller but equally clear point is that the period between 1 April 1965 and 31 March 1966, during which Admiral Donaho claimed Sapphire-induced savings of about \$13,900,000 [Tr. 161] is one year and not 10 months as first Admiral Donaho and then you subsequently assumed [Tr. 170], so the annual volume of the claimed saving would not "be something over \$16 million" [Tr. 170].

Sincerely yours,

WARNER W. GARDNER,  
ELMER C. MADDY,

*Counsel for Atlantic & Gulf American Flag Berth Operators and West Coast American Flag Berth Operators.*

Chairman DOUGLAS. You are saying you have been able to save \$13,900,000 in 1 year on Atlantic coast shipping?

Admiral DONAHO. On the range between the east and gulf coast and the United Kingdom, and in the European Continent between Hamburg, Germany, and Bordeaux, France.

Chairman DOUGLAS. This does not cover the Pacific coast?

Admiral DONAHO. No, sir.

Chairman DOUGLAS. It is a great record, Admiral. Congratulations.

Admiral DONAHO. Thank you, sir.

Chairman DOUGLAS. It is marvelous to have a public official who really thinks of cost, thinks of the general public and the taxpayers.

Did any of the lines go out of business during this time?

Admiral DONAHO. No, sir.

These savings are identified with the following movements:

Military cargo movement.....	\$7, 825, 340. 64
Through Government bill of lading: Household goods movement...	6, 073, 950. 60
Total.....	13, 899, 291. 24

The reduced shipping costs are attributed to the lower tariff rates quoted by Sapphire Steamship Co. when services were initiated in the North Atlantic trade about April 1, 1965; the reaction of the Waterman Steamship Corp. in meeting these rates on May 20, 1965; and the concomitant reaction of the AGAFBO association in lowering their conference rates to the Sapphire rates on most of the commodities moving in the trade, on May 24, 1965.

Chairman DOUGLAS. Admiral, this is, again, a very courageous statement. What you are doing is showing once we were able to get a competitive bid, then this forced the others to come down. There was a direct savings so far as shipments on the Sapphire Line is concerned, an indirect savings through forcing the others to come down by competition.

You are a very modest man, Admiral, but you will forgive me if I say something in behalf of this committee. I think it was the pub-

licity given by this committee to this situation which helped to encourage Sapphire to go into this.

I have no connection with the Sapphire Steamship Co. I assure you.

Admiral DONAHO. Neither have I, sir.

Transportation cost savings presently enjoyed will be considerably less than those realized last year because on March 2 of this year the AGAFBO association tariffs reverted to the rates in effect prior to March 29, 1965.

Chairman DOUGLAS. Do you mean they have given up their lower rates and have gone back to their earlier generally higher rates?

Admiral DONAHO. On general cargo, yes. To be specific, the rate of general cargo was increased from 40 cents per cubic foot to 54.5 cents per cubic foot, an increase of 36.2 percent.

Waterman Steamship Corp. reverted to their previously higher rates on March 2, 1966, for westbound cargo, and March 4 for eastbound cargo.

On March 14, Waterman rejoined the AGAFBO association, having resigned therefrom on May 18, 1965. Therefore, Waterman rates now are AGAFBO rates.

Chairman DOUGLAS. You are not saying this, but I am saying this, that the cartel is back in business, because they think they can prevent these competitive rates from going into effect. I said that; you didn't say it.

Admiral DONAHO. The only low-cost carrier, as compared with the AGAFBO association, now serving the North Atlantic trade and lifting cargo under Government bill of lading (GBL), is the Sapphire Steamship Co.

The Deputy Assistant Secretary of Defense (Logistics Service), Mr. Robert C. Moot, advised your committee recently that the Department of Defense intends to use competitive procurement procedures for obtaining cargo space in berth liner shipping beginning about July 1 of this year, as distinguished from negotiated procurement as now used in effecting shipping contracts with the AGAFBO and WCAFBO associations.

My staff is actively engaged in developing procedures and preparing the necessary documents for competitive procurement to be initiated beginning about July 1, or when approved by higher authority within the Department of Defense.

Chairman DOUGLAS. So you are at work on procedures?

Admiral DONAHO. Yes, sir.

Chairman DOUGLAS. I am glad you are.

Admiral DONAHO. We have shipping contracts with 31 American-flag berth operators covering all trades between continental United States and the United Kingdom, continental Europe, Mediterranean, Persian Gulf, Far East, Caribbean, and other relatively minor trade areas.

There is a west coast association of MSTTS shipping contractors similar to the AGAFBO association, also established under section 15 of the Shipping Act of 1916. This association, called the West Coast American-Flag Berth Operators, or WCAFBO, consists of nine members; five of them are subsidized.

Chairman DOUGLAS. In view of the war in Vietnam, this shipping is of tremendous importance.



Admiral DONAHO. Yes, sir.

No comparable reduction in shipping costs can be shown in any other route as a direct result of operator competition.

Chairman DOUGLAS. In other words, there hasn't been competition on the other routes.

Admiral DONAHO. No, sir.

It is anticipated that competitive procurement of commercial ocean transportation beginning about July 1 will achieve appreciable savings in the future in all trade routes.

Mr. Chairman, this concludes my prepared statement. I will attempt to answer your questions or submit them for the record.

Chairman DOUGLAS. Am I correct in thinking that you are not in favor of retaining AGAFBO and WCAFBO?

Admiral DONAHO. I have so testified, sir, before the Federal Maritime Commission (docket No. 65-13 hearings).

Chairman DOUGLAS. I congratulate you on that testimony. These are obvious cartels.

Mr. Baldwin, what about you?

Mr. BALDWIN. Yes, sir.

Chairman DOUGLAS. You are not in favor of retaining AGAFBO and WCAFBO?

Mr. BALDWIN. That is correct. They would serve no purpose under the competitive proceedings we are going into.

Chairman DOUGLAS. Admiral Donaho, when do you expect to solicit competitive proposals?

Admiral DONAHO. Secretary Baldwin has testified, sir, that he expects to hear my proposal next week. Then there will be necessary clearances within the Office of the Secretary of Defense. I believe he testified, also, clearances in the Department of Commerce.

Chairman DOUGLAS. Now a question of public policy. What effect would the passage of the bill introduced by Senator Magnuson have on your new policy?

Admiral DONAHO. This would continue the Conference control that now exists with respect to our shipping charter rates.

Chairman DOUGLAS. So it would mean an increase of 36 percent in the rates on the Atlantic coast and continue the Pacific coast situation?

Admiral DONAHO. I would not believe it would create any reduction in rates, sir.

Chairman DOUGLAS. I can see how an honest man has survived. I won't push you any further.

If you saved close to \$14 million by introducing competitive rates in the Atlantic alone, and if you go back to negotiated rates and give up competitive practices, you would lose, certainly, that \$14 million or any further economies, or possibly lose even more, and you would not be able to effect any economies on the Pacific coast where the volume of traffic is going to be enormous.

Thank you very much, Admiral.

Mr. Baldwin, how much did the Department of Defense spend on ocean transportation in 1965?

Mr. BALDWIN. It was about \$362 million.

Chairman DOUGLAS. With the war in Vietnam, the costs will be, of course, much more in 1966, isn't that true?

Mr. BALDWIN. I would think that is a fair assumption; yes.

Chairman DOUGLAS. Have you estimated as to how much more?

Mr. BALDWIN. It is hard to tell.

Chairman DOUGLAS. At least \$400 million, isn't that true?

Mr. BALDWIN. I would think that is a fair guess.

Chairman DOUGLAS. Do you have this broken down as to how much of this was for berth term liner service and how much for stevedoring and cargo handling charges?

Mr. BALDWIN. We on our part, as you know, have terminal expense not chargeable to MSTTS operations.

Chairman DOUGLAS. Stevedoring and cargo handling are not chargeable?

Mr. BALDWIN. That is correct.

Chairman DOUGLAS. That is not included?

Mr. BALDWIN. No.

Chairman DOUGLAS. This is entirely for straight shipping?

Mr. BALDWIN. Except for a miscellaneous of \$23 million included in the figure.

Chairman DOUGLAS. So that is almost entirely for shipping?

Mr. BALDWIN. That is correct.

Chairman DOUGLAS. Have you any figures on how much the stevedoring and cargo handling charges were in addition?

Mr. BALDWIN. We will have to get it from MTMTS.

Chairman DOUGLAS. Can you make an estimate?

Mr. BALDWIN. I can't. We will have to get it from the records for you, sir.

Chairman DOUGLAS. You know we have limited time here. Could you supply this in a day or two?

Mr. BALDWIN. I would think we probably could. We will try our best.

Chairman DOUGLAS. I will ask unanimous consent that the figures be inserted into the record.

(The information subsequently furnished follows:)

Commander Military Sea Transportation Service (COMSTS) has obtained informally from the Military Traffic Management and Terminal Service staff and the office of the Deputy Chief of Staff for Logistics, Department of the Army, the figure of \$87,912,451 as a world-wide charge for stevedoring and cargo handling for the Department of Defense.

Chairman DOUGLAS. I hope you go through with the policy of competitive bidding with due allowance on the subsidy question. How much would you expect to save in 1966 as a result of that policy?

Mr. BALDWIN. I don't want to guess on that, Mr. Chairman.

Chairman DOUGLAS. I will ask you this. You saved \$13 million on the Atlantic coast in a total volume of how much, Admiral Donaho? You saved \$14 million, roughly, on the total volume of how much shipping?

Admiral DONAHO. In 12 months—I would have to supply that for the record, Mr. Chairman. I do not have it broken down that way.

(Supplementary information later received from Department follows:)

The savings of \$7,825,340.64 on MSTTS cargo shipments resulted from reduced rates applicable to 18.1 percent of the world-wide total of MSTTS shipping contract tonnage which moved during the period between 1 April 1965 and 31 March 1966.

The savings of \$6,073,950.60 on through Government bill of lading (TGBL) shipments of household goods (HHG) resulted from reduced rates applicable to 43.5 percent of the world-wide total of TGBL-HHG tonnage which moved during the period between 1965 and 31 March 1966.

The above percentage of tonnage figures cannot be projected directly to reflect possible world-wide savings.

These savings occurred in the most over-tonnaged and potentially competitive trade area. While savings in other trade areas are expected with the introduction of competition, they may not be of the same order of magnitude. Accordingly, it is not possible to project a realistic world-wide savings potential at this time.

Chairman DOUGLAS. But you saved, in effect, \$14 million in 12 months.

Admiral DONAHO. Yes, sir.

Chairman DOUGLAS. So that the annual volume would be something over \$16 million, on an annual basis?

Admiral DONAHO. In this range, yes, sir. We have other ranges from the gulf to the Mediterranean, from the gulf to the Far East, from the Pacific to the Far East, and other areas where we have shipping contracts with operators.

Chairman DOUGLAS. Let me ask you this question. What percentage reduction in rates was affected when Sapphire came in and introduced competition? What was the percentage reduction?

Admiral DONAHO. Twenty-some percent.

Chairman DOUGLAS. Over 20 percent? Was it around 25 percent?

Admiral DONAHO. I think that is a good figure.

Chairman DOUGLAS. So it was a 25-percent reduction.

Admiral DONAHO. That was in this range, Mr. Chairman.

Chairman DOUGLAS. If the total shipping costs amount to \$400 million, this will be a saving of \$100 million a year.

Admiral DONAHO. Mr. Chairman, if I may interject, it will vary on different ranges.

Chairman DOUGLAS. I understand, but if this is typical, Mr. Baldwin, don't you think this is something that should be considered?

Mr. BALDWIN. We are carrying right on just step-by-step, I think in good order. We have pushed the meetings. I pushed the formation of the group. I pushed them coming in to have a meeting when most of them would have preferred it a little later. We are moving right ahead and making excellent progress on a very complicated subject.

Chairman DOUGLAS. Don't let the complications prevent the savings.

Mr. BALDWIN. I try not to, sir.

Chairman DOUGLAS. That is all. Thank you very much, gentlemen.

Mr. BALDWIN. Thank you, sir.

Admiral DONAHO. Thank you, Mr. Chairman.

Chairman DOUGLAS. Are there any others here who have statements they wish to present for the record? If not, we will conclude the hearings of the Subcommittee on Federal Procurement and Regulations in this area in this 89th Congress. We will shortly issue a report with our recommendations. Although our formal hearings are terminated for the moment, I can assure all of those present that we will remain vitally interested in this topic and possibly resume hearings in the 90th Congress. And we might even do it in the 89th. In other words, we are not going to sleep, gentlemen.

(Whereupon, at 11:20 a.m., the subcommittee adjourned.)