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DISCRIMINATORY OCEAN FREIGHT RATES AND THE BALANCE OF PAYMENTS

HEARINGS

BEFORE THE

JOINT ECONOMIC COMMITTEE

CONGRESS OF THE UNITED STATES

EIGHTY-EIGHTH CONGRESS

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DISCRIMINATORY FREIGHT RATES IN OCEAN SHIPPING AND THE BALANCE OF PAYMENTS

TUESDAY, NOVEMBER 19, 1963

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

The Joint Committee met, pursuant to recess, at 10:05 a.m., in room AE–1, U.S. Capitol Building, Hon. Paul H. Douglas (chairman of the committee) presiding.

Present: Senators Douglas, Proxmire, Pell, Javits, and Jordan.

Representatives Patman, Boggs, and Griffiths.

Also present: Senator Prouty; Representative Tollefson.

William H. Moore, senior economist; Thomas H. Boggs, Jr., and Donald A. Webster, economists; Hamilton D. Gewehr, administrative clerk; and John M. Drewry, chief counsel, House Committee on Merchant Marine and Fisheries.

Chairman DOUGLAS. The committee will come to order.

I am very happy to welcome such a distinguished group of witnesses. The relationship between the Government and the American merchant marine has been one of mutual cooperation for many years, particularly during times of national emergency. In view of the importance of this form of transportation to both the defense requirements of the United States and to our foreign trade, this cooperation is essential, and your presence here today demonstrates your spirit of cooperation. It is the purpose of these hearings to evaluate the role of the American merchant marine in fostering and protecting the foreign commerce of the United States.

Before we begin our discussion this morning, I would like very briefly to summarize the findings of the committee's previous hearings in this area.

Hearings of June 20–21 and October 9–10 revealed that substantial disparities exist between export and import ocean freight rates. It costs considerably more to ship many U.S. products to Europe or Japan than it costs to ship similar European or Japanese products to this country between the same ports on the same ships.

It costs $68.25 per measurement ton, for example, to send U.S. books to England, whereas it costs only $28.77 per measurement ton to ship similar English publications here. It costs $39 per measurement ton to send U.S.-made radios to West Germany, but it costs only $18.50 per measurement ton to send West German radios here. An American exporter of stainless steel bars pays $67.25 per measurement ton to ship his product to Japan, but a Japanese exporter pays only $36.25 per measurement ton to ship the same product to the United States. These are only a few, and I emphasize that word "few," examples of rate

disparities. The committee's previous hearings, as well as material submitted to representatives of the U.S.-flag lines, reveal significant rate disparities on approximately 100 commodities. These commodities were designated by the Department of Commerce as having great export potential. (See Part 5—Appendix—of these hearings for a list of these commodities.)

Moreover, previous testimony indicates that it costs more on a per ton-mile basis to ship U.S. exports to South American countries, to South Africa, and to India than it costs to ship European or Japanese products to these same countries. The committee staff has made a compilation of ocean freight rates on 40 commodities showing the average rate from the United States is $9.84 per ton per 1,000 nautical miles. This is 138 percent higher than the $4.14 average rate from Japan to these same countries. It is 86 percent higher than the $5.30 rate from England, and 83 percent higher than the $5.37 rate from Rotterdam and other Western European ports. These average rates exclude loading charges, and I want to emphasize that—they exclude loading charges—which in many cases are much higher in the United States than in other countries.

Previous hearings have also contained statements that U.S. shipping rates are set by foreign-controlled steamship conferences. By bloc voting, I have stated these conferences keep U.S. rates higher than comparable European or Japanese rates.

Since the committee's last hearings, additional evidence of bloc voting has been brought to our attention. On November 4, the United Kingdom-Gulf Eastbound Conference increased its rates by 10 percent. To my knowledge, the inbound rates have not been increased. I will be very grateful for any information on whether I am correct or incorrect in my statement. The American lines participating in the United Kingdom-Gulf Conference unanimously voted against this rate increase, yet the foreign lines were successful. I find this action difficult to understand. I would welcome information on this point and I would like to know whether the domestic lines feel bound by the decision of the conference and whether subsidies would be taken from the domestic lines if they should break away.

Another recent example of the harmful effects of foreign-dominated conferences can be seen in the actions of three conferences which cover United States, Manila, and Japanese trades. The two United States-Manila Conferences imposed on U.S. exporters a $10 per ton surcharge on all shipments to Manila. The Japan-Manila Conference imposed on Japanese exporters to Manila only a $2 surcharge. Of the 18 member lines in the Japan-Manila Conference, 12 are Japanese lines and 6 are American; 10 of these same Japanese lines are in the United States-Manila Conference. In other words, the same foreign lines which voted a $2 surcharge on Japanese exports also voted a $10 surcharge on exports from the United States.

The implication derived from previous testimony indicates that U.S. exporters and our balance of payments are adversely affected by discriminatory ocean freight rates which appear to be established by foreign-controlled conferences, and that the domestic lines are prisoners of the foreign-controlled conferences.

The committee has heard from Government witnesses, private shippers, economists, and legal experts. We have not made any recommendations to the Congress based upon past testimony even though

the Federal Maritime Commission and the Maritime Administration admitted that these allegations are correct. This admission indicates a past dereliction of duty because section 212(e) of the Merchant Marine Act specifically requires the Federal Maritime Commission to make a study of the outbound-inbound rate differentials and to report to the Congress its findings. The committee has, up to now, refrained from conclusions or recommendations until the American steamship lines have presented their formal explanation of these allegations.

I would like to state for the record that U.S. steamship lines were invited during informal discussions of the committee to present their formal views shortly after the committee's first set of hearings.

It is my understanding that two groups, the American Steamship Traffic Executive Committee and the Committee of American Steamship Lines, will testify as representatives of all U.S.-flag lines, unsubsidized as well as those subsidized. In addition, we have invited all the lines to present independent testimony because of special circumstances peculiar to these lines.

The Joint Economic Committee has invited representatives of the Department of Commerce and the Federal Maritime Commission to be present today. We have also invited representatives of the Senate Commerce Committee and the House Merchant Marine and Fisheries Committee to participate in these hearings.

We are happy to welcome Mr. Frank Barton, who is Deputy Under-Secretary of Commerce for Transportation, and Mr. Andrew Brimmer, Deputy Assistant Secretary for Economics, Department of Commerce.

We are also glad to welcome Admiral Harllee, the new Chairman of the Federal Maritime Commission, and Mr. John M. Drewry, chief counsel, House Committee on Merchant Marine and Fisheries.

We are also happy to welcome Mr. Prouty, of Vermont, who is the ranking minority member of the Subcommittee on Merchant Marine of the Senate Committee on Commerce.

I am going to ask unanimous consent that a paper which our competent staff, headed by Mr. Thomas Boggs, has prepared, entitled "Ocean Freight Rates," be included in the record following my introductory remarks. I understand that copies were submitted this morning to representatives of shipping lines and are available to you.

(The document referred to follows:)

OCEAN FREIGHT RATES

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

The magnitude of ocean transportation costs, particularly in relation to other costs of selling products in foreign countries, assigns an important balance-of-payments role to ocean freight rates.

The carriers that establish these rates can be classified into three types: liners, tramps, and tankers. The liner vessels are by far the most important in terms of the value of U.S. trade. U.S.-flag liners are also the vessels receiving an annual subsidy from the Government which currently approximates $330 million. In 1961, oceanborne exports amounted to $13.7 billion and imports amounted to $10.9 billion. Liners carried 78 percent of our exports and 71 percent of our imports. Tramp and tanker vessels each carried approximately 12 percent of our foreign commerce, consisting mainly of bulk commodities such as grain, ore, scrap metal, etc. Because of the impact of liner rates on the domestic economy and the balance of payments, these rates have been singled out for attention.

Liner rates for the most part are set by steamship conferences composed of both foreign and domestic lines operating over a particular trade route. There are usually different conferences for inbound and outbound routes, but with essentially the same membership. For example, for the Trans-Atlantic/Continental trade route, there are two conferences: the North Atlantic/Continental Freight Conference and the Continental North Atlantic Westbound Freight Conference.

In most conferences, foreign lines outnumbered U.S. lines. In order for conferences to legally exist in American trade, they must obtain approval by the Federal Maritime Commission. Without such approval, these conferences are in violation of the U.S. antitrust laws.

From evidence presented to the Joint Economic Committee, it appears that the ocean freight rates set by steamship conferences discriminate against U.S. exports. This discrimination occurs in two ways.

First, differentials exist between the outbound and inbound freight rates charged by carriers traveling to and from the United States on the same trade routes and carrying essentially identical products. It appears to cost 25 to 50 percent more to ship many American-made products to Europe or Japan than it does to ship similar European or Japanese products to this country. The following table is illustrative:

U.S. North Atlantic-West Germany

[Freight rates]

Commodity	Outbound	Inbound
Books	$68.25W/M	$28.70—38.84W/M
Distilled spirits, liquor	50.00W/M	30.75W/M
Glassware	54.25W	21.70M

W=2,240 pounds.
M=40 cubic feet.

U.S. Atlantic and Gulf-Japan

[Freight rates]

Commodity	Outbound	Inbound
Distilled spirits, liquor	$84.25W/M	$53.25W/M
Glassware	43.00W/M	34.00W/M
Refrigerators	53.00W/M	43.50W/M
Stainless steel bars	67.25W/M	36.25W/M
Steel plate	26.50W/M	18.50W/M

W=2,000 pounds.
M=40 cubic feet.

U.S. North Atlantic-West Germany

[Freight rates]

Commodity	Outbound	Inbound
Fruit juices, canned	$38.00W	$18.50W
Meat, canned	37.25W	32.29M
Radios and parts	39.00W/M	27.75W/M
Tools and basic hardware, handtools	36.25W/M	32.75W/M

W=2,240 pounds outbound.
2,204 pounds inbound.
M=40 cubic feet outbound and inbound.

Extensive examples of the above differentials were submitted to one group of our witnesses, the American Steamship Traffic Executive Committee, for explanation.

Second, differentials exist between freight rates charged by carriers from U.S. ports to third market areas and the rates charged by carriers from European and Japanese ports to these areas. For example, on 40 commodities to countries of South America, South Afica, and India, the average freight rate

from the United States is $9.84 on a per ton per 1,000 nautical mile basis. This is 138 percent higher than the $4.14 average rate from Japan to these same countries. It is 86 percent higher than the $5.30 rate from London, and 83 percent higher than the $5.37 rate from Rotterdam and other Western European ports. The attached tables show comparative rates for the 40 commodities to each country involved.

It should be pointed out that these average rates exclude loading charges which, in most cases, are considerably higher in the United States than in foreign ports. In some cases where the U.S. freight rate is higher than the Japanese or European freight rate to a third market area, it is higher solely because it costs more to load the ship in the U.S. port than it does in the foreign port. But the average rates above have excluded the loading cost differentials and still U.S. rates are 83 to 138 percent higher than the rates from the ports of our leading competitors.

It should be reemphasized that the rates charged from U.S. ports as well as from European and Japanese ports are set by steamship conferences. In some cases, the conference which controls the rates from a U.S. port to a port in South America is made up of many of the same member lines as the conference which controls the rates from a European port to the same ports in South America.

For example, the East Coast South American Conference, which covers cargo moving from U.S. Atlantic and gulf ports to Brazil, Uruguay, and Argentina, has 14 members maintaining regular service. Of these 14 members, 7 (or 50 percent) have competitive service between European ports and these same South American ports, and hence have a definite and demonstrable stake in cargo movement from Europe to South America. Moreover, it should be pointed out that the rates charged from the United States to these third market areas are charged not only by U.S.-flag ships but by foreign-flag ships. It is possible to have the same foreign-flag ship charging a different per mile rate on the same commodity from the United States to a port in South America than it charges from Western Europe to the same port in South America.

American steamship lines are expected to present an explanation of why the outbound rates are higher than the inbound rates, and why it costs more on a per ton mile basis to ship U.S. exports to South America, Africa, and India than it does to ship Japanese or European products to these ports.

Explanations have already been presented to the committee by the Committee of European Shipowners (their statement is contained on pp. 238–241 of the October 9–10 hearings). The first explanation attempts to rationalize the differentials between outbound and inbound rates, and the second attempts to explain differentials between U.S. rates to third market areas and European and Japanese rates to these areas.

The justification of the outbound-inbound differentials of the European shipowners is essentially this: The United States exports on liner vessels 1½ times more in long tons than it imports. More ships are required to carry cargoes out of U.S. ports than are required to carry cargoes to U.S. ports. Consequently, rates on outward cargoes from this country must be high enough to cover costs and profits of the round trip voyage. As an alternative to sending their vessels to the United States in ballast, owners will accept cargoes to the United States if freights are just high enough to cover the extra costs of loading and discharging as well as the extra time involved by taking cargo as compared to the cost of proceeding to the United States in ballast. Freight rates to the United States, therefore, tend to be depressed in relation to freight rates the other way.

The European shipowners may have painted an accurate description of the differentials but it is an unsatisfactory justification. First, even though it is generally true that more ships are needed to carry out outbound cargo than our inbound cargo, this is not true on many individual trade services. Second, in the case of trade between Japan and West Germany, the freight rates on a select number of products appear to be almost identical, yet the movement is very unbalanced. Germany exports twice as much to Japan as Japan exports to Germany. Third, the rates are not set by supply and demand but by the steamship conferences. Because of this, the lines can distribute costs to both the outbound and inbound legs and charge rates outbound and inbound which cover these distributed costs. In other words, they do not have to charge rates on outbound shipments which are high enough to cover the entire round trip voyage unless they decide to return empty.

There are numerous examples to illustrate these points. Voyage reports of a U.S. operator running ships from the west coast of the United States to Japan indicate that these ships carried 56,000 payable tons outbound and 55,000 payable

tons inbound on five voyages in the second quarter of this year. Yet the rate outbound averaged $27.31 per payable ton—60 percent higher than the inbound rate. Voyage reports of another operator sailing ships from the U.S. Atlantic coast to Japan indicate that these ships carried 51,000 payable tons outbound and 48,000 payable tons inbound. But, the average outbound freight rate was 43 percent higher than the average inbound rate. If the European shipowners' argument is valid, the outbound-inbound rates should not be so far apart on these balanced voyages.

Another example of the fallaciousness of the European shipowners' argument can be seen by comparing the trade movement between Japan and West Germany, and the freight rates on a few commodities. West Germany exports twice as much to Japan as Japan exports to West Germany. Yet on such items as steel angles, bars, and beams, the rate from Japan to Hamburg is $17.15 per ton, whereas the rate from Hamburg to Japan is $18.62 per ton; the same rates apply for structural steels, steel plates, and steel sheets. On industrial machinery, the rates from Japan to Hamburg are $33.60 per measurement ton. The rates from Hamburg range from $34.44 to $37.24 per measurement ton. A Japanese television set going to Germany pays a freight cost of $41.23 per measurement ton—a German set going to Japan pays between $40.04 to $42.84 per measurement ton.

The point is that while the trade moving from Germany to Japan far exceeds the trade from Japan to Germany, many of the freight rates are virtually equal. Whereas rates from the United States to Japan or Germany on many of these same items are far higher than the rates from Germany or Japan to this country. If the volume of trade argument is valid, it would be valid for Japan-German trade as well.

Finally, the ocean freight rates with which the committee's investigation has dealt are conference rates. They are set by agreement not by supply and demand. As a consequence, they are generally lower for the big shippers than they are for the small shippers. This is just the opposite of supply and demand. The shipper who wants to ship in quantity will get a better rate than the shipper who only occasionally sends a product abroad. To be specific, shippers of automobiles will get a better rate than shippers of railway locomotive cars. With this in mind, it would seem logical that U.S. rates would be lower because their whole volume is greater.

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

On five recent round-trip voyages of U.S.-flag vessels between the Gulf of Mexico and Mediterranean Europe, outbound revenues exceeded the total operating expenses of the vessels, excluding the cost of handling and loading the inbound cargo. In other words, on these five voyages, outbound revenues alone produced an operating profit. From the Atlantic coast to Western Europe, results of five round-trip voyage reports show that outbound revenues covered 77 percent of the total operating expenses. From the Pacific coast to the Far East, results of five voyages show that outbound revenues covered 85 percent of the total operating expenses—almost the entire cost of the voyage—even though the vessels carried as much cargo on its inbound voyages. The same pattern is seen from the voyage reports between the Atlantic coast and the Far East. In most cases, therefore, the outbound freight rates are set at levels which are high enough to cover 75 to 100 percent of the voyage operating expenses.

Another method of demonstrating the high level of outbound rates is to concentrate on the ratio of outbound revenue to total revenue. From 1949 to 1958, the total voyage reports of lines reviewed showed that more than 70 percent of total revenues came from exports. Between 1958 and 1962, the ratio declined to 67 percent. On the 20 voyage reports for the second quarter of 1963, referred to above, the average ratio was also 67 percent.

When the committee requested voyage reports from the Maritime Administration, it asked for statements showing the total outbound revenues, total inbound revenues, the total inbound expenses, and the total outbound expenses. The Maritime Administration asked the lines to make such allocations.

The total vessel operating costs were allocated between the outbound and inbound legs in the following way:

[In percent]

	Outbound	Inbound
Line A	68	32
Line B:		
Far East voyages	48	52
European voyages	54	46
Line C	51	49

It has already been demonstrated that outbound revenues cover almost the entire vessel operating expenses on round-trip voyages. If the cost allocation designated by the lines are used, outbound revenues of the 3 lines from the same 20 voyages return a profit including all additional costs of overhead, depreciation, and taxes.

The above revenue and cost data exclude subsidy payments. In other words, revenues from freight charges on U.S. exports are set at levels high enough to produce a profit, even after deductions for overhead and depreciation before subsidy. Since these rates are charged by foreign carriers as well as subsidized carriers, it is inferable that the profits of foreign-flag lines in our export trade were greater than those of lines A, B, and C before subsidy, by the amount of the subsidy. The operating differential subsidy in 1962 represented between one-fourth and one-third of direct costs for the three lines.

Using the cost allocations of these lines, revenues for the inbound leg of line A failed by substantial amounts on the sample voyages to meet full costs of vessel operation on such leg; line B's European service likewise failed in the aggregate to meet the full vessel costs of the inbound legs; and line C barely covered its direct inbound costs. These results are not greatly modified by the further distribution of subsidy, overhead, and depreciation. Line B's inbound Far East service is the only exception. Inbound revenues here did cover costs and return a profit.

To demonstrate this cost allocation in a more meaningful way, *per ton*, profit and loss figures are used. The following examples demonstrate that after all costs and the subsidy payments are included, the outbound legs produce a profit and the inbound legs result in losses with only one exception.

	Outbound	Inbound
Line A:		
Revenue per ton	$26.32	$27.80
Cost per ton	19.75	33.52
Cost per ton including depreciation and overhead	22.91	38.88
Profit or loss before subsidy	3.41	−11.08
Subsidy per ton	5.12	9.64
Profit or loss after subsidy	8.53	−1.44
Line B—European run:		
Revenue per ton	25.41	18.45
Cost per ton	18.46	33.46
Cost per ton including depreciation and overhead	21.04	38.14
Profit or loss before subsidy	4.37	−19.69
Subsidy per ton	4.57	6.21
Profit or loss after subsidy	8.94	−13.48
Far East run:		
Revenue per ton	43.03	29.55
Cost per ton	33.11	28.76
Cost per ton including depreciation and overhead	37.75	32.78
Profit or loss before subsidy	5.28	−3.23
Subsidy per ton	6.06	6.20
Profit or loss after subsidy	11.34	+2.97
Line C:		
Revenue per ton	27.31	17.31
Cost per ton	21.07	21.34
Cost per ton including depreciation and overhead	26.34	26.68
Profit or loss before subsidy	.97	−9.37
Subsidy	6.93	6.83
Profit or loss after subsidy	7.90	−2.54

NOTE.—Adjustments made in this table appear in information supplied on pp. 469 and 470.

These individual voyage reports also provide a guideline for the adjustment of the outbound-inbound rates. Operators could raise their inbound rates to a level which would cover inbound operating costs, and thereby increase their revenue. As a result they could reduce their outbound rates so that they would continue to receive the same revenue that they are currently receiving. On each individual trade route, a study could be made of the average outbound rate, the average inbound rate, the costs outbound, and the cost inbound. Once this survey has been done, lines would be in a position to suggest proper increases in their inbound rates and decreases in outbound rates. To give an example: In the case of the company operating between the Pacific coast and Japan, its outbound rate generates a profit of $7.90 per ton, while inbound rates lose approximately $2.54 per ton after all costs and subsidy. If the inbound rates were increased by 33 percent, and the outbound rates reduced by 18 percent, the rate disparities would be greatly reduced and the revenue would remain the same. This, of course, assumes that the elasticity of demand will remain the same even though the rates have changed. This is not true but conferences seem to use this assumption in their present ratemaking decisions. A conference will frequently increase all rates by a fixed percentage then make adjustments for particular shippers at a later date. This precise practice could be followed to equalize outbound-inbound rates.

The European shipowners attempted to justify why it costs more on a per ton-mile basis to ship U.S. exports to South America, Africa, India, and other countries than it does to ship Japanese or European products to these same countries. The European shipowners stated:

"Taking into account the distances involved, the size of the differentials will depend on factors peculiar to the particular trades. To a large extent, it is attributable to stevedoring and other expenses in U.S. ports being higher than in European or indeed any other ports of the world * * *. These charges on an average are three times as high in the United States as in Western Europe and even higher by comparison with those of other countries; e.g., as much as four to six times higher than countries in the Far East."

On 40 commodities studied by the committee staff, it was found that on a per ton-mile basis, U.S. rates were 85 percent higher than European rates and 138 percent higher than Japanese rates. The rates involved excluded the expense of cargo handling which the European shipowners maintain is the basic reason for the differentials. Higher loading costs may be the basic reason for the differentials but even with these charges excluded, U.S. exporters seem to be at a great disadvantage. Loading charges in New York average $12.88, and one of the most frequently appearing rates is $12.77 per payable ton, i.e., 2,240 pounds or 40 cubic feet, whichever yields the greater charge. Such loading charges in New Orleans average $8.57 per payable ton, or one-third less. Compare these stevedoring costs with those of some of the foreign ports: Rotterdam loading rates average $5.67 per payable ton; Liverpool loading charges average $4.47 per payable ton; and Tokyo-Yokohama loading charges are $2.50 per payable ton on all items—one-eighth of such New York charges.

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

Besides the allegation that U.S. freight rates are too high, testimony received by the Joint Economic Committee indicated that these rates are too high because the conferences which establish them are dominated by foreign-flag lines. It is certainly true that in the major conferences dominating American trade, U.S.-flag lines are vastly outnumbered. The June 20–21 hearings (pp. 135–168) show the proportion for each conference.

In answer to questions by Senator Douglas, Mr. Thomas Stakem of the Federal Maritime Commission stated that there was evidence of bloc voting against U.S.-flag lines in the Japanese, German, Scandinavian, and British conferences (see p. 85 of the June 20–21 hearings). Other evidence has come to the attention of the committee. On Tuesday, November 5, the Gulf/French Atlantic Hamburg Freight Conference voted to eliminate its dual rate contract system and raise its contract rates to the noncontract levels—this in effect increased their rates on most outbound commodities by 15 percent. The three U.S.-flag lines in the conference were opposed to this action and are currently attempting to have these rate increases modified. During the same week, the Gulf/United Kingdom Con-

ference voted to raise all its outbound rates 10 percent to be effective in January. All participating U.S.-flag lines opposed this action but were outvoted. The inference can be drawn that the American exporter's freight rates are established by foreign lines even though the U.S.-flag lines oppose these rates. The European shipowners in their statement to the committee denied vehemently that such bloc voting was practiced. It is expected that the U.S.-flag lines will fully explain their role in protecting the interest of American exporters and the success of their efforts in the conferences.

Conferences are exempt from our antitrust laws and allowed to operate in U.S. trade so that the American exporter will be guaranteed regular and efficient service. It is felt that only by a combination of both foreign and domestic steamship lines can such service be achieved. Our Government allows conferences to destroy independent competition. The most notable way in which this is done is to open rates on commodities which independent nonconference lines are carrying in substantial quantity. There are currently approximately 100 open rates on file with the Federal Maritime Commission. The purpose of the conference system is stable, regular service. It is considered that this objective can only be reached by combination rather than by independent competition. This is a well-recognized principle in transportation. It enables carriers to charge rates based on many factors other than costs. It certainly should enable them to carry products from the United States as cheaply as they carry products to the United States.

In conclusion, it is hoped that the U.S.-flag lines will explain the allegations made at the previous hearings of the committee. It should be pointed out that this paper is based solely on facts brought out at the committee's previous hearings and on data obtained from Government agencies. The steamship lines may hopefully prove some of this data incorrect.

Summary of 20 voyage reports for the 2d quarter, 1963

	Line A [1]	Line B		Line C [4]	Average for all lines
		European run [2]	Far East run [3]		
Payable tons carried:					
Out	43,698	31,054	51,417	55.076	
In and intermediate	11,154	19,438	48,257	54,089	
Total	54,852	50,492	99,674	109,165	
Freight operating revenue:					
Out	$1,150,137	$789,140	$2,212,452	$1,503,871	
In and intermediate	310,108	358,573	1,425,837	936,398	
Total	1,460,246	1,147,713	3,638,289	2,440,269	
Total vessel operating expense:					
Out	862,990	573,386	1,702,425	1,160,353	
In and intermediate	370,510	650,429	1,387,691	1,154,330	
Total	1,233,502	1,223,814	3,090,117	2,314,683	
Revenue per ton:					
Out	26.32	25.41	43.03	27.31	$31.20
In and intermediate	27.80	18.45	29.55	17.31	22.81
Total	26.62	22.73	36.50	22.35	27.66
Expense per ton (excluding overhead and depreciation):					
Out	19.75	18.46	33.11	21.07	23.72
In and intermediate	33.22	33.46	28.76	21.34	26.82
Total	22.49	24.24	31.00	21.20	25.03

[1] Subsidy $1,100 per day for C_3 vessels on TR 13.
[2] Subsidy $1,300 per day for C_3 vessels on TR's 5, 7, and 9.
[3] Subsidy $1,800 per day for C_4 vessels on TR 12.
[4] Subsidy $2,000 per day for C_4 vessels on TR 29.

Derivation of overhead and depreciation costs as percent of total operating expenses

	Line A	Line B	Line C
Total operating expenses	$62,751,793	$145,915,819	$26,828,172
Overhead	5,973,950	16,052,781	4,003,127
Depreciation	4,031,926	4,945,220	2,602,617
Total overhead and depreciation	10,005,876	20,998,001	6,605,744
Overhead and depreciation as percent of total operating expenses	16	14	25

Dollar subsidies per ton

	Line A	Line B		Line C
		European run	Far East run	
Equal days in and out:				
Out	$3.78	$4.23	$7.56	$6.91
In	14.79	6.75	8.06	6.91
Cost allocation of voyage reports:				
Out	5.12	4.57	6.06	6.93
In	9.64	6.21	6.20	6.83

Ocean freight rates

Commodities	From—	To— La Guaira, Venezuela	Valparaiso, Chile	Rio de Janeiro, Brazil	Panama City, Panama	Capetown, South Africa	Bombay, India
Autos, buses, and trucks	New York	$23.00 WM	$32.00 WM	$39.00 WM	$28.00 WM	30.50 WM	$44.75 WM
	Rotterdam	26.96 M	25.71 M	21.00 WM	29.36 WM	15.05 WM	28.25 W
	London	23.94 M	25.76 WM	15.05 WM	25.20 WM	15.05 WM	28.70 WM
	Tokyo or Yokohama	30.00 WM	30.00 WM	42.00 WM	30.00 WM	35.56 WM	22.68 W
Chemicals, agricultural:							
Insecticides	New York	28.46 WM	56.00 WM	53.00 W	39.00 WM	----------	50.00 WM
	Rotterdam	42.54 W	29.40 M	37.00 WM	39.06 W	----------	25.48 W
	London	36.29 W	32.20 WM	36.40 WM	28.70 W	----------	29.90 W
	Tokyo or Yokohama	46.00 WM	46.00 WM	46.50 WM	46.00 WM	----------	22.68 W
Fertilizers	New York	15.50 W	56.00 WM	25.00 W	20.00 W	----------	19.00 W
	Rotterdam	20.16 W	29.40 M	16.00 W	18.27 W	----------	16.66 W
	London	20.16 W	32.20 WM	14.70 WM	15.82 W	----------	16.66 W
	Tokyo or Yokohama	(1)	(1)	23.00 WM	24.25 WM	----------	(1)
Cotton piece goods	New York	----------	----------	----------	----------	----------	----------
	Rotterdam	----------	----------	----------	----------	----------	----------
	London	----------	----------	----------	----------	----------	----------
	Tokyo or Yokohama	----------	----------	----------	----------	----------	----------
Drugs, medicines, and pharmaceuticals	New York	79.00 WM	95.00 WM	72.00 WM	50.00 WM	65.75 WM	66.00 WM
	Rotterdam	69.17 W	73.26 M	67.00 WM	63.00 W	33.95 WM	43.26 W
	London	69.17 W	44.62 WM	70.00 WM	55.10 WM	33.95 WM	49.00 WM
	Tokyo or Yokohama	59.25 WM	68.50 WM	69.50 WM	59.25 WM	40.67 WM	22.40 WM
Electrical appliances:							
Toasters	New York	79.00WM	70.00WM	----------	50.00WM	----------	----------
	Rotterdam	69.17W	73.26W	----------	63.00W	33.95WM	41.09 M
	London	69.17W	56.70WM	----------	35.00W	33.95WM	37.80W
	Tokyo or Yokohama	50.00WM	50.00WM	----------	39.50WM	36.47WM	20.30 M
Vacuum cleaners	New York	79.00WM	76.00WM	----------	50.00WM	65.75WM	----------
	Rotterdam	47.06W	53.94 M	----------	49.77W	33.95WM	41.09 M
	London	47.06W	56.70WM	----------	35.00W	33.95WM	37.80W
	Tokyo or Yokohama	50.00WM	50.00WM	----------	39.50W	36.47WM	20.30 M
Radio and TV sets	New York	30.00WM	53.00WM	62.00WM	31.00WM	50.50WM	66.00WM
	Rotterdam	36.29W	53.94 M	28.00WM	39.06W	33.95WM	39.62W
	London	36.29W	56.70WM	37.80WM	39.06W	33.95WM	40.25WM
	Tokyo or Yokohama	50.00WM	50.00WM	56.50WM	39.50W	40.67WM	20.30 M
Radio and TV tubes	New York	49.00WM	84.00WM	62.00WM	50.00WM	50.50WM	----------
	Rotterdam	47.06W	56.70 M	28.00WM	49.77W	33.95WM	----------
	London	47.06W	46.62WM	37.80WM	49.77W	33.95WM	----------
	Tokyo or Yokohama	50.00WM	50.00WM	56.50WM	39.50WM	40.67WM	----------

See footnote at end of table, p. 343.

Ocean freight rates—Continued

Commodities	From—	To— La Guaira, Venezuela	Valparaiso, Chile	Rio de Janeiro, Brazil	Panama City, Panama	Capetown, South Africa	Bombay, India
Electrical appliances—Continued							
Refrigerators	New York	$22.00WM	$50.00WM	$49.00WM	$25.00WM	$38.50WM	$47.25WM
	Rotterdam	33.45W	44.80 M	43.00WM	34.02W	26.95WM	37.02 M
	London	33.45W	39.70WM	39.20WM	34.02W	26.95WM	42.00WM
	Tokyo or Yokohama	50.00WM		56.50WM	59.25WM	30.80WM	22.68W
Air conditioning units, individual	New York	50.00WM	66.00WM	49.00WM	50.00WM	44.00WM	62.25WM
	Rotterdam	36.29W	56.70 M	43.00WM	39.06W	33.95WM	33.36 M
	London	36.29W	56.70WM	39.20WM	35.00WM	33.95WM	37.80WM
	Tokyo or Yokohama	50.00WM	54.75WM	56.50WM	39.50WM	40.67WM	20.30 M
Engines, diesel	New York						
	Rotterdam						
	London						
	Tokyo or Yokohama						
Iron and steel:							
Angles, bars, beams	New York	23.00WM	29.00W	30.00WM	30.00W	21.50W	26.25WM
	Rotterdam	28.35W	38.56 M	23.00WM	21.70WM	18.55W	13.09W
	London	28.35W	37.80WM	19.25WM	31.50WM	18.55W	13.30W
	Tokyo or Yokohama	26.10WM	29.00WM	27.00WM	21.70WM	20.30WM	10.92W
Sheets and plates	New York	21.00W	32.00W	25.00WM	29.00W	17.50W	25.00WM
	Rotterdam	23.25W	35.70 M	23.00WM	21.70WM	16.10W	13.09W
	London	23.25W	39.90WM	19.60WM	28.35W	16.10W	13.30W
	Tokyo or Yokohama	26.10WM	29.00WM	27.00WM	21.70WM	20.30WM	10.92W
Pipe	New York	50.00WM		57.00WM	35.00WM	20.00W	26.25WM
	Rotterdam	27.09W			23.00WM	19.95W	25.48W
	London	27.09W		19.60WM	32.15W	19.95W	25.90W
	Tokyo or Yokohama	28.57WM		33.00WM	23.00W	20.30WM	10.92W
Wire rods	New York	22.00W	29.00W	26.00WM	35.00WM	17.50W	26.25WM
	Rotterdam	23.25W	29.40 M	23.00WM	23.00WM	29.05WM	15.86W
	London	23.29W	32.20WM	19.25WM	27.72W	19.95W	16.10W
	Tokyo or Yokohama	28.57WM	29.00WM	27.00WM	23.00W	20.30WM	10.92W
Machinery, industrial:							
Generators	New York	50.00WM	76.00WM	57.00WM	35.00WM	62.50WM	58.50WM
	Rotterdam	36.29W	53.90 M	43.00WM	39.06W	29.40WM	30.13W
	London	36.29W	60.20WM	42.00WM	39.06W	29.40WM	37.80WM
	Tokyo or Yokohama	51.75WM	51.75WM	55.00WM	40.00WM	36.47WM	20.30W
Construction	New York	41.00WM		57.00WM	35.00WM	48.25WM	62.75WM
	Rotterdam			43.00WM		29.40WM	33.36WM
	London			42.00WM	43.40WM	29.40WM	37.80WM
	Tokyo or Yokohama	51.75WM		55.00WM	40.00WM	36.47WM	18.27WM

Mining	New York	50.00WM	----------	57.00WM	35.00WM	62.50WM	----------
	Rotterdam	36.29W	----------	43.00WM	39.06W	29.40WM	----------
	London	36.29W	----------	42.00WM	39.06W	29.40WM	----------
	Tokyo or Yokohama	51.75WM	----------	55.00WM	40.00WM	36.47WM	----------
Paper products:							
Bags	New York	46.00WM	43.00WM	54.00WM	21.00WM	----------	35.75WM
	Rotterdam	36.29W	35.70 M	47.00W	39.06W	----------	19.15W
	London	36.29W	29.90WM	42.00WM	35.00W	----------	21.70WM
	Tokyo or Yokohama	48.50WM	56.50WM	69.50WM	36.25W	----------	20.30 M
Napkins	New York	22.00 M	35.00 M	54.00WM	39.00W	----------	----------
	Rotterdam	24.38W	35.70 M	29.00WM	29.61W	----------	13.79W
	London	24.38W	29.90WM	30.10WM	29.61W	----------	14.00WM
	Tokyo or Yokohama	56.50WM	56.50WM	69.50WM	36.25W	----------	20.30 M
Printing	New York	34.00W	52.00WM	37.00WM	31.00W	50.50W	46.75WM
	Rotterdam	24.95W	35.70 M	24.50WM	27.72W	33.95WM	22.86 M
	London	24.95W	29.90WM	30.10WM	27.72W	11.90WM	25.90WM
	Tokyo or Yokohama	32.40WM	36.00WM	66.00WM	31.60W	33.85WM	20.30 M
Wrapping	New York	29.00W	43.00W	54.00WM	32.00W	35.75WM	46.25WM
	Rotterdam	----------	35.70 M	39.00WM	30.80W	33.95WM	22.86 M
	London	----------	29.90WM	30.10WM	30.80W	11.90WM	25.90WM
	Tokyo or Yokohama	35.00WM	36.00WM	68.50WM	34.00W	33.88WM	20.30 M
Tissues	New York	----------	----------	----------	----------	----------	49.50WM
	Rotterdam	----------	----------	----------	----------	----------	13.79W
	London	----------	----------	----------	----------	----------	14.00WM
	Tokyo or Yokohama	----------	----------	----------	----------	----------	20.30 M
Towels	New York	----------	----------	----------	----------	----------	49.50WM
	Rotterdam	----------	----------	----------	----------	----------	13.79W
	London	----------	----------	----------	----------	----------	14.00WM
	Tokyo or Yokohama	----------	----------	----------	----------	----------	20.30 M
Tractors, parts, and accessories	New York	23.00WM	48.00WM	40.00WM	28.00WM	32.25WM	57.50WM
	Rotterdam	26.96 M	44.80 M	21.00WM	29.35WM	16.10WM	28.25WM
	London	23.94 M	37.80WM	19.25WM	28.70WM	16.10WM	28.70WM
	Tokyo or Yokohama	35.00WM	51.75WM	55.00WM	36.00WM	35.56WM	20.30WM
Whisky	New York	79.00WM	95.00WM	72.00WM	80.00WM	----------	----------
	Rotterdam	53.33 M	68.60WM	71.00WM	56.41WM	36.40WM	----------
	London	52.29 M	71.82WM	70.00WM	55.30WM	36.40WM	----------
	Tokyo or Yokohama	55.50 M	55.50WM	77.00WM	46.25WM	40.67WM	----------

[1] Open.

NOTE.—Above rates obtained from the Federal Maritime Commission and U.S.-flag lines. Where different rates were quoted for a given commodity between 2 ports, the owest rate was used. Complete comparability cannot be obtained. The most serious problem is that rebates given by many foreign lines make the published freight rates unrealistic. Published rates used from foreign to foreign ports are, in most cases, higher than the rates actually charged. In some cases, even U.S. lines employ contract rates which are 10 to 15 percent lower than the noncontract rates. Such lower rates were used. Although complete comparability is not possible, every effort has been made not to overstate the generally adverse position of the United States.

Rates from other Atlantic and gulf ports to destinations shown are approximately the same as those shown for New York. Western European rates are reflected by those given for Rotterdam.

M=40 cubic feet.

W=2,240 pounds.

Weight or measurement option at discretion of carrier.

Ocean freight rates per ton per 1,000 nautical miles (excluding loading charges)

Commodity	From—	To— La Guaira, Venezuela	Valparaiso, Chile	Rio de Janeiro, Brazil	Panama City, Panama	Capetown, South Africa	Bombay, India	Average
Autos, buses and trucks	New York	$8.71	$5.54	$6.64	$10.25	$3.42	$4.57	$6.52
	Rotterdam	4.23	2.22	2.24	4.17	.94	2.32	2.68
	London	7.87	3.01	2.22	4.54	1.88	4.01	3.42
	Tokyo or Yokohama	3.20	2.96	3.43	3.58	3.97	3.78	3.48
Chemicals, agricultural:								
Insecticides	New York	8.49	9.34	8.45	13.00		4.56	8.76
	Rotterdam	8.87	3.28	6.08	7.05		3.23	5.70
	London	7.45	3.64	5.98	4.90		3.92	5.17
	Tokyo or Yokohama	4.86	4.70	3.82	5.66		3.78	5.46
Fertilizers	New York	1.48	9.34	2.57	3.58			4.24
	Rotterdam	3.58	3.28	2.09	2.75		2.21	2.78
	London	3.58	3.64	1.81	2.00		1.81	2.56
	Tokyo or Yokohama			1.78	2.83		2.65	2.42
Cotton piece goods	New York							
	Rotterdam							
	London							
	Tokyo or Yokohama							
Drugs, medicines, and pharmaceuticals	New York	35.84	17.76	12.44	18.45	7.81	6.52	16.47
	Rotterdam	15.09	9.30	11.73	11.94	4.63	5.98	9.77
	London	15.56	5.72	12.61	10.63	4.82	7.09	9.40
	Tokyo or Yokohama	6.64	7.13	5.82	7.39	4.59	3.73	5.88
Electrical appliances:								
Toasters	New York	36.38	10.20		18.45			21.67
	Rotterdam	14.95	9.03		11.81	4.53	5.54	9.17
	London	15.56	7.08		6.22	4.67	5.17	7.74
	Tokyo or Yokohama	5.56	5.13		4.82	4.08	3.34	4.58
Vacuum cleaners	New York	36.38	13.66		18.45	7.81		17.07
	Rotterdam	9.72	6.45		9.07	4.53	5.54	7.06
	London	10.26	7.08		6.22	4.67	5.17	6.68
	Toyko or Yokohama	5.56	5.13		4.82	4.08	3.34	4.58
Radio and TV sets	New York	9.32	8.69	10.34	9.35	5.65	6.59	8.32
	Rotterdam	7.18	6.45	4.20	6.86	4.53	5.31	5.75
	London	7.67	7.08	6.43	7.07	4.67	5.56	6.41
	Tokyo or Yokohama	5.56	5.13	4.52	4.82	4.59	3.34	4.66
Radio and TV tubes	New York	19.60	15.39	10.34	18.45	5.60		13.87
	Rotterdam	9.72	6.82	4.20	9.07	4.53		6.86
	London	10.26	5.58	6.43	9.31	4.67		7.25
	Tokyo or Yokohama	5.56	5.13	4.69	4.82	4.59		4.95

Refrigerators	New York	4.99	8.04	7.61	6.06	3.79	4.22	5.78
	Rotterdam	6.50	5.22	7.05	5.81	3.40	4.90	5.48
	London	6.99	4.78	6.70	6.01	3.53	5.84	5.64
	Tokyo or Yokohama	5.56		4.69	7.39	3.40	3.78	4.96
Air-conditioning units, individual	New York	20.15	11.50	7.61	18.45	4.60	6.04	11.39
	Rotterdam	7.18	6.82	7.05	6.86	4.53	4.32	6.12
	London	7.64	7.08	6.70	6.41	4.82	5.32	6.32
	Tokyo or Yokohama	5.55	5.64	4.69	4.82	4.59	3.38	4.77
Engines, diesel	New York							
	Rotterdam							
	London							
	Tokyo or Yokohama							
Iron and steel:								
Angles, bars, beams	New York	4.17	2.96	3.09	7.28	.91	1.34	3.29
	Rotterdam	5.46	4.47	3.38	3.40	2.15	1.24	3.35
	London	5.52	4.40	2.69	5.49	2.17	1.28	3.59
	Tokyo or Yokohama	2.76	2.86	2.13	2.50	2.14	1.58	2.32
Sheets and plates	New York	3.08	3.61	2.04	6.79	.32	1.18	2.83
	Rotterdam	4.96	4.09	3.33	3.40	1.75	1.24	3.12
	London	4.30	3.33	2.76	4.83	1.77	1.28	3.04
	Tokyo or Yokohama	2.76	2.86	2.13	2.50	2.14	1.58	2.32
Pipe	New York	18.78		8.76	9.76	.69	1.34	7.86
	Rotterdam	5.16			3.67	2.38	3.19	3.60
	London	5.22		2.76	5.62	2.39	3.28	3.85
	Tokyo or Yokohama	3.04		2.65	2.80	2.14	1.58	2.44
Wire rods	New York	3.63	2.96	2.25	9.76	.32	1.34	3.37
	Rotterdam	4.26	3.24	3.38	3.67	3.85	1.67	3.34
	London	4.31	3.64	2.69	4.71	2.39	1.72	3.24
	Tokyo or Yokohama	3.04	2.86	2.13	2.80	2.14	1.58	2.42
Machinery, industrial:								
Generators	New York	19.35	13.33	8.96	10.29	7.11	5.40	10.74
	Rotterdam	7.32	6.53	7.17	6.99	3.89	3.91	5.96
	London	7.42	7.43	7.06	7.07	3.93	5.17	6.34
	Tokyo or Yokohama	5.75	5.31	4.56	4.88	4.08	3.34	4.65
Construction	New York	14.48		8.96	10.29	5.01	5.92	
	Rotterdam			7.17				
	London			7.06				
	Tokyo or Yokohama	5.75		4.56				
Mining	New York	24.76		8.96				
	Rotterdam	7.32		7.17				
	London	7.42		7.06				
	Tokyo or Yokohama	5.75		4.56				
Paper products:								
Bags	New York	17.98	6.74	8.64	5.74		2.80	8.38
	Rotterdam	7.39	4.12	7.99	7.05		2.23	5.75
	London	7.64	3.46	7.23	6.41		2.76	5.50
	Tokyo or Yokohama	5.37	5.82	5.82	4.39		3.34	4.94
Napkins	New York	4.99	4.80	8.64	18.29			9.18
	Rotterdam	4.58	4.12	4.56	5.09		1.38	3.94
	London	4.79	3.46	4.95	5.28		1.54	4.00
	Tokyo or Yokohama	6.30	5.82	5.82	4.39		3.34	5.13

Ocean freight rates per ton per 1,000 nautical miles (excluding loading charges)—Continued

	From—	To— La Guaira, Venezuela	Valparaiso, Chile	Rio de Janeiro, Brazil	Panama City, Panama	Capetown, South Africa	Bombay, India	Average
Commodity—Continued								
Paper products—Continued								
Printing	New York	$11.49	$8.47	$5.08	$12.71	$5.56	$4.15	$7.91
	Rotterdam	4.71	4.12	3.71	4.70	4.68	2.81	4.12
	London	4.93	3.46	4.95	4.89	1.23	3.43	3.81
	Tokyo or Yokohama	3.49	3.61	5.51	3.79	3.77	3.34	3.91
Wrapping	New York	14.19	6.52	10.74	13.41	3.39	4.08	8.72
	Rotterdam		4.12	6.46	5.34	4.68	2.81	4.68
	London		3.46	4.95	5.53	1.23	3.43	4.32
	Tokyo or Yokohama	3.79	3.61	5.73	4.10	3.77	3.34	4.05
Tissues	New York						4.48	
	Rotterdam						1.38	
	London						1.54	
	Tokyo or Yokohama						3.34	
Towels	New York						4.48	
	Rotterdam						1.38	
	London						1.54	
	Tokyo or Yokohama						3.34	
Tractors, parts, and accessories	New York	4.74	7.29	5.41	6.82	2.65	5.28	5.36
	Rotterdam	4.97	5.22	2.86	5.05	1.64	3.52	3.84
	London	4.89	4.64	3.03	5.27	2.06	3.85	3.95
	Tokyo or Yokohama	3.79	5.32	4.56	4.88	3.98	3.34	4.31
Whisky	New York	35.84	17.76	12.44	33.32			24.84
	Rotterdam	11.42	8.54	12.49	10.62	5.06		9.62
	London	11.46	5.88	12.61	10.65	5.22		9.16
	Tokyo or Yokohama	6.19	5.72	6.47	5.70	4.59		5.69
Nautical miles	New York	1,848	4,633	4,770	2,018	6,786	8,196	
	Rotterdam	4,230	7,445	5,259	4,830	6,187	6,343	
	London	4,184	7,399	5,212	4,784	6,140	6,296	
	Tokyo or Yokohama	8,566	9,280	11,517	7,681	8,319	5,335	

NOTES

Rates exclude loading charges, but include unloading charges, which are comparable. Loading charges in New York average $12.88 for the items used in this study. By far the most frequently appearing rate is $12.77 per payable ton; i.e., 2,240 pounds, or 40 cubic feet, whichever yields the greater charge. This rule used at all ports of origin. Loading charges in New York are higher than for most major ports in the United States. For example, loading charges in New Orleans average $8.57 per payable ton, or ⅓ less. The higher charge was used in an attempt not to overstate the generally adverse position of the United States.

Rotterdam loading rates average $5.67 per payable ton.
Liverpool loading charges average $4.47 per payable ton.
Tokyo-Yokohama loading charges, $2.50 per payable ton.

The CHAIRMAN. Senator Prouty has a short statement that he would like to present. We will be glad to hear you at this time, Senator.

STATEMENT OF HON. WINSTON L. PROUTY, U.S. SENATOR FROM THE STATE OF VERMONT, RANKING MINORITY MEMBER, SUBCOMMITTEE ON MERCHANT MARINE AND FISHERIES, SENATE COMMERCE COMMITTEE

Senator PROUTY. Mr. Chairman, thank you very much. I do not have a statement. I am here as a member of the Commerce Committee and ranking minority member on the Merchant Marine and Fisheries Subcommittee. I recently became a member of that subcommittee and I have a great deal to learn about the problems of the maritime industry, so I am here primarily as an observer and I hope I can gain a lot of helpful information. I am very grateful for the courtesy.

Chairman DOUGLAS. Very happy to welcome you.

We are also happy to welcome Congressman Tollefson from Washington who is the ranking minority member on the parallel House committee. We are happy to have you here, Mr. Tollefson. Please feel free to participate in these hearings.

We are happy to have as our first witness Mr. Wilfred J. McNeil, president of the Grace Lines. We also have with us Mr. F. A. Nemec, vice president of the Lykes Bros. Steamship Co., Inc., Mr. Solon B. Turman, chairman of the board, Lykes Bros. Steamship Co., Inc., and Mr. J. R. Dant, president, States Steamship Co.

You may proceed Mr. McNeil.

STATEMENT OF WILFRED J. McNEIL, PRESIDENT, GRACE LINES, INC.; ACCOMPANIED BY F. A. NEMEC, EXECUTIVE VICE PRESIDENT, LYKES BROS. STEAMSHIP CO., INC.; SOLON B. TURMAN, CHAIRMAN OF THE BOARD, LYKES BROS. STEAMSHIP CO., INC.; J. R. DANT, PRESIDENT, STATES STEAMSHIP CO.

Mr. MCNEIL. Thank you, Mr. Chairman.

Mr. Chairman and members of the committee, as the chairman indicated, my name is Wilfred J. McNeil. I am president of Grace Lines, Inc., and also chairman of the committee of American Steamship Lines, in which capacity I am appearing here today. As the chairman mentioned, I am accompanied by Mr. Dant, president of States Steamship Co., whose headquarters are in San Francisco, Calif., and Mr. Turman, chairman of Lykes Bros. Steamship Co., Inc., headquartered in New Orleans, La. I will be followed by Mr. Frank A. Nemec, executive vice president of Lykes and chairman of a special task force which has been delegated the responsibility of preparing for this committee a factual analysis of the general operations of our group of companies and of clarifying the record on certain matters on which this committee has evinced interest and taken evidence. Because of its importance to us and our desire to examine all ways to deal with the situation, a number of other important people of our steamship lines are present. Sitting directly behind me is Mr. William T. Moore, president of Moore-McCormack Lines, and also Admiral Will, chairman and president, American Export Lines.

At the conclusion of Mr. Nemec's statement, we four, to the best of our ability, will be pleased to answer questions of this committee.

I understand that the committee inquiry has so far emphasized rates and related matters, although from time to time other aspects of problems dealing with shipping and foreign trade have been under discussion. I think as you said a minute ago, one of the purposes was to evaluate the role of the American merchant marine. For this reason, it may be helpful to present first a general background statement on the industry, so that questions of rates and other matters of interest to the committee may be considered in perspective.

THE CASL GROUP

The Committee of American Steamship Lines is a trade association, commonly known as CASL. CASL represents all of the companies holding operating-differential subsidy contracts with the United States. At the present time they number 15 and are as follows: American Export Lines, American Mail Lines, American President Lines, Bloomfield Steamship Co., Delta Steamship Lines, Farrell Lines, Grace Line, Gulf & South American Steamship Co., Lykes Bros. Steamship Co., Moore-McCormack Lines, Pacific Far Eastern Line, Prudential Lines, States Steamship Co., Oceanic Steamship Co. and United States Line Co.

Individually—when compared to some of the industrial giants of America—these CASL companies are relatively small, but collectively they are an important segment of the American business community, devoting practically all of their time and energies to the furtherance of American-flag shipping in the foreign trade of the United States and the expansion of its commerce.

These companies are sited on the three seacoasts of the United States and provide an average of about 1,900 common carrier or liner voyages a year in the foreign trade on 31 established trade routes. Perhaps I should say with Senator Proxmire present three of the four seacoasts of the United States, but we do not have any sited there—not yet.

At the outset, let me say that the purposes of your committee and of our group of steamship companies are the same with respect to the foreign trade of the United States. We share the objective of increasing that trade. We wish to help in any way we can to achieve this goal.

We believe that one of the constructive purposes served by these hearings is the opportunity they have offered to evaluate where we have been and where we are going.

We believe that generally our charted course is sound and that our operations will stand up under inspection and scrutiny. Nevertheless, in the daily struggle to stay alive in this highly competitive field, things sometimes occur that are difficult to understand, even by our selves. Human beings are involved and no system involving human beings is perfect, in spite of constant attention and vigilance. Our approach, in brief, is: If there is anything that needs fixing, let's try to fix it.

FOREIGN COMPETITION

In the day-to-day conduct of our operations, we compete on the high seas of the world with the flags of every major maritime na-

tion. In large measure this competition comes from the traditional maritime powers which include the historical traders of Western Europe and Japan. However, the maritime aspirations of many other countries, including the Soviet bloc, have now been extended to the sea lanes of world commerce—and their influence is being felt to a greater and greater degree.

Undoubtedly, this new preoccupation with the maritime trade by both the historic sea powers and the emerging nations of the world has been engendered by two overriding considerations:

1. Recognition of the fact that foreign trade and a national-flag merchant marine are indivisible, and

2. That an oceangoing merchant marine either earns or conserves large amounts of foreign exchange and thereby contributes to a favorable balance of payments.

This foreign-flag competition is reflected in various forms of ownership, running from private ownership, through corporate entities in which sovereign nations are partial owners, to the completely state-owned corporations or trusts which use their fleets primarily as instruments of national policy.

U.S. imports and exports provide the largest single trading area in the world and competition for this trade is manifest in the fiercest form of rivalry. In the financial sense the strength of our foreign-flag competition is awesome, including not only most of the largest aggregations of private, dry-cargo shipping capital in the world, but also the national treasuries of a number of countries. More and more countries are becoming committed to the need of maintaining an active merchant marine.

Our own country historically has emphasized Government support of our merchant marine, culminating in the Merchant Marine Act of 1936, which set the policies under which the CASL companies operate.

U.S.-FLAG SHIPPING AND FOREIGN TRADE

The contracts that the CASL companies have with the Government require a specified number of voyages over trade routes found to be essential to the foreign commerce of the United States. In fact, these companies and the ships they operate are restricted to these routes and cannot operate independently in non-American trades. This is quite different from many of the great foreign trade fleets of the world which have opportunity to range over all the world trade routes and many shift vessels and services so as to maximize their profits.

Also, such companies are free to engage in the ownership and operation of bulk cargoes, both liquid and/or in dry, or in any manner they may choose. The fact that the CASL lines are bound to the U.S. trade means that they live and die, profit or lose, by the manner in which they serve American commerce. The interests of these shipping companies and of the commercial importer and exporter are identical; both parties profit only if goods move, and move in volume.

Further, under the 1936 act the Maritime Subsidy Board or its predecessors has been directed to give prime consideration to commercial and industrial interests in awarding operating-differential subsidy agreements. This ties the geographic interests of the shipping companies more closely to specific areas so that in their struggles to

remain competitive they will help foster the flow of commerce through all natural sea gateways of the United States—helping to make American goods and products even more competitive in world markets.

A good example of the way in which this concept has worked in practice is evidenced by the continued growth and development of commerce to and from the gulf coast of the United States since enactment of the 1936 act. Before the establishment of regular American-flag services from this area, the gulf coast was afforded only spasmodic common carrier service by the foreign-flag shipping groups. Previously, the time and expense involved in diverting ships to gulf coast ports predisposed foreign lines to give service to the Atlantic and Pacific coasts and resulted in funneling American commerce through ports on these two coasts. I might add that Mr. Turman has lived with this all through the period and can speak authoritatively on that subject.

Through their representatives here and abroad, American-flag steamship companies have been carrying on—for some time—a vigorous export promotion program assisting in the discovery and development of new markets and new customers for American goods. This service, long characteristic of the industry, was the subject of recent complimentary remarks by the businessmen's Committee of Trade Promotion Activities at the White House Conference on Export Expansion, which urged that even greater publicity be given this contribution by our merchant marine to the President's program.

And, we are proud to say, we recently received the Department of Commerce "E" award for these activities. Similar important contributions are being made by the shipping industry to our Government's drive to promote tourist travel in the United States.

Let me cite a few other specific examples of how we are trying to promote trade.

We maintain 327 trade promotion offices with 1,300 trade specialists. Our people abroad are experienced at furnishing marketing information, aiding businessmen with facts about potential new oversea markets and customers, uncovering new sources of raw materials, and in countless other ways providing trade development assistance. They make it their business to know the laws, regulations, and requirements of foreign governments.

Our lines also conduct mobile trade exhibits, participate in trade fairs, and contribute to regional export expansion council meetings now being encouraged by the Department of Commerce. CASL has a regular trade promotion program of community visits—the last one being held in Milwaukee, Wis., during the latter part of October. Others were held in recent years in Indianapolis; St. Louis; Atlanta; Pittsburgh; Denver; St. Paul and Minneapolis; Kansas City; Cincinnati; Canton, Ohio; Racine, Wis.; and Cedar Rapids, Iowa. More are planned. These visits encourage trade expansion and point out the advantages of U.S.-flag shipping. They have—we believe—been notably successful.

Because of the essential trade route concept—called for by the 1936 act—these 15 liner companies are totally and completely identified with interests of American commerce, and none other. Thus, the strongest possible compusion—self-interest—is exerted on us to isure that to the greatest possible degree, rates, and shipping conditions foster the movement of American goods in the foreign trade.

RATES OF RETURN

Naturally, private shipping companies cannot and should not be expected to subsidize the foreign trade through freight rates. Like other American business and like free enterprise the world over, the CASL companies are entitled to seek a fair rate of return on their stockholders' investment.

However, the plain facts are that over the last several years the rates of return and dividends realized by shareholders have been far from adequate. Indeed, while shipping is a high risk business, rates of return realized by the CASL group in recent years have not been much better than most companies could have realized by investing their net worth in low risk securities such as tax exempt municipal bonds. One might ask why, with all the headaches we don't get out of the business. The answer is that there have been several of the owners have taken action for studies that might lead in that direction. Of course, we are constantly working to find more efficient ways of doing business, and we have hopes that conditions will permit all well-managed steamship companies to improve their earnings picture in the months and years ahead.

Another important fact which is apt to be overlooked in considering the role of American-flag shipping is that it is a major "plus" factor in our international balance of payments.

During the year 1962, for example, American-flag ships earned revenues net of foreign disbursements aggregating about $1 billion from the carriage of passengers and goods in the foreign commerce of the United States, and these earnings represent a substantial contribution towards strengthening our national balance-of-payments picture.

This net figure places American-flag shipping among the major export industries of this country. CASL lines contribute over half of this total.

We have estimated on the average that when freight and passengers move on American-flag ships only about 20 cents of every revenue dollar represents an outflow from the United States. In the case of the CASL companies they are as a matter of contract required to give preference to products of American origin and therefore foreign expenditures are generally limited to the maintenance of offices, payment of agency fees, and various cargo handling and port expenses. This is quite different from movements by foreign-flag liner vessels which minimize their purchases in the United States and where the outflow is estimated to be more than 70 cents of every revenue dollar.

Government agencies and the American shipping public have become increasingly alert to this problem in recent years. The Department of Commerce is now readying a major effort, by direction of the President, to urge the movement of cargoes by American-flag ships.

One reason for this intensified effort is that the support our fleet receives from American shippers is far less than the preference our largest competitors receive from their nationals. The Japanese and British—just to name two—feel it is patriotic to use their national-flag lines. As a result, 60 to 70 percent or more of their trade is carried under their own flag. American-flag lines—including bulk

cargoes—carry less than 10 percent of total tonnage of U.S. trade, although, as most of you know, the 15 CASL lines have consistently carried a higher percentage of the types of cargoes available to them than have other segments of the American merchant marine. In the liner or regularly scheduled services that we operate, American-flag participation is around 28 percent on a weight basis, and about 35 percent on a payable ton basis, which more fairly reflects the true situation. For the world's largest trading nation, this is still a relatively low share, and we think there is every reason for American shippers to do something about it—for commercial purposes alone and irrespective of the valid patriotic result.

Most trade associations in this country have endorsed the essentiality of American-flag shipping and recognize the unique and superior services we render. The U.S. Chamber of Commerce—at its September meeting—once again called on American exporters and importers to be mindful of the importance of U.S.-flag lines whenever they route a shipment.

This policy of enlightened self-interest would be expedited if exporters and importers would take a keener interest in selling or buying under terms that give them a larger degree of control over the routing and financing of their ocean freight shipments, which in large measure is what the foreign competitors do, out of national interest or otherwise.

GOVERNMENT AIDS

At this point, it may be a good idea to talk about a few fairly common misconceptions about subsidies under the 1936 act.

Whether we like it or not, nearly everybody receives a subsidy or protection of some sort—examples—airports, highways, public housing, Government guarantee of FHA mortgages, crop supports, low cost mailing privileges—and even protective tariffs, which make possible employment in protected industries at American standards. In the case of domestic transportation and public utilities, most regulated rates are fixed on the basis of allowing a fair rate of return on cost, and this represents a form of protection. All these aids are based on recognized needs.

Our maritime policy recognizes two national needs. One is a fleet of ships for defense, plus the shipbuilding capacity to expand that fleet rapidly. The other is a network of trade routes with enough American ships to assure that export goods and vital imports will move with dependability, speed, and regularity.

While on the subject of defense, I would like to comment for a brief moment on the recent Air Force operation that has been so much in the news—Exercise Big Lift. The Air Force did a tremendous job in carrying more than 17,000 soldiers to Europe in big C–135 transport planes. We are fortunate to have the equipment and the know-how to run such an operation. But you do not have to be a military expert to know that a division without equipment is pretty helpless.

The missiles, vehicles, tanks, and artillery that the 2d Armored Division depend upon were already in Europe. They got there by ship, as did the jet fuel that the C–135's depended upon for their return trip. In the enthusiasm of the immediate achievement, little attention is given to the merits of a huge airlift under conditions

where few or no adequate landing fields or established bases exist. I think the lesson is obvious.

Shipbuilding capacity—one of the two national needs—is maintained through so-called construction differential subsidies, or shipyard subsidies. These payments, and I would like to emphasize this, go to the shipyards, not to steamship lines or operators and are intended to make up the difference between the cost of building a ship in this country and the lower cost of buying the ship from a foreign shipyard. In most cases, the American shipowner, if permitted to deal directly with foreign shipbuilders, could get the ship he wants at considerably less cost than prevails even after subsidy. So the shipbuilder's subsidy confers no boon on the American shipowner and operator. Nevertheless, we get good ships and we are proud to own and operate them. And there is in being a shipbuilding capability should we really need it.

The other recognized need is to assure that American exporters-importers have access to the world's trade routes on a regular basis at reasonable rates. So the Government provides an operating subsidy to qualified steamship lines. Over 80 percent of this subsidy goes directly to American seamen working at American wage rates in ships alongside low-wage foreign ships, whether on the high seas or in foreign ports. We cannot—as can most American business with plants abroad—pay foreign wage rates when we operate offshore. The balance of the subsidy is accounted for by such things as higher cost overhaul work in American shipyards, and supplies from American sources, which our foreign competitors can buy cheaper abroad. I would like to emphasize this—company salaries and other general and administration overhead are not subsidized and we do not ask it. While it does not fully do so—the subsidy is intended to put American-flag ships on an equal footing to compete—no more, no less. No profit is guaranteed.

The relationships of the United States and each of the CASL steamship lines are formalized by 20-year contracts—most of which run to the late 1970's. Under these contracts we must live up to a great many obligations and put up with a great many restrictions. For example, we have to provide regular service whether or not we make money on each individual voyage and we must be ready and willing to turn over our ships to the U.S. Government in any national crisis—as we did in World War II and have since. These contract obligations include a specific ship replacement program and the extent and timing of that program is specified by contract.

Under these arrangements, however, our fleet today is strong and growing stronger. The 15 CASL companies own and operate about 300 ships—one-third of our entire active merchant marine—the so-called hard-core fleet. To assure American exporters of the fastest, most up-to-date ships in the world, all these vessels are now being replaced at a cost to ourselves and the Government of about $4 billion. Contracts for the replacement of more than 100 ships—of much greater capacity and speed than those they replace—have been signed since 1957; the rest are scheduled for replacement within the next 10 or 12 years.

As part of our effort to provide services to shippers at reasonable rates and to keep operating costs in line, our group is engaged in build-

ing the world's most modern and efficient ships and is adopting the most advanced ideas for cargo handling, mechanization, and automation. In this connection, I can think of no other established industry with companies whose current investment—in improved plant and equipment—represents such a high percentage of its net worth.

I might mention that in my own company, Grace Line, for example, in the next 15 months we will receive delivery of four new ships and equipment and it is equal to 50 percent of our net worth.

It might be helpful to outline the nature of the testimony of our subsequent witnesses and the major points they will develop. As mentioned earlier, the next witness, Mr. Nemec, will appear on behalf of the CASL group; and will show the world availability of ocean shipping and the extent to which it has been overtonnaged; indicate the level of ocean freight rates and show the current trend; evaluate the financial performance and condition of CASL companies; analyze the cost-price squeeze of the industry during the recent past and compare the sharp increases in domestic longshore labor during postwar years with certain competitive foreign areas; analyze the effect of the American-flag shipping on the balance of payments; submit material as to the tax deferment status of CASL companies in order to correct misleading impressions created in previous testimony; and outline for the committee the ship replacement program and the recent breakthrough in the field of shipboard mechanization, and its meaning in connection with the long-term competitive position of American-flag shipping and operating subsidy payments.

At the conclusion of Mr. Nemec's testimony, all of us here today will be available for questioning.

Thereafter, testimony will be presented by a group of freight traffic executives representing the CASL companies as well as other American steamship lines, organized under the name of the American Steamship Traffic Executives Committee, commonly known as ASTEC. This group will be headed by Mr. Donald F. Wierda, vice president, freight traffic, of United States Lines.

With reference to rate and conference matters, which will be discussed by Mr. Wierda's group, we believe that rate levels in general—contrary to impressions in some quarters—are in actuality too low, although there undoubtedly may be instances of rate differences that appear to make little sense at all. We in the steamship business agree that any inequities must be justified or corrected.

While we recognize that ocean freight rate conferences are not perfect, we subscribe to Mr. Julian Signman's views before your committee that they nevertheless are the best instrument yet devised for establishing rates and maintaining stability in international trade. It is hard to visualize more difficult operating conditions than those facing the conferences, depending as they do upon the voluntary association of large numbers of diverse shipping interests representing almost every sovereign nation on the globe. Add to this the deliberate use of shipping fleets as instruments of national economic policy by many of these governments—add also the inevitable factor of human error—and it is easy to see how mistakes occur and occasionally malpractices come to light—in spite of the efforts to prevent such occurrences by well-intentioned men from all nations within the conference system.

Agencies of the U.S. Government have sought through unilateral action to control or regulate this area of international commerce, which so vitally affects other nations. This, of course, they are attempting to carry out certain statutes. These efforts have been unsuccessful and they have placed U.S. shipping at a competitive disadvantage to our foreign-flag counterparts. We must realize that steps taken by the U.S. regulatory agencies that threaten to affect the operation or earnings capacity of foreign-flag lines invite retalitory action by foreign governments—and we all know most of them can act or react much more quickly than we.

So, as I mentioned earlier, much remains to be done, although we believe progress requires that American-flag shipping operate within the conference framework.

During the course of testimony by Mr. Wierda's group they will analyze outbound and inbound rates with particular reference to prior testimony; explain the rate practices of American-flag steamship companies in liner trades; review factors apart from freight rates that affect the flow of export commerce; and explain the activities of steamship conferences.

To summarize the position of CASL on the matters before this committee:

1. The structure of ocean freight rates and the conference system of international regulation are basically sound, although continuing efforts and support by all interested parties are necessary to correct individual exceptions to the rule.

2. There is a genuine community of interest between the CASL lines and the export trade of the United States. We both work for more trade.

3. American-flag shipping helps the balance of payments and its net earnings in the foreign trade make it one of the major contributors in this all-important area.

4. The Merchant Marine Act of 1936—as amended from time to time—has enabled substantial growth of the liner fleet. Recent developments in the field of shipboard mechanization indicate the progress we have made. Our liner fleet is one of the best in the world, and we intend to keep it that way.

Chairman DOUGLAS. Thank you, Mr. McNeil.

I am now going to call on Mr. F. A. Nemec, executive vice president of the Lykes Bros. Steamship Co., who I understand will make the formal presentation for your group.

STATEMENT OF FRANK A. NEMEC, EXECUTIVE VICE PRESIDENT, LYKES BROS. STEAMSHIP CO., INC.

Mr. NEMEC. My name is Frank A. Nemec. I am executive vice president of Lykes Bros. Steamship Co., Inc., headquartered in New Orleans, La., appearing here today on behalf of the Committee of American Steamship Lines. I will discuss matters in which this committee has indicated interest or previously has received testimony which, in our opinion, was inadequate or inaccurate.

Chairman DOUGLAS. Mr. Nemec, we do not want to shut you off, but I notice you have a statement of some 36 pages. If all of this is read, it will leave very little time for questioning. Of course, it will be re-

ceived for the record. I wonder if you could abbreviate certain portions in your verbal presentation.

Mr. NEMEC. I will be very happy to, Mr. Chairman. I think, however, it would be helpful if I would outline the major content and then proceed to shortcut some of the remainder.

Further, in order that this committee may consider rate and conference problems against an adequate factual background, I believe it essential that you be furnished with a brief characterization of the present status of world shipping and rate trends, as well as a complete disclosure of the actual results of cargo carryings and operations of CASL companies.

Accordingly, during the course of my testimony I will cover—

1. International shipping, world rates, and indicated future trends;
2. A new look at U.S.-flag liner participation in the foreign trade;
3. A review and evaluation of the financial results of CASL company operations—7 years;
4. The results of an independent analysis and report by Standard & Poor's;
5. Nineteen hundred and sixty-two average revenues and analysis of the results of the carriage of export and import cargoes;
6. Increasing domestic cargo handling costs and their significance to our waterborne trade;
7. The CASL vessel replacement program, the financial resources dedicated thereto, and the prospects for building additional ships;
8. The rationale of tax-deferment provisions of the 1936 act;
9. U.S.-flag shipping and its role in the balance of payments;
10. Breakthroughs in the technological field and their portent to Government and trade.

To conserve the time of the committee, much of the factual material will be presented in a series of graphs and exhibits.

To conserve the time of the committee, we have a series of charts. With your leave, I will use those as basic discussion points.

Chairman DOUGLAS. Thank you very much.

Mr. NEMEC. I think, however, Mr. Chairman, and this has not been covered, I would like to read a portion of the ensuing statement because it does characterize the role of American-flag shipping on the foreign trade lanes of the world, the manner in which this industry has operated over the last several years, and the present trend of freight rates worldwide.

First, I think it is important to recognize that the active privately owned U.S. merchant marine engaged in the foreign trade is a relatively small part (less than 10 percent) of the vast international shipping community and to a large degree its fortunes are affected and rise and fall under the influence of worldwide economic forces. Ships are migratory assets and while they differ in many respects, adaptations are made under economic stress.

World shipping markets and particularly the bulk, charter markets are a classic example of the laws of supply and demand. When the demand for ships significantly exceeds the supply, there is no single

economic power on earth which can control rates in this market—except more ships.

The reverse is also true. For when the supply of ships substantially exceeds cargo then ships become idle and rates fall to distress, non-compensatory levels and neither Government fiat nor controls nor agreements between owners can or do influence the world rate level to any marked degree.

During recent years, world shipping has been depressed, but now seems to be emerging from the trough which commenced during 1958 and lasted until the fall of this year. All segments of international shipping felt the effect of this depression, with the tankers and tramp bulk carriers in the spot markets probably being affected most. This period was characterized by a worldwide oversupply of ships competing for an inadequate volume of cargo.

I then recite, Mr. Chairman, in the next several paragraphs, the major reasons which built this worldwide oversupply of ships. I have prepared some charts which I shall present.

(The charts referred to are part of Mr. Nemec's formal statement and appear later in this record. See p. 399 ff.)

Chairman DOUGLAS. This is headed "Financial and Economic Data on the American Merchant Marine"?

Mr. NEMEC. That is right. The charts are numbered in the upper right-hand corner and are numbered in Arabic with no indication as to page numbers.

The first chart, Mr. Chairman, indicates at three significant dates the leading active maritime nations of the world. This chart excludes the U.S.-owned laid up fleet. It does, however, include in the postwar years Government vessels which were chartered by private shipping interests and operated in their trades. You will note that the United States today, in 1963, ranks fourth among the maritime nations of the earth and that relatively, our dry-cargo fleet is much greater than the relative size of the dry-cargo fleets of most of the other great maritime powers. In our dry-cargo fleet, a majority of these vessels are engaged in the liner trades, which I think is unique in the sea lanes of the world. This is a direct outgrowth of the operations under the Merchant Marine Act which ties liner ships into and their operation on essential trade routes.

Chairman DOUGLAS. Mr. Nemec, I note here that Liberia is the fourth largest maritime power in the world. I had never realized that Liberia was a great, virile economic country. Yet here it is with fourth largest tonnage.

Mr. NEMEC. For one very simple, very good reason, as a flag which does not tax shipping earnings. Because of this tax exemption or nominal taxes which are put on these vessels, it has become a country of refuge for the shipping interests of many nations of the world.

Chairman DOUGLAS. This is a shipping Luxembourg or Liechtenstein?

Mr. NEMEC. Yes; the maritime nations have gone to three countries principally—Liberia, Panama, and now the British protectorates of Nassau, Bahamas, and otherwise. These are latter developments, but Liberia, which was the first of the tax refuge countries, has had this tremendous growth because of this one factor alone, largely.

Representative GRIFFITHS. May I ask, what percentage would American money own in Liberia?

Mr. NEMEC. It is somewhere between 60 and 75 percent, based on the number of vessels which are attributed to American ownership. You will understand, of course, Mrs. Griffiths, that some of these areas are very, very difficult to——

Chairman DOUGLAS. What percentage?

Representative GRIFFITHS. Sixty to seventy-five percent.

Chairman DOUGLAS. What percentage of the American fleet is really sailing under the Liberian flag?

Mr. NEMEC. There are some 800 ships under Liberian flag, large ships. Of that, somewhere between 500 and 600 seem to be owned by American interests. You will understand that these sometimes are veiled by a series of corporate entities.

Chairman DOUGLAS. What about Panama?

Mr. NEMEC. Panama has a fleet of much lesser size; Panama has some 200 ships and I think about the same proportion prevails there. Somewhere between 60 and 75 percent of that ownership is by American corporations.

Chairman DOUGLAS. Do we own any of the Bahamas ships?

Mr. NEMEC. Not to my knowledge. These are principally flags of refuge of British shipping interests.

Chairman DOUGLAS. Would you say, then, that the American-owned ships flying under foreign flags have at least as much tonnage as American-owned ships flying the American flag?

Mr. NEMEC. No; not quite, sir.

Chairman DOUGLAS. Not quite?

Mr. NEMEC. No, sir.

Chairman DOUGLAS. Pretty close?

Mr. NEMEC. They are entirely different types of ships.

Chairman DOUGLAS. I understand, but in terms of tonnage, what percentage?

Mr. NEMEC. I would say three-quarters.

Representative GRIFFITHS. I do not know much about shipping. Where were these ships built that fly the Liberian flag?

Mr. NEMEC. They were built in the shipyards of the world, any place but in the United States. Their owners normally seek the cheapest shipbuilding center in the world. This has varied from time to time, also depending upon the availability of ways. Today Japan is the lowest priced shipbuilding center of the world, especially for the types of ships built for Liberian registry.

Representative GRIFFITHS. So today, Japan is building ships cheaper than we can build them, even if we subsidize the building, is that right?

Mr. NEMEC. The answer to that is yes, but normally we would not subsidize for building in the United States, vessels that would be sailed under a foreign flag.

Representative GRIFFITHS. Why is that?

Mr. NEMEC. Because the Government just does not appropriate money. As a classic example, in the last few years, the Bethlehem Steel Co. wanted to build two ships for registry under the U.S. flag, but the U.S. Government would not appropriate money for their building in the United States, so they went to West Germany.

Representative GRIFFITHS. Would there be ships built here that would later be transferred to an American corporation sailing out of Liberia?

Mr. NEMEC. The only one instance I recall was directly after the Suez crisis when the speculative tanker fever gripped the world and a number of ships were built in this country by Greek shipping interests at exhorbitantly high rates, some $300 a ton. This is not normally done because the costs are so much higher in this country, it is just uneconomic.

Representative GRIFFITHS. One more question. What seamen operate these ships sailing out of Liberia?

Mr. NEMEC. There are no significant requirements under Liberian or Panamanian law with respect to citizen ship manning. The crews will vary from Chinese for some companies to Norwegians in some others. You name the nationality, and they are manning Liberian vessels. This becomes a question of operational practice or choice of the owner.

Representative GRIFFITHS. What would be the average hourly wage as compared to that of an American seaman?

Mr. NEMEC. Twenty cents to a dollar or less.

Senator PELL. Mr. Chairman?

Chairman DOUGLAS. Senator Pell.

Senator PELL. This last question of Mrs. Griffiths brings me to another point. I remember being a delegate to the American Maritime Consultative Conference. I remember it was not so much adverse taxation which resulted in the companies sailing under the Liberian flag but the unionization problem.

Mr. NEMEC. This has a bearing and of course, the attraction will depend upon the disposition of the owner. I think the naked facts, however, are that, if a foreign shipowner is choosing a country of registry, freedom from taxation, more than manning, more than any other inducement, has attracted tonnage to these flags. In the case of a choice between U.S. registry and Liberian the far, far lower wage costs would be a controlling factor.

Senator PELL. Is that not a shift in emphasis from the viewpoint of management in the last 4 years or so?

Mr. NEMEC. Of course, it will shift. In times of relatively good profits, among foreign-flag owners freedom from taxation would be far more than labor problems. If, however, profits drop and the freedom from taxation is not the same inducement, then the inducement may become labor. It shifts.

If I were to rank them, I would say that in the case of foreign owners taxation is first, considerable freedom from unionization and workrule impediments is the second big inducement.

Senator PELL. Is it not a fact, though, that in these so-called flags of refuge vessels, Coast Guard safety maintenance standards are maintained?

Mr. NEMEC. Yes; and no.

Senator PELL. When passengers are carried?

Mr. NEMEC. In flags of refuge, very few ships carry passengers. These are largely bulk carriers and tankers. They do not follow Coast Guard requirements, but do follow the registry societies of the world, principally Lloyds and American Bureau of Shipping. They are

good ships, as fine as any being built today and serviced today, for the most part. There are some prewar vintage in there, but they are in the minority.

Senator PELL. Thank you.

Chairman DOUGLAS. Proceed.

Mr. NEMEC. In characterizing the shipbuilding trends in the world, commencing with the shipping depression which began in 1958, the world order book was very large. In the ensuing years, deliveries of ships from world shipyards substantially exceeded new orders coming into the marketplace. This persisted during this entire period of time, but during 1963, in the spring and early summer, we see an interesting reversal of this trend, which I think is of some significance to this committee.

You will note here, on chart No. 2, that in June, July, and May, we had a large influx, a large excess, if you will, of new orders coming into the market as contrasted with ship deliveries. This sensitive indicator of interest on the part of hardheaded businessmen the world over to start putting money into new ship orders was a signal to many of us, a forecast that a change in climate was about to ensue in the world shipping community. This is one of the sensitive indicators, the influx of orders into world shipping markets.

We now turn to chart No. 3. This is a companion schedule which represents, in effect, the World Order Book, the backlog of ships on order, under construction, undelivered, in the entire world. You will see here, again, that the trend which was manifested during the summer months is reflected in a level of the order book moving up. This is background material, and is a forecast of things to come.

As a parenthetical note, you will notice that the orders continue to be about twice as heavy for tankers as they do for dry cargo vessels, but interestingly enough, in the one period of June and July, the volume of dry cargo ships, including liners coming into the world market, was substantial.

We turn now to an examination of world charter rates. This is probably the most sensitive indicator of world shipping fortunes. In chart 4, we have illustrated, typically, the flow of world charter rates from the early postwar years up to the very current period. You will notice here that there have been two extremely high peaks in this world charter market, the spot markets. These charters which are negotiated in the light of the demand for ships very, very accurately reflect and very quickly reflect market conditions. The two peaks were reached following the opening of the Korean war, and then, secondly, as a succession to the closing of the Suez Canal. These two peaks pulled charter rates up to an all-time high. You will notice the manner in which that has happened.

In periods of low charter markets, the tramp operators attempt to establish new liner services, or at least to seek to carry parcels of liner-type cargo, and other cargo which generally are not bulk cargoes.

By contrast with tramps, we have the liner operations which are predominantly the common carrier types of operations.

By distinction with contract carriers, liners offer a vessel on berth and solicit cargo and give regular and frequent service. It is interesting to compare the differences in rates. The main point in this overlay is to compare the manner in which the liner rates, the common

carrier rates do not fluctuate to the same degree, up or down, as the charter rate. This rate stability is, to an inherent degree, the underlying causes, the justifications for liner operations in the foreign trade, and, in some measure, are due to agreements between the conferences.

We have here, typically, and this, I assure you, is to indicate the relative stability of liner rates as contrasted with the peaks in the charter market——

Chairman DOUGLAS. May I interrupt here?

Mr. NEMEC. Certainly.

Chairman DOUGLAS. If what you say is true, there has been a stability of liner rates since 1957, when these rates went back to approximately the same level that prevailed from 1952 through 1954. It appears that there has been stability in liner rates except for the Korean and Suez crises.

These are conference rates, are they not?

Mr. NEMEC. That is correct; yes.

Chairman DOUGLAS. Now, on the other hand, the tramp rates fluctuate much more sharply. That is shown not only by chart 4 but by chart 4–A; is that not true?

Mr. NEMEC. That is correct; yes.

Chairman DOUGLAS. In other words, the supply-and-demand factors which cause the tramp rates to fluctuate do not influence the conference rates?

Mr. NEMEC. Not to the same degree, Mr. Chairman. I think you will see that there is an underlying effect. It is not always manifested in precisely the same demand, because, basically, they are operating in different markets.

Chairman DOUGLAS. Well, I submit that it seems to show that you maintain your rates in spite of the lower tramp rates. It seems to me that this is an important point, because I think it would refute the argument that inbound rates must be low because supply exceeds demand.

Mr. NEMEC. I think I can answer that much better later along, Mr. Chairman, as we develop some factual material. But I will call your attention to one thing, that even despite the Suez crisis, the increase in liner rates was relatively moderate. These are all around an axis, and they drop down after that by steps, reflecting market tendencies.

Chairman DOUGLAS. I simply call your attention to the fact that at the top of page 5 of your statement, you say "These data are furnished to illustrate the relative stability of liner rates in the face of aggravated sharp peaks and valleys in world tramp or charter markets," which seems to indicate that the forces of supply and demand do not affect, appreciably, the conference rates.

Mr. TURMAN. Mr. Chairman, I would like to address myself to this.

Chairman DOUGLAS. Yes, indeed.

Mr. TURMAN. The facts are in the liner trades, they give rates which are good for a period. We have been under these dual-contract systems during all this period. We give rates which are valid over extended periods. That is one of the great considerations which bring the support of the shipper. That is the reason that you find that these rates here have not followed the charter market.

In other words, taking the cotton trade, we normally gave a rate good for a year. If we had a violent upheaval of something economic

or political of significance, then we could go back and try to negotiate an increase. But if it is just a normal situation, the rates going up, they still had that rate.

Chairman DOUGLAS. That is exactly what I am saying.

Mr. TURMAN. Well, it brings out, I think, that you are drawing, I believe, the wrong conclusion. The conclusion is that the liner rates do not follow as quickly the ups as the downs. They follow the downs quicker because immediately that times get hard and there is a surplus of shipping, then we get the tramps in who come in as berth tramps and cut the level from under us.

Chairman DOUGLAS. I simply submit that if we look at the rates, though you naturally take advantage of the pressure for shipping as illustrated by Korea and Suez, when you go down, you go down approximately to the level that prevailed before and maintain this for long periods of time, indicating that the published rates do not bear too great a relationship to excess of shipping or surplus of supply over demand. If this is so, then apparently the fact that the smaller volume of inbound cargoes as compared to outbound shipping is not a very strong reason for the lower inbound rates.

Mr. TURMAN. Mr. Chairman, I would like to disagree with that conclusion, sir, and I think I can prove the point.

Chairman DOUGLAS. Very good.

Mr. TURMAN. Let us take, for example, the cotton rate. I do not know of any industry which has worked any closer over the years with the shipping industry than the cotton industry. Our rate, because when we hit this low peak of oversupply of shipping, some 8 or 9 months ago, our rate, which was $1.65, which incidentally was about the rate at the time of 1949, believe it or not, with all of these increases, tramp competition came in on our berths down in the gulf and went as low in some cases as $1.10 a hundred pounds as against this $1.65 rate. It demoralized the market. Our rate went to $1.30 in the face of terrific increases in both handling and in the seagoing wages. I would maintain, sir, that if anything, the liner, the common carrier, we must continue our service day in and day out. We give people a stable rate over a period and we do not get the high peaks that you get in the charter market. And obviously, we do not get the low peaks. But we do not benefit out of these rises anything to the degree that the other people, which is demonstrated here.

Chairman DOUGLAS. I am certainly not an expert in the field but I had always assumed that cotton could move on tramps and that, therefore, in this particular commodity which you had chosen, there may well be competition between tramps——

Mr. TURMAN. It would put the little man out of business if you did, Mr. Chairman.

Chairman DOUGLAS. Most of the other commodities which are included generally cannot be handled by tramps, as I understand it, and in this respect, tramp competition apparently does not enter in. You have maintained, apparently, stable rates except for great periods of shipping shortage and, therefore, have not allowed the relative fluctuations in the ratios of supply and demand to affect you.

I raise this question, therefore, whether the greater tonnage going out than coming in has really played much of a part in your giving lower inbound rates.

Mr. TURMAN. No, sir; I still do not agree with your conclusion, sir. I would like to make one distinction that I think should be made. There is a tramp which is characterized as a full bulk cargo ship. The other tramp is a berth tramp.

Chairman DOUGLAS. Is chart 4 simply for the gulf trade?

Mr. TURMAN. No, sir.

Mr. NEMAC. It is the analysis of liner rates. It is just on a selective group in the gulf trade.

Chairman DOUGLAS. It is simply for the gulf trade?

Mr. NEMAC. Yes, sir.

Chairman DOUGLAS. Then it is simply the Lykes rates?

Mr. NEMAC. It is the Gulf Conference rates.

Chairman DOUGLAS. But not the Atlantic rate nor the Pacific nor the South American trade?

Nr. NEMAC. No, sir. It is merely to indicate the inherent difference in pattern.

Chairman DOUGLAS. Do you think it is typical?

Mr. NEMEC. It would be hard for me to say. I am not that familiar with rates in the other coastal areas, Mr. Chairman. Perhaps you will have witnesses later on that can give you that information.

Mr. TURMAN. I would say it is not exactly typical because we have different competitive situations in the different trades.

Chairman DOUGLAS. It seems to me that you are exposed to more competition from the tramps than the other lines, because the commodity, cotton, which I suppose is your largest export, is one that can be carried by tramps, whereas the commodities in the North Atlantic and as I understand it, in the Pacific, cannot be carried by tramps to the same degree.

Mr. TURMAN. I would think, sir, that probably, simply because there is such a great movement, preponderant movement of bulk cargoes from the gulf, that it probably attracts more tramps. People come out on speculation, if you will. Not that they do not suffer all over, but that is the preponderant source of a great many of the bulk cargoes.

Chairman DOUGLAS. All right.

Mr. NEMEC. Proceeding to our next chart, Mr. Chairman, No. 5, it shows the present level of world unemployed tonnage. It is now at about 2,182,000 tons and has fallen very, very substantially from the peak which was reached in 1960 of about 8 million tons.

Chairman DOUGLAS. What proportion of the world tonnage does this form?

Mr. NEMEC. These 2 million tons are less than 3 percent of the present world ship fleet.

Chairman DOUGLAS. So that the world tonnage is quite fully employed?

Mr. NEMEC. Yes; this being regarded somewhat as marginal. We have also noted that a good part of these ships are very old ships now of World War II vintage and earlier. As I recall the figure, it is some 75 percent in total and in the dry cargo fleet, it is about 85 percent of these unemployed ships. I think this is indicative of the fact that we are starting to enter a tightening market, with demands increasing and this volume of unemployment being the ships available to take up the slack.

Indicative of the underlying strength of the market and the change brought about by the entry into the world shipping markets of the Soviet and Komekon group for purchases of grains and other foodstuff, we have indicated on chart 6 a weekly moving index which merely shows in some more detail the changes.

Chairman DOUGLAS. Are these gulf rates?

Mr. NEMEC. No; these are charter rates the world over, compiled on a weekly basis. This chart has two points which should not appear on it. They were the two pips in 1959 and 1960—they should be removed. It was put on in error and the rate change is a smooth curve.

You will note in 1963, beginning in the center and even before the entry of the Soviet, the world rate started to increase. This increase has been one of more than 20 or 25 percent from the relatively low levels in the fall of last year.

Chairman DOUGLAS. Of course, you understand, Mr. Nemec, that thus far this committee has not gone into the question of the general index of freight rates, but the disparity between inbound and outbound rates. That is, we have not gone into the question as to whether the total structure of rates is adequate or inadequate. But we have gone into what seemed to us striking disparities on identical commodities between identical ports on identical ships, between the high rates paid on the exports and the low rates paid on the imports.

Mr. NEMEC. We will get into that in more detail, Mr. Chairman, but we thought it worth while to give this committee some of the flavor of international shipping. American-flag shipping, after all, is a part of this worldwide community, and this is some of the background material we felt would be useful.

Chairman DOUGLAS. I appreciate that, but I do not want to let the main subject be covered up by this very interesting material.

Mr. NEMEC. We will pass. The conclusion we reach is that because of this constantly increasing cost level, which faces shipping the world over, both in the capital and operating scenes, there is no doubt in our minds but that the secular trend, the long-term trend of freight rates, both charter and liner, must be upward.

Representative GRIFFITHS. Mr. Chairman, may I inquire?

Chairman DOUGLAS. Yes.

Representative GRIFFITHS. On chart 5, what is the advantage to British money owning British ships as opposed to Liberian?

Mr. NEMEC. You ask a good question and the answer probably in the practical economic sense is, "None."

Representative GRIFFITHS. What disadvantages?

Mr. NEMEC. They have some preferences under British-flag operation, patriotic preferences in the carriage of cargo. They may more easily, possibly, arrange their financing, but it seems to most of us that British shippers are moving increasingly into these areas of refuge. There is a growing tendency to incorporate in the Bahamas, for example, where they have tax freedom, and also in Nassau, where they also have freedom from tax. So there is a move in that direction.

Mr. TURMAN. I would think another reason, Ma'am, is that they have much greater liberty in the selection of crews. Where they are British owned, there is a pretty big pressure to use a certain amount of British crews. Now, if they go to the Liberian flag or Panamanian flag, they can get any crews at whatever level of wages they can get

them. I think there is quite a preference. It would be hard, in my opinion, to say whether it is taxes or a greater freedom in the selection of crews.

Representative GRIFFITHS. You mean for Britain, moving out of Britain?

Mr. TURMAN. Addressing myself both to Liberian and Panamanian, I think it is dual; lower wages and taxes.

Representative GRIFFITHS. Now, I would like to ask one other question: In this setting of the prices, at which shipping moves, does Liberia have a vote?

Mr. NEMEC. The Liberian ships are essentially bulk carriers. They are tankers or large bulk carriers; iron ore carriers, bauxite carriers, generally carriers of that specialized nature. They are normally, and with some exception, not members of the conference groups, nor do they generally participate in the liner trades. They are specialized contract carriers for the most part.

Representative GRIFFITHS. Are these ships, of their own free will, then, charging more to carry things from America than to America over the same routes?

Mr. NEMEC. In a contract between the two parties, the rate they charge is a negotiated rate.

Representative GRIFFITHS. I realize that, but what generally is the practice?

Mr. NEMEC. Again, in the case of these two vessels and again with some exceptions, they are basically in one-way trades. These specialized bulk carriers are today largely importing ores into the United States, returning empty.

For example, in the Liberian trade, they are carrying ore into the seaboard. From Venezuela, they also are carrying large amounts of iron ore. Canada is an iron ore trade into the United States. Bauxite moves in large quantities from the Caribbean area, oil moves from the Persian Gulf and elsewhere. These are basically one-way movements in the bulk trades. There are also some large ships built which carry ore one way and oil back the other—or other specialized products. So these are negotiated rates.

Representative GRIFFITHS. They charge the same price both ways, then?

Mr. NEMEC. The contract rate covers the entire movement; that is the normal way of doing it.

Proceeding Mr. Chairman, I shall lightly pass over the next section. This is merely an effort to characterize, in terms other than weight, the liner participation; the American-flag liner participation in our trade. There are several better ways of measuring the efficiency and performance of U.S.-flag liners than weight. Weight is predominantly the bulk-type dense, tramp-type cargo, whereas the liners compete mostly for the general measurement cargo. In this area, we feel that either a percentage of market revenue participation or the payable ton basis or the percentage of commodities excluding the bulk cargoes would be better. In our judgment, the participation today of American-flag liners in the commercial market is 35 percent or more and not 28 percent as computed on the weight basis.

Chairman DOUGLAS. Are you skipping over, then, chart 8?

Mr. NEMEC. No; charts 7 and 8 come in the later section, beginning on page 9.

Chairman DOUGLAS. What chart are you addressing yourself to now?

Mr. NEMEC. I shall now turn to chart 7, which is merely for identification.

Chairman DOUGLAS. Is there any chart corresponding to the material which you give at the top of page 8 of your formal statement?

Mr. NEMEC. No, sir; there is not.

Chairman DOUGLAS. Well, now, do you want to discuss that material at the top of page 8 a minute?

Mr. NEMEC. I will be very glad to, sir.

Chairman DOUGLAS. Thank you.

Mr. NEMEC. What we have done here is to measure the carriage of American-flag ships in terms of revenue. Now, we have used $45 per ton as the measure of the U.S.-flag carryings as contrasted with $30 per ton on the foreign-flag side.

Chairman DOUGLAS. That is average revenue?

Mr. NEMEC. That is average revenue per weight-ton. The figures come from two sources. The $30 was a number which was given to us by the Office of Business Economics, and the $45 is the average of American-flag liners.

Chairman DOUGLAS. In other words, you say that the revenue from a ton on U.S.-flag ships is $15 more than from a ton on foreign ships?

Mr. NEMEC. That is correct.

Chairman DOUGLAS. Or 50 percent.

Mr. NEMEC. Yes, sir; and importantly, this difference is simply a product of the commodity mix. It means that we are getting more of the better paying freight revenues, that we have directed ourselves to this and are successful.

Chairman DOUGLAS. What are those better paying freight revenues? Is it true that of your 13.2 million tons carried under the U.S. flag, 4 million tons, approximately, or 30 percent, are AID cargoes?

Mr. NEMEC. That is approximately correct; yes, sir.

Chairman DOUGLAS. Does this mean that you are charging more on AID cargoes paid by the Government than you are charging on private cargoes for the same commodities?

Mr. NEMEC. No, sir; that is not correct. Those rates are directly comparable. What we have represented here——

Chairman DOUGLAS. Well, why this difference?

Mr. NEMEC. Well, let me take a moment, then, to explain it. The statistics as prepared by the Government—they are compiled on the basis of the mode of operation of the vessel. If a vessel enters into the liner market, she is characterized as a liner regardless of the type of cargo she carries. Thus we find that many of the foreign-flag ships, as, for example, some of the Japanese ships typically operating out of the west coast, will carry 5,000 or 6,000 tons of coal as bulk cargo, coking coal, homebound for Japan. This coking coal, which is high in weight, is low in freight rate. Because of this, you get this kind of distortion on the foreign side. They are carrying much more of the weight cargo.

Chairman DOUGLAS. You mean on foreign flags?

Mr. NEMEC. Yes, sir; they are carrying much more of the weight cargo, which has a lower value in world markets and because of it, it pulls down their average revenue per weight-ton. We, on the other hand, seek and attract more of the specialized cargoes. Grace Line,

for example, carrying bananas northbound from South America, gets a rate far higher per weight-ton of bananas than does coal. This is in order of perhaps 6 to 1. And so in the case of other general cargo.

The rates are all the same basically for participation by American- and foreign-flag liners in these trades.

Chairman DOUGLAS. This does throw light, however, on the collateral question as to why our export, rates on exports should be higher than rates on imports of identical commodities or on a ton-mile basis for third country ports, because the American exports have a lower value per ton than imports into the United States.

I asked Mr. Boggs to collect information on this, and according to the Department of Commerce, the average value per ton of an American export on a liner in 1961 was $340. The average value per ton of an import on a liner is $437, or $107, 30 percent more. So that the imports coming into this country have a higher ton value than the exports going out, and this is largely because of the obvious fact that we tend to export a larger share of food products, raw materials, and import a larger percentage of processed materials. So that this in itself would tend to lead to higher rates on imports than on exports. Yet the facts are directly the opposite; much higher rates on exports than on imports.

Mr. NEMEC. I think you will get a much more qualified witness detailing that, Mr. Chairman, and by your leave, I will pass the question and refer that to Mr. Wierda.

Representative GRIFFITHS. Do strategic materials generated under Public Law 480 come under American-flag ships or not?

Mr. NEMEC. Public Law 480 is basically the Agricultural Assistance Act.

Representative GRIFFITHS. Yes.

Mr. NEMEC. By law, 50 percent of those cargoes are generally required to be directed on board American-flag vessels. The bulk of this participation is carried by American-flag tramp ships. Relatively in tonnage, the participation of the American-flag liners in this market is pretty small.

Chairman DOUGLAS. Now, one other question: I believe you said that 4 million tons of our trade moving on U.S.-flag ships are AID cargoes. If I can perform substraction correctly, this leaves 9.2 million tons.

Mr. NEMEC. You furnished this statistic, Senator, and I said that in general areas, I thought it was right, but I am not certain that it refers to liner ships.

Chairman DOUGLAS. I am told that this comes from the Maritime Administration.

Mr. NEMEC. For liner vessels or——

Chairman DOUGLAS. Yes; for liner vessels.

This 9.2 million tons was about equally divided between imports and exports, namely, 4.8 of exports and 4.4 million tons of imports. This can be found on page 261 of the hearings, part 2, which you have before you. In other words, about an even division.

Have you had time to check these?

Mr. NEMEC. I have not, but I will.

I think, Senator, I can answer the question. And in my testimony, I will give testimony on the percentage of carryings, inbound and outbound.

Chairman DOUGLAS. On page 261, U.S.-flag lines, total exports and imports were 9.2 million tons—4.8 million tons exports, 4.4 million tons imports. So that the volume of imports in tonnage is not greatly less than the volume of exports, but it is of higher value, over 30 percent higher value per ton. Therefore, on a combination of ton and value per ton, you might expect to have higher rates on inbound cargoes on the principle of charging what the traffic will bear. But quite the contrary. The freight rates are very much less inbound than outbound.

Mr. NEMEC. Well, I think you will have some contrary testimony on this from Mr. Wierda. The fact that these statistics are in weight tons distorts them. Later I will show you that, when you regard our average cargo mix, the difference in freight rates is not nearly as great and that it is a matter of several dollars. Perhaps if I can proceed, we can come to that.

Chairman DOUGLAS. I know, but I want to bring these points as they come up. I do not want to use a question-begging term, but I do not want to be snowed by this volume of material that comes in in the early stages. You are a very able man.

Mr. NEMEC. Thank you, sir.

In the next session, we first try merely by this chart to characterize our operations to show where we do have foreign offices. We then proceed to an analysis of the routes of the CASL lines and I will brief this, too, Mr. Chairman, for the 7 years ending with 1962. In my prepared statement, I give a brief quotation from the "Economic Survey of the American Merchant Marine," which was prepared under the chairmanship of Joseph P. Kennedy in 1937. This is a sort of landmark report which points out the principal problem then confronting the lines was one of financial disability.

I would now like to hand you, Mr. Chairman, copies of CASL combined financial statements. Mr. May will deliver them to you, together with supporting statements of public accountants for the committee files.

Chairman DOUGLAS. Would you like to have them published and made a part of the record?

Mr. NEMEC. These are combined, Mr. Chairman. I think it would be quite appropriate to include the 7-year results of operations and the individual balance sheets. I understand that each member of the committee has similar financial statements in the files of statements which were handed to them.

Chairman DOUGLAS. What I want to know is whether you want these individual balance sheets made a part of the official record or just kept with the committee?

Mr. NEMEC. I would prefer that they be kept with the committee. The key data is in the summary statements which we have given you.

Chairman DOUGLAS. This is simply supporting evidence.

Mr. NEMEC. Yes; they are the source of the statements.

Chairman DOUGLAS. Thank you very much.

(The material referred to will be found in the files of the committee.)

Mr. NEMEC. We have indicated on chart 8 the net earnings for the group for the 7 years ending 1962. You will note that these earnings have been arranged in several bases. In the first instance, we show the net earnings of the lines. This is after taxes, after all increments.

They range from a high of $73.5 million in 1956 to a low of $27 million in 1960. These earnings represent the combined earnings of the 15 companies, and you will see that the combined 7-year average as a return on stockholder investment, is 6.38 percent. This percentage ranged from a high in 1956 to a low in 1960, again. We have also shown the total capital at risk, both borrowed and stockholder investment, included a companion set of figures to give the rates of return on this investment.

What is not generally understood, however, is the fact that even these earnings are not entirely available to any of the companies or all of the companies.

On the next chart, No. 9, and again I will skip over this briefly—this is basically background material but useful to your deliberations—we have here broken down our earnings to show that portion which has been available for corporate purposes for the 7 years, 30 percent, precisely 30.56 percent; while the balance of it, the bulk of our earnings, 70 percent, was required or was deposited in reserve funds under joint control of the companies and the United States, and can be used only for shipbuilding or other purposes.

Chairman DOUGLAS. Who required you to put 70 percent of reported earnings in the reserve fund?

Mr. NEMEC. The law. Under the law there are reserve funds——

Chairman DOUGLAS. Seventy percent or fifty percent is required? Which?

Mr. NEMEC. The 50 percent represents that portion which is the so-called excess earnings and represents a funding of replacement. This is required to be deposited in the reserve fund.

Chairman DOUGLAS. What about the 20 percent between 50 and 70?

Mr. NEMEC. The remainder are reserve fund earnings. These moneys can be invested in generally interest-bearing types of——

Chairman DOUGLAS. But are you compelled to put the 70 in or only the 50 in?

Mr. NEMEC. We are compelled to put in these mandatory deposits of earnings which basically are the 50, and all earnings and gains on reserve funds as they are realized.

Chairman DOUGLAS. The reserve funds go into the reserve fund, but that does not cover the 20 percent between the 50 and the 70 percent; does it?

Mr. NEMEC. Yes; it does. The balances in these funds as you know, were relatively large in this period because they were being used to shoulder the big shipbuilding problem. The numbers were quite large. They averaged over $300 million, as I recall, for the 7 years and at interest rates this represented interest earnings of something in the order of $15 to $20 million a year that was required to be deposited.

Chairman DOUGLAS. The earnings on the reserve funds are tax free; are they not?

Mr. NEMEC. They are tax deferred, Senator.

Chairman DOUGLAS. What is the difference?

Mr. NEMEC. There is a vast difference. In tax deferment, you are ultimately required to pay taxes when these moneys are withdrawn, as they may be withdrawn at the end of any accounting period if the Government permits. Whenever they are withdrawn at the termination of this period, they then become taxable at the rates then in effect.

Chairman DOUGLAS. But if not withdrawn, the earnings on the reserve are tax free?

Mr. NEMEC. They are tax deferred. I will correct you again because there is a real point there.

Chairman DOUGLAS. Of course, we have had experience with this recent MGIC case up in Wisconsin, where the money put into the reserve fund was declared on an administrative ruling to have earnings on this reserve fund tax free. This apparently had a great influence on the profitability of the company and on the value of the shares, which rose from $1.30 to the insiders to 54, then went down to 24 and rose again. I have not watched the over-the-counter quotations, since I have no personal interest. But obviously, the privilege of exempting earnings on the reserve fund has a distinct effect on the profitability of the company itself and upon its securities.

Mr. NEMEC. Mr. Chairman, I am thoroughly delighted that you brought up the subject and your interest in it, because it now gives me the opportunity to present a memorandum which I was afraid you might not like.

Mr. May, will you give the chairman a copy of this tax memorandum?

It is quite lengthy. I have briefed it in my statement. It includes a very analytical, if I may say so, analysis of the tax deferment provisions of the 1936 act. I have made this memorandum complete and I hope you will reprint it with the other memorandums in order to correct the misleading impressions given to you by other witnesses.

Chairman DOUGLAS. That will be done.

We have a number of other exhibits that also are to be placed in the record. I believe that yours and others that provide supplemental information should be grouped and placed in a single volume, to be called an appendix, and printed separately at the conclusion of the hearings.

Mr. NEMEC. I will be happy to discuss them with you at this point. Or, I have a summary in the prepared statement later which I can take up. You will find that while required treatment of subsidized lines is different from ordinary taxpayers, it is not unique. There are many other taxpayers in these United States that have far greater tax benefits than we do.

Chairman DOUGLAS. Please do not quote MGIC as a precedent for what you are getting.

Mr. NEMEC. MGIC is a life insurance company and in my memorandum I have a section in which I have quoted for you the pretax earnings and the tax ratio of selected life insurance companies as quoted by Standard & Poor's. MGIC is not among them, but you will be surprised by the figures. The ratios are as CASL but effectively they get much better treatment in tax exemption. We still have the overriding liability.

Chairman DOUGLAS. I agree there are many tax refuges and a great many affluent refugees who are ensconced in them. But I do not believe that widespread use justifies universal application.

Mr. NEMEC. If you are talking about merchant shipping, this is justifiable as I have developed in the memorandum and I will be happy to go through it now, if you like. It is thoroughly developed. We point out why this is an essential third form of parity. We are com-

peting in this world with three organization types of fleets—the State-owned fleets, those operating from tax exemption shelters like Panama, Liberia, and the British protectorates, and the liner fleets of the traditional maritime nations which have tax preference.

Chairman DOUGLAS. If you will forgive me for indulging in poetic license, I remember Andrew Marble's poem:

> Forever at my back I hear
> Time's Winged Chariot drawing near.

I know that our time is limited, so I cannot go into these matters very thoroughly. But I do suggest this as a most interesting line of inquiry. Now I recognize Mrs. Griffiths.

Representative GRIFFITHS. When, if ever, does the money in Liberia and Panama come home and if it does not come home, what is it invested in, if you know?

Mr. NEMEC. The money need not come home unless the owner wishes to repatriate it. The typical operation is that earnings may be avoided of all tax through a conglomeration of corporate entities. Funds of Greek owners may go into Swiss banks and there remain forever. It need never be brought home. It can be employed in investment the world over. This is a pure form of international capital. It knows no home. It has no patriotic ties; it goes where it will and does as it pleases. That is one extreme.

On the other hand, a number of these ships are owned by large American companies that have other legitimate business purposes, other needs. They are and will be handled in different manners. The oil companies, for example, are directly or indirectly large owners in these areas and they may use this capital in lieu of U.S. capital for many purposes including more ships.

Representative GRIFFITHS. Are they owners of the shipping lines?

Mr. NEMEC. Yes. They would organize subsidiaries abroad. These are not lines. Again I would like to correct that. They are basically ships that are carrying bulk cargoes, generally ores and oils. But they organize companies, capitalize them, and then reinvest their earnings as they see fit. This then becomes a pool of international capital. If it is brought into the United States as a dividend from this subsidiary, it then becomes taxable at normal tax rates.

Mr. TURMAN. Mrs. Griffiths, I would like to point out that the oil companies and the people that use these ships, they have to compete in the foreign market with the owners, the other foreign oil companies in the international market and I think, in my opinion, they have a good reason to have them. I think there is every justification because they have to compete with our counterparts in these other countries.

Representative GRIFFITHS. And do you think any other country is giving a better deal than no taxes?

Mr. TURMAN. Well, I think that these foreign countries, let's say an oil company in Germany that would be a counterpart of, say, the Standard Oil Co., he does the same thing, if you will. He is competing in the foreign market for his products and so forth. In my judgment, I think these oil companies and these metals companies are almost compelled to use these ships under these Liberian, if you will, and Panamanian, in their own protection. In other words, it is not simply a device, in my opinion. It is one of foreign competition and

that is the way they compete with it. They are doing no more than their competitors, put it that way.

Representative GRIFFITHS. Thank you.

Mr. NEMEC. Mr. Chairman, on chart 11——

Chairman DOUGLAS. What about chart 10?

Mr. NEMEC. Well, we went through chart 10.

Chairman DOUGLAS. Well, let's come back to it.

Chart 10 consists of an analysis of dividends and seems to show a rate from 1956–62, beginning at 2.99 percent, going to 1.65 percent, very low dividends in relation to stockholder investment.

Is it not true that there are only seven CASL lines which are publicly traded—American Export, Moore-McCormack, Lykes, United States, Pacific Far East, American Mail, and Delta, which I think is another name for Lykes, is it not?

Mr. TURMAN. I would like to correct that: emphatically; no, sir.

Chairman DOUGLAS. Well, is it true that Delta pays its dividends in Lykes shares?

Mr. TURMAN. Yes. But I think you had better ask Delta, sir.

Chairman DOUGLAS. Well, is that true?

Mr. TURMAN. Well, I hear it is, sir.

Mr. NEMEC. Delta has been declaring——

Chairman DOUGLAS. Well, are you two on speaking terms, sir?

Mr. TURMAN. Indeed we are, but I would not discuss Delta's business. They can discuss their own, sir.

Chairman DOUGLAS. Is it not true that at most, there are only seven CASL lines which are publicly traded?

Mr. NEMEC. I think that is correct, sir.

Chairman DOUGLAS. Whether Delta is an alias for Lykes or not, we will include it.

Mr. TURMAN. It is not an alias and I would like that in the record, sir.

Chairman DOUGLAS. Okay. Very good.

Mr. NEMEC. You have a point?

Chairman DOUGLAS. I have asked to have the current yield, the ratio of dividends to current price computed for these companies. I think these figures are correct as of yesterday: American Export Lines, 3.4 percent; Moore-McCormack, 5.5 percent; Lykes, 4; United States, 4.8: Pacific Far East, 5; American Mail, 6.1; Delta the same as Lykes, 4.

Now, are those approximately correct?

Mr. NEMEC. I would think so. You are using, however, the market price of the stocks and the naked facts are that shipping shares are so unpopular in the market that they are selling at somewhere between 40 and 50 percent of their book value. So a share of stock which has a book value of $50 is selling for about $25 and on the market value of those stocks, these ratios are correct.

Chairman DOUGLAS. I asked Mr. Boggs to compute as of yesterday the ratio from Barron's of dividends to current price on industrials, rails, and public utilities. The ratio on industrials is 3.28 percent; on rails 4.27 percent; on public utilities 3.38 percent; and I would say that, on this basis, the ratio of dividends to current price of the seven companies listed are high, since there is only one less than 4 percent; two are between 4 and 5: one is 5 and another is 5.5, and one over 6.

Mr. NEMEC. Again, Mr. Chairman, you are computing it on the basis of market value.

Chairman DOUGLAS. These others are computed that way.

Mr. NEMEC. Yes. But your statistic is a measure of unpopularity of shipping stocks. Generally, yields or market values when they are high indicate, to a high degree, the manner in which the sophisticated public shies away from such stocks. We have a complete analysis prepared by Standard & Poor's which we will get into as the next order of business.

Chairman DOUGLAS. Let me just finish this. I simply want to call attention to the fact that in table 10 you give a 7-year average of 2.24 percent and in 1962, of 1.65 percent of ratio of dividends to cash for stockholder investment. So far as we can find on the six companies whose stocks are publicly traded, every one of them had a ratio at least twice the ratio you give of 1.65, at least twice that. The others, from 2.5 to 3 times.

Mr. NEMEC. Mr. Chairman, perhaps I could simplify it this way. We are here showing it against the total amount of capital and earnings retained in the business. This is not, however, the market price of these stocks. There are $715 million here which is the accumulated sum of these numbers, or $804 million at the end of 1962, which book value would have a market value of about $400 million or less. These shipping stocks are selling at discounts of more than 50 percent from their book values.

So whether you relate the dividends to their market value, or, on the other hand, to the total amount of money that the stockholders have invested and retained in the business, you get two different sets of numbers.

Chairman DOUGLAS. Why are these stocks unpopular? I would think with such high earning ratios as these, it would send up the popularity.

Mr. NEMEC. Mr. Chairman, when we turn to the Standard & Poor's analysis—and we have had a most exhaustive analysis made—you will see the answer. We are at the bottom of the ladder of financial indicators. This has been most amazing to most of us shipping people and it is a little bit of a shock to know that we are performing as badly on the American industrial scene.

Senator PROXMIRE. If the chairman will yield for just a minute, it is almost 12 o'clock and I have to leave right away.

Chairman DOUGLAS. Certainly.

Senator PROXMIRE. But what the chairman has been arguing can really be underlined by the fact that only about 30 percent of the earnings are paid out. So the price-dividend ratio is particularly attractive, inasmuch as there are more than $2 of earnings that is not paid out for every $1 that is paid out. This, of course, is the obverse of the unpopularity of the stock, as you say. But the fact that you are right at the bottom, as you indicate in your statistics, of the price-earnings ratio—this indicates what an excellent buy shipping must be.

Mr. NEMEC. I hope you will carry that message and influence the market. But the people that buy and sell these stocks are cold fish.

Senator PROXMIRE. In comparing table 9 with table 10, I notice the unrestricted corporate earnings are only $13,957,000 during the 7 years, but dividends paid in cash are over $16 million. In other words, you

are able to pay out dividends that exceed your unrestricted earnings so the restriction on corporate earnings does not really restrict the amount of dividends you want to pay. In fact, in 1961, you paid out dividends more than twice as high as your unrestricted corporate earnings. The same thing was true in 1960, and over this period of years, you have paid out 15 or 20 percent more than your unrestricted earnings.

Mr. NEMEC. That is true, but there is a simple answer for it. It simply means there is an effort on the part of CASL to maintain some kind of a consistent dividend policy. In the preceding years, the accumulated amounts for declaration of dividends were not paid out in full, so during this period the lines in total could pay out about $3 million per annum more than they had available out of the earnings of these particular years.

Senator PROXMIRE. I see.

Mr. NEMEC. Very briefly on chart 11, this endeavors to reflect in some measure the impact of replacement costs of the CASL lines and shows in context that we are not now earning and retaining sufficient money to pay for the ships we are wearing out. What we have here is an erosion of shipping capital and I do not mean to labor this point, but in looking at the earnings of these lines, you must recognize that during this period of time, we had a low capital base, we were faced with the problem of block obsolescence and we were not getting into our accounts the high depreciation charges on replacement costs.

Chairman DOUGLAS. Let me ask you this: Are you now making a verbal analysis parallel to the written statement on page 12 of your brief?

Mr. NEMEC. Yes.

Chairman DOUGLAS. Do I understand it that if this given line had to meet the depreciation charges which you say it presently will have to meet, it would have suffered a loss?

Mr. NEMEC. This is all companies combined, Senator. All companies combined.

Chairman DOUGLAS. In other words, you are saying that if you had to meet the depreciation charges which you will have to meet with new ships, you would suffer a loss instead of 44 percent increase in retained earnings; is that correct?

Mr. NEMEC. That is correct.

Chairman DOUGLAS. Well, now, if you speak of the depreciation which you would suffer if you had these new ships, should you not also take account of the fact that if you had the new ships, the cost would have been much less because the new ships embody improved methods of handling freight and traffic, namely, that you only use, I believe, 35 men instead of 55 now? So you have taken the cost but have not taken the economies.

Mr. NEMEC. Most of the economies of shipboard mechanization, Senator, will be returned to the United States in much reduced operating subsidy payments. The amount which the lines will benefit are relatively small. This is because of the fact that the principal reduction in crews, as we cover later in the statement, results in lower wage costs. These are the items which are subsidized today by the United States at the rate of about 75 cents on the dollar, so a direct reduction in wage costs means a reduction in subsidy payments on those ships.

Chairman DOUGLAS. But you admittedly get the 25 percent which is not met by subsidy?

Mr. NEMEC. That is right; on the number of men which are eliminated. On the other hand, we have increased capital costs.

Chairman DOUGLAS. That is correct.

Mr. NEMEC. We did not, Senator; in this table, try to increase interest which will be substantially enlarged because of the additional funded debt. If we tried to do this by going through every permutation, and reflect this situation as it might be in the future, we would have a fantastically complicated statement. This is not meant to be anything conclusive, but it does give the flavor of the times, that we were wasting away ships that basically cost us $100 a ton, and will have to replace them with ships that will now cost us $500 a ton.

Chairman DOUGLAS. At the bottom of page 12, you state:

During the 7 years ended 1962, the capital and retained earnings of the CASL lines, as shown by the books, increased by $245,784,000 over January 1, 1956—

which I think was a period of high earnings—

or 44.7 percent.

You do not seem to have been doing too badly.

Mr. NEMEC. I think it is now appropriate to turn to Standard & Poor's. If you do not think we have been doing too badly, I hope you will have the same view after you review this.

Mr. May, will you hand to the chairman—this, sir, is the original. I hope you appreciate it.

Chairman DOUGLAS. We appreciate this very much.

Senator PELL. Mr. Chairman, if you will excuse me, I have to leave. I would like to ask one question before I go.

Chairman DOUGLAS. Yes, indeed.

Senator PELL. Mr. Nemec, I think we all are tremendously impressed with your grasp and your presentation. My recollection is that some time back it was established that the price of steel, I think that is what the commodity was, cost more to import than to export. I wonder if you could explain the reason, in as simple terms as you have so far, why that is.

Mr. NEMEC. I think you will find that it is not so. Our later witnesses will have a detailed presentation on it, Senator. And I would much appreciate it if you would let them do it. They have chapter and verse, they show the movements and they will show that when United States Steel has not moved it is simply outpriced in the world market and liner freight rates do not influence that movement to any real extent.

Senator PELL. Thank you very much.

Mr. NEMEC. Mr. Chairman, by your leave, may we turn to Standard & Poor's compendium? I used the wording in here:

The results of this survey are astounding and completely demolish any impression that the CASL group made high or unreasonable profits during the 7-year period covered by this study.

Standard & Poor's prepared this study from material which it had available to it. It insured that it had a consistent series, and that all companies were included for all 7 years, so that there would not be distortions by the introduction of new companies or takeouts of others.

The outline of their work is on page 14. I have summarized our position in a box score on the bottom of page 14, and I would just like to read it to you, because this is an amazing performance.

A CASL batting average based on period averages is shown below followed by a brief commentary. This ranks CASL as a combined group in the 50 industrial groups for the 7 years as a whole. This covered the relatively good times of the CASL lines in the period following Suez, as well as the depression years.

In return on common equity, we ranked 47th of 50 companies, very close to the bottom. In return on total invested capital, which includes borrowed capital, we ranked 50th, dead last. In dividends as a percent of common equity, we ranked 50th, dead last. In growth index, after deducting dividends, we ranked 39th of 50 companies. Our performance was poor. It was in the lowest quartile. Before deducting dividends which the CASL lines paid, we ranked 44th of 50 industries, close to the bottom.

Then coming into our heart-warming performance, market performance, based on market valuation, this is a ratio of price times earnings ratios—here Standard & Poor's was able to put together 74 separate industry groups. The CASL groups—and this covers only those lines traded on recognized exchanges—ranked 73d of the 74 industry groups.

In the langauge of baseball, this batting average would consign CASL to the bush leagues.

Chairman DOUGLAS. Just a minute.

Do I understand that the comparison which Poor's made was based on their industrial stock price index?

Mr. NEMEC. Yes, sir.

Chairman DOUGLAS. Did not include any railroads?

Mr. NEMEC. No, sir.

Chairman DOUGLAS. Did not include any public utilities?

Mr. NEMEC. No, sir.

Chairman DOUGLAS. The only type of other transportation companies included were airlines?

Mr. NEMIC. Yes, sir; on the grounds that these two are unregulated industries, in large measure, performing in international trade.

Chairman DOUGLAS. Now, we appreciate the fact that you furnished us with a copy of this analysis by Standard & Poor's, and I asked Mr. Boggs to check this. I would ask your experts to come forward here and work with us.

You list return on common equity as 47th, but in the table which we have here it is 44th.

Mr. NEMEC. I think if you will look at the bottom of page 17, Mr. Senator, I have explained it.

Chairman DOUGLAS. The table submitted lists them as 44th. Return on common equity is—on common equity, it is 43d for 7 years; 46th for 1961. Dividends as a percentage of common equity, 48th, instead of at the bottom; growth index after deducting dividends, instead of being 39th, was 19th.

Now, these discrepancies are puzzling.

Mr. NEMEC. They are not discrepancies, Senator. What I have done is to take the Standard & Poor's study, which includes listed companies, including the shipping companies, and as I have explained

on the bottom of page 15, we have submitted the combined experience of the CASL group for the shipping companies included by Standard & Poor's. We have projected, against this background, all of the factors for all of these lines on the basis of these independent financial statements. So what we are showing you is how our industry, our 15 companies, fared against the background of all these other industrial companies.

Chairman DOUGLAS. Now, is this what really happened? You used the entire steamship industry compared to not all companies in these other categories, but to sampled companies?

Mr. NEMEC. We have taken the CASL lines and have projected against all of the other companies which Standard & Poor's compiled—all of the other companies which Standard & Poor's compiled.

Chairman DOUGLAS. Is this on a sample basis?

Mr. NEMEC. No, sir; this was on the basis of their complete study.

Chairman DOUGLAS. How many beer companies did Standard include?

Mr. NEMEC. I think you will find in the back of the study the names of the companies which were included.

Mr. TURMAN. Brewers; four of them.

Chairman DOUGLAS. In breweries, Associated Brewery; breweries, Falstaff and Ruppert. Nothing like Budweiser or Schlitz—I wish Senator Proxmire were here—Pabst. I wonder if your sample is correct, and even on this basis, I find these disparities striking and I wonder if your experts would not get together with Mr. Boggs at some convenient time so we can straighten it out.

Mr. NEMEC. As I have mentioned, it is a very simple matter. We have simply taken the entire CASL operations and substituted them in scale for the Standard & Poor's study which includes only shipping companies listed on the exchange. What you have is our entire industry group projected against a study that was prepared for us by Standard & Poor's. We are showing you the performance of our 15 lines against this background.

Representative GRIFFITHS. That was prepared for you by Standard & Poor's?

Mr. NEMEC. We requested that they prepare this study.

Representative GRIFFITHS. So you selected the companies?

Mr. NEMEC. No, ma'am; they outlined the companies. This is all the companies they have on a company tape deck, all of which are in the Standard & Poor's 500 stock average. What they did in selecting the company was to make sure they are in for the entire 7 years. They had 500 companies and I think they eliminated about 126 that were in there for only part of the period.

Chairman DOUGLAS. How many steamship companies did they exclude?

Mr. NEMEC. All of those that were listed and they are included in the back there—there are three companies, I believe; American Export Lines, Moore-McCormack, and the United States Lines Co.

Chairman DOUGLAS. Are you saying that Standard & Poor's shows earnings of only 3 companies and this is typical of the 15?

Mr. NEMEC. No, sir; we have put in the earnings of the 15 companies.

Chairman DOUGLAS. Then the 15 are then compared with the incomplete samples for the other industries?

Mr. NEMEC. They are compared with the remainder of the 500 companies which make up the Standard & Poor's industrial index.

Chairman DOUGLAS. Which are samples?

Mr. NEMEC. They are all listed companies, to my knowledge.

Chairman DOUGLAS. I understand.

Mr. NEMEC. But I do think, and I think there can be no question that this performance of this industrial group, is representative of well-operated American business companies in general and when you project the performance of the CASL lines against it, it is a very dismal outlook for American-flag shipping.

Chairman DOUGLAS. How did you do as compared to the airlines?

Mr. NEMEC. We have set those all out. Would you now like to go through the charts? We shall see that.

Chairman DOUGLAS. The tables I have looked at seem to indicate you have done appreciably better than the airlines.

Mr. NEMEC. This may be, because on the basis of recorded earnings, the airlines during this period started to charge their earnings with depreciation on their complete jet replacement program.

You and I know that for the past 3 years, they have been depressed because of these large throwoffs of depreciation. We all know that for this year, their market performance is far superior. On the other hand CASL is just now getting into the heavy phase of ship replacement.

If you would like, I shall examine these charts with you. They do show on a completely consistent basis the position of the CASL group against this American industrial performance.

On chart 12, we show the return on common equity. We have arranged these charts consistently. We have the 7-year average in the left column and then the last 3 years, so that we can see the relatively current performance of the CASL group as well. You will see here that substituting CASL in the group we ranked 47th in the 7 years for a percentage return on equity and you will see there a partial answer to your question, that air transportation ranked below us. But again, they had these very large depreciation throwoffs. Motion pictures was our only companion during most of this study, on most of the bases. But here you will see that the 50 industrial groups average 11 percent over the years. The radio-TV broadcasters were highest—we put the five high ones in so you would get a flavor of the kind of companies that were performing at the top, as well as the companions at the bottom.

These show that the high earners were principally in these consumer goods items and this is quite remarkable, that these companies did the best.

On chart 13, we have there shown the return on the total capital portrayal. Here the composite industry average for the 7 years was 10 percent. Drugs and other consumer goods items, services, ranked the first five.

Shipping was last. Shipping was below air transport in this respect.

When you look at chart 14, with your dividends as a percent of common equity—this is not market value and is no measure of market value—here shipping performed last. The average industry earning on its book value, if you will, was close to 6 percent. Shipping for

the 7 years averaged 2.2. The first five are shown again. They include by now the rather familiar consumer-type industries and autos and auto parts intrude for the first time.

Chairman DOUGLAS. Mr. Nemec, again I want to raise this question: This does not include the reserves, does it? As I understand, 70 percent of your earnings are set aside as reserves?

Mr. NEMEC. These that we are looking at here are dividends. If we look at earnings, they do include the 70-percent set-aside, yes. Our earnings here include those on which we will have to pay future taxes.

You have made a good point. It makes the performance look even worse on that basis, Senator.

Chairman DOUGLAS. I am simply seeking the truth. I neither wish to show things favorably or unfavorably.

Mr. NEMEC. We are happy to help you find it. That was a very good point; thank you.

This chart 15, I think, is probably one of the more interesting. This is the growth index and this is an astounding one, Senator. I know as an economist, you are going to be interested in this and in the others in Standard & Poor's. If you look at our growth and you see that our net worth has gone up by 44 percent or so, it looks tremendous. But when you project it against a background of other industrial performance, you see that it is not even average. It places us in the lowest 25 percent, again by your own point which was very good, including in our earnings these moneys upon which we will have to pay tax later, so we are overstating our position.

Chairman DOUGLAS. I will be watching the time, if I am still alive, when you pay taxes on those.

Again I want to say you said Standard & Poor's included very good companies in all these groups and I assume by the term "very good" you meant high-earning companies. But you include all 15 companies in the CASL, the poor-earning companies as well as the high-earning companies. I think I can make this statement correctly that if you include the three sample companies in shipping companies, instead of ranking 39th. they would rank 19th.

Mr. NEMEC. I think you will find, Senator, that that does not materially change the performance as a whole.

Chairman DOUGLAS. I am just a city boy, but I had always thought there was a difference between 19 and 39.

Mr. NEMEC. I shall look at that and see what we have.

Mr. MCNEIL. I think your suggestion, sir, that we work it out with Mr. Boggs and the staff, is good.

Chairman DOUGLAS. I am ready to stop questioning and let you go on through, but I think Senator Jordan, who has been very quiet throughout, has some questions.

Senator JORDAN. I am interested in this colloquy.

My understanding of the Standard & Poor's 500 is that they were not selected because of their high-earnings ratio, but because that 500 represented a composite of American industry.

Mr. NEMEC. That is very true.

Senator JORDAN. So there was not any attempt in selecting the 500 to use any criteria that would include higher earnings ratio.

Mr. NEMEC. That is correct.

Senator JORDAN. Your 15 companies compared would be a cross-section of shipping. You are comparing in that extent, likes with likes, are you not?

Mr. NEMEC. I think that is a fair statement.

Chairman DOUGLAS. Let me say this, that I think you are comparing a whole industry with a sample, comparing all the shipping companies, not with all the brewery companies or textile companies, but with a sample, comparing a census or a universe, with only a portion. I do not charge you with bad faith at all, of course not. I am only saying this may affect the result very materially. Having observed the use of statistics for many years, I know that strange and wonderful things can honestly be done with them.

Mr. NEMEC. I can assure you we have not tried to do anything unfair or improper. Looking at the index of common equity, I do not follow the figure which you recited which Mr. Boggs supplied to you. On the index of common equity, for only those companies which were listed for the entire period of time, if you limited the results or performance to those three companies alone, they would have rated 32d in the common equity accumulation rather than 39th, taking CASL as a whole. The performance would still be poor. They would still be below the average. They would still not be up to the average of other American companies. If you added back dividends, on that basis they would be 41st as compared with CASL 44th. That, too, is not a material change.

So you will find if you take any group of companies, you may change the position a little, but Senator, I think the pattern is clear. In the financial sense, the shipping companies are at or close to the bottom of the ladder as compared with all other American industry. There is no other conclusion you can obtain from this data.

Mr. MCNEIL. I think the use of Standard & Poor's was simply to get something that was recognized as a leading standard base against which to measure your standing.

Mr. NEMEC. The last chart we have is No. 16. That is the price-times-earnings ratios. It shows what the market traders think of the shipping stocks. Here out of a total of 74 industry groups that Standard & Poor's supplied, we rated 73 for the 7-year average. This is an indicator of the kind of disfavor in which the independent investor holds shipping stocks. This was of the companies that Standard & Poor's has because they were the ones included.

But I do say, Senator, again I think no matter how these figures are looked at, the financial performance of the American-flag shipping lines, the CASL group, was poor by the standards of American industry.

Now, perhaps in the next section, we are turning to material which is closer to the heart of the committee. This is a review of operations for the year 1962.

If you look at the next chart, chart No. 17, we have here taken all freighter operations of the CASL group and projected it in terms of a return per payable ton. This chart contains a great deal of information, Senator. At the bottom of the chart you will see a breakdown of our carryings, outbound, intermediate—this is foreign into port—and inbound. They aggregated on a payable ton basis—this is the ton on which the revenue was charged—about 17,385,000

tons. Our average revenue per ton outbound was $31.62 for all of the 10.5 million tons. Our average revenue inbound was $28.49 for all of the 5.7 million tons.

Chairman DOUGLAS. Mr. Nemec, again I want to insist that the commodities which we exported tended to be bulk commodities, with a low value per ton. The inbound commodities tended to be processed commodities with a much higher value per ton, the difference being something over $400 as compared to about $330, or a difference of 30 percent.

Mr. NEMEC. I think you will find—well, I have not examined the statistics to know whether or not they represent only the values carried by liner vessels. If it is only liners, the comparison is valid. If it represents liners and tramps, this would of course include a large volume of grains.

Chairman DOUGLAS. The Survey of Current Business for August 1963, page 26, gives the value per ton which I think is as stated. It is for liners only.

Mr. NEMEC. Value is one of the factors which enter into freight rates, Senator, but it certainly is not the only one.

Chairman DOUGLAS. The basic figures are these:

On exports, the volume was $10.666 billion; tonnage was 31.5. Dividing the first by the second gave a figure of about $337.

Imports of $7.669 billion; tonnage 17.6; dividing the first by the second gives the figure of something over $400, or 30 percent higher.

Mr. NEMEC. Senator, I have not seen those figures. We will get a copy of them.

Chairman DOUGLAS. I will give them to you. We have ringed the figures. I think they are correct and that the division is accurate.

Mr. NEMEC. I think, however, turning back to my chart No. 17, that this is a very illuminating thing. It shows that the net profit we made for each ton of cargo was only $1.39 per ton. This is all that was squeezed out of these entire freighter operations for this entire period of time.

We have shown in the columns alongside the vessel operating expenses, the principal charges that enter into it, the direct payouts, stevedore and cargo handling expense, and a whole array of other expenses. We know it is a completely accurate analysis of our freighter operations and that the cargo that was carried was actually based on the cargo mix which was carried for all of 1962.

Incidentally, Senator, insofar as the homebound liner operations are concerned, liners do carry parcels of ore inbound. A good deal of this—some of it comes from the Far East and also from South Africa, specialized ores.

Chairman DOUGLAS. But the statistics of the Department of Commerce take this into account and they show a higher value per ton of imports, about 30 percent——

Mr. NEMEC. We will look into that further, Senator.

Looking at expenses, we see there are certain elements which start to squeeze and provide floors under rates and otherwise. Stevedore and cargo handling expense—it aggregated 28.5 percent of the revenue dollar. This represented on the average of about $8.04 per payable ton.

Then turning to an examination of the trend of longshore wages, we have prepared a set of companion charts, which I think will illu-

minate why cargo handling costs are substantially higher in this country than abroad. These charts are charts 18 and 19.

Looking at domestic longshore costs per hour, we see that from an hourly wage cost of $1.93 in 1946, they have now risen to an average wage cost of $5.05 in 1963. This is the average of major ports on the Atlantic and gulf coast, which are covered by one union, the ILA. These absorptions, these costs absorptions, these longshore wages will have to be paid by ships whether they are foreign or domestic. This increase represents 162 percent over this span of years.

Now, against that, we have shown in chart 19 the foreign trend. We have selected here, tried to select three major destination areas of the world in the Mediterranean, Italy; on the continent, Belgium; and in the Far East, Japan. Here you will see that the Belgian wage rate went from 81 cents to $1.98 now, an increase of $1.17 over this entire period of time, that the Italian went from 83 to $1.42. It actually dropped for some period of time when converted into dollars because of devaluations of the lira.

For the last series of years, the Japanese wage rate is shown to be respectively 66 cents an hour in 1961 and 81 cents in 1963. We could not show that earlier.

Chairman DOUGLAS. That Japanese figure includes fringe benefits, too?

Mr. NEMEC. Yes; we tried to make these as consistent as we could, and also to include the average overtime work. This includes actual costs——

Chairman DOUGLAS. I want to congratulate you on these figures. I have never seen such figures as these before. I think this is a real contribution. These comparative ocsts have not been produced before and generally, any comparison is based on wage rates and not on fringe or supplimental benefits.

Mr. NEMEC. We have also included overtime, because characteristically in this industry, you do not work a straight 40-hour week. The ship works on weekends, around the clock sometimes.

Chairman DOUGLAS. These are very good figures. I want to compliment you, just to show my fairness in these matters.

Mr. NEMEC. There was never any question about your being fair. Too often we compare percentages of increases. These are misleading. When you compare movements in international trade, I think we have to look at dollar increases. You see there that our dollar increases in this period of time have been substantially greater than the dollar increases on the foreign side. In the case of Belgium, our relative increase was more than $2 more than Belgium; in Italy, it was even greater, $2.50 more an hour over this period of time. This is the kind of thing which in the long run has to be reflected in liner rates. It will influence American liner rates to relative levels above those in foreign ports.

In the next study, Senator, we have analyzed export versus import cargo. We have taken the very same series of voyages that the Maritime Administration requested us to analyze and have resubmitted them.

We have told the Maritime Administration that we disagreed both with their method and the results of allocating voyage results on the basis of separate inbound and outbound legs. This has no basis in reality whatsoever. It means, then, that if you do not put a ship on

a loading berth on the way home, the entire cost of that operation will be charged against cargo it has not had available to it and has not carried. This does not make sense. When you average that way, you tend to distort the results completely.

We have reanalyzed these results on the basis of one of the most generally accepted transportation accounting formulas, the so-called ton-mile basis. We have shown a comparison of the Maritime reported results and our reanalysis on chart 20 . In order to state these on a consistent basis, we have reflected overhead, subsidy and taxes in each instance. You will note that the pattern changes except in the year 1962, when the change has been relatively small.

Now, just to make it plain, we do not say that the ton-mile basis is the manner in which freight rates should be established. It does, however, provide for regular and recognized accounting convenience. It is one of the best methods in which you can reasonably account for results of a voyage. But when you are setting rates, and this is a matter that every rate man goes through every day—there are many factors you have to take into account. Value is probably of small consideration except as it results in damage claims. So you are looking at the damageable nature of that cargo, because if it is injured, you have to pay more in settlement of your damage to that cargo. You look at the contamination characteristic of that cargo. You look at the danger of the cargo, whether it is explosive or otherwise. You look at the package, the stowage, how it is handled, special characteristics and a whole host of other factors. These are the kinds of things a rate man must and does look at. But when you are trying to analyze the voyage which may be results of carrying thousands of different commodities in one movement, the only way to do it is to charge what it costs to handle that cargo. Those items which cannot be charged directly to cargo you then allocate on the basis of the ton-miles which that cargo was carried.

Here we have used payable tons because that is the revenue basis and is the correct basis.

Chairman DOUGLAS. Are you saying if you carry 1 ton a mile, it costs more than if you carried a thousand tons per mile at the handling cost?

Mr. NEMEC. I do not believe I understand you, Senator.

Chairman DOUGLAS. You are making the ton-mile test. If your inbound cargoes are relatively light, as they are, your inbound costs will be for less than your outbound costs. But is this proper?

Mr. NEMEC. Yes; no doubt about it at all. The venture is the voyage. For example, this is common, illustratively, in steamship practice.

Chairman DOUGLAS. Do you mean to say it costs more to carry 1 ton a mile than 10 tons a mile?

Mr. NEMEC. I did not say that.

Chairman DOUGLAS. After your handling costs on either side are met, the ship moves. What you are saying is divide the total costs, exclusive of handling costs, by the number of ton-miles. This means that the smaller the amount of freight that you carry, the lower your costs.

Now, do you think this is proper?

Mr. NEMEC. Let me illustrate why I think it is proper.

Chairman DOUGLAS. In other words, you do think it is proper?

Mr. NEMEC. Yes.

Let me take a hypothetical case. We have five sailings outbound. We find that on the basis of our business know-how and experience, there is only sufficient cargo inbound available to us to warrant putting three of those sailings on the homebound loading berth. There is sufficient cargo on the outbound, however, to justify making five sailings and that this is required. Now, as the Maritime Administration has requested us to submit that data, the two homebound voyages, the two homebound legs that do not have any cargo at all are, in effect, charged against the import traffic when there was no import traffic to support it. The whole reason in putting those ships on berth was for those two voyages to carry the excess outbound cargo. However, on the three which were scheduled for inbound loading, they were put on there in the business judgment that the cargo was available and that we were and would be able to carry it.

The remaining costs of the voyage after allocating the direct expenses are properly allocable over all of the cargo carried on that entire voyage.

Breaking it down by legs is meaningless, because the ship has to get home anyway.

We have cited that this is the method for reporting accounting results which has latterly been adopted by the U.S. Maritime Commission. It is also the method which is generally used by regulatory agencies the world over in measuring results after the fact.

Chairman DOUGLAS. Do you pay wages by the ton or by the day?

Mr. NEMEC. We pay them by the voyage.

Chairman DOUGLAS. That is by the day, is it not?

Mr. NEMEC. That is by the voyage. That is quite a difference.

Chairman DOUGLAS. The voyage consists of days.

Mr. NEMEC. The voyage also consists of miles and it also consists of cargo carried.

Chairman DOUGLAS. Do you not keep the same crew—you mentioned 50—regardless of the tonnage that you carry?

Mr. NEMEC. Yes, sir.

Chairman DOUGLAS. Then you simply do not pay wages by the ton. You pay wages by the voyage or by the day?

Mr. NEMEC. We pay them by the voyage. The crew is signed on articles and voyage is the denominator of the venture. This is historical.

Chairman DOUGLAS. Why do you say you pay by the ton?

Mr. NEMEC. When you are seeking to analyze the parts of the voyage as you are here by inbound and outbound cargo, the only way to do that is to allocate those costs which cannot be charged against cargo on a ton-mile basis and this is recongized by authority the world over.

We do not feel that the voyage leg at all shows anything like a fair representation.

Chairman DOUGLAS. Then I do not see why you quarrel with our use of rates per ton-mile when we apply them to South America.

Mr. NEMEC. I have not quarreled with it. What I have said is when you set rates, there are many other factors that enter into it.

Chairman DOUGLAS. In other words, you use ton-mile rates where you deal with transatlantic trade but avoid it when you deal with trade with Latin America?

Mr. NEMEC. I am not familiar with what you are saying here. What I am saying is that if you are seeking to analyze voyage results and not rates of particular commodities, the fair way to do it, the generally accepted fair way to do it is to use the ton-mile formula.

Chairman DOUGLAS. If you use this formula, then clearly the rates to South America do not reflect it. The rates to South America from the United States are much higher than the European rates to South America. The same thing is true with rates from Tokyo. We have prepared an exhibit on this subject. It has already been placed in the record earlier today. (See p. 333 ff.)

Mr. NEMEC. Mr. Wierda will have made an analysis on that and will speak to you on those particular matters, Senator. He has analyzed the rates on this chart.

Senator PROXMIRE. Could I ask a question on this page 20? It is hard for me to understand why the net earnings on exports—that is, what American manufacturers produce and want to sell abroad—are far higher in every case than the earnings on imports, which is what foreign manufacturers produce and sell in this country. This seems to be another indication that the foreign manufacturer is benefited and the American manufacturer is penalized. I notice in 1963, where there is the sharpest difference, exports have a $4.88 profit and imports a $1.28 loss; it looks almost as if these rates are subsidizing in another way the foreign manufacturer.

Mr. NEMEC. Well, you have asked a good question. Now let me answer it in this way. First of all, what we have here are 20 voyages which have been selected over three trade routes. They are not at all typical of the average operations of the CASL lines as a whole. I want to make that plain. I will underscore it. They are not at all typical of the operations of the CASL lines as a whole. They were selected voyages. They are not typical results whatsoever.

Secondly, even in this extreme spread——

Senator PROXMIRE. But you selected them? This is your chart?

Mr. NEMEC. No, sir; we did not select them. These were selected by the Maritime Administration and we have reworked them in order to portray the results of those selected voyages which we say are abnormal voyages, on a more correct basis.

Senator PROXMIRE. In other words, they are random selections and there is no reason why the Maritime Administration would have an ax to grind?

Mr. NEMEC. They picked voyages most profitable, coming at a time of the year when cargo offerings are most plentiful; late spring or early summer. I do not know what other criteria they used for selecting them, we did not ask them. But when the results portrayed were projected against the results of the industry as a whole, they were not typical voyages.

Secondly, if you strike out 1963, which as I have explained in the text was distorted by the results of a rate war, the spreads as we have recomputed them show a difference between import and export tonnage of about $1.34.

Senator PROXMIRE. That is a pretty sharp difference and it is to the benefit of the foreign producer and to the penalty of the American manufacturers.

Mr. NEMEC. Again we say these are not typical and we have gone through an exercise of adjusting these in the average results. I will recall for you that we made an average of the year 1962 of $1.39 for the payable tone. Now, the spread between the import and export profits for CASL as a whole is not known to us and would take a prodigious amount of analysis. Even taking this sample which we say is not representative or not fair or not typical, we have taken the spread between import and export and have applied it to this $1.39. I show how we have worked that out on page 25. When we do get through attributing this abnormal spread to the typical operations for the whole year 1962, we find that illustratively, we would make on the import cargo $1.04 and on the export cargo, $1.72.

I think the difference actually is less than that, because as I have noted in a number of notes throughout here, we have used payable tons but some of the payable tons are different. When we are moving from a metric area, this payable ton is a smaller ton than is the outbound payable ton.

Senator PROXMIRE. Is your basic argument here that because we export more than we import, ships that go away from us, that carry our cargo, are filled and those that come back often have to come back empty, deadhead back?

Now, if this is the argument, in view of the balance between commercial exports and imports that the chairman has already shown us, it would seem there is another price we have to pay for foreign aid, because this is the real difference. Our foreign aid accounts for a very large proportion of our cargo and accounts for the entire difference between our larger exports than our imports. Is that not correct?

Mr. NEMEC. What you say is correct, but our position is quite different from the way you have expressed it.

What we have said is that during the year 1962, we made $1.39 per payable ton of cargo. In my opinion, the difference between import and export cargo, the profitability on a payable ton basis for all of this cargo that was carried is less than 50 cents per ton—and I underscore *less than.* [Emphasis added.] I do not think it is closer than 50 cents a ton. I do say it, that profit, the spread between all import cargo carried by the CASL lines and all export cargo, is less than 50 cents per ton.

Chairman DOUGLAS. I took an oath that I would not ask any more questions, but I find it very hard to restrain myself.

In the memorandum which we have had prepared, the analysis shows the total voyage exports of lines reviewed, and there are four of these lines; more than 70 percent of total revenues came from exports. In 1962, it was 67 percent. Now, I would like to ask you, if I may, what percentage of the revenue of your line comes from exports, what percentage comes from imports.

Mr. NEMEC. It is about the same proportion. We are about typical of the industry.

Chairman DOUGLAS. You mean about 50–50?

Mr. NEMEC. No, I did not say 50–50; about 70–30.

Mr. TURMAN. About 70–30, sir.

Mr. NEMEC. Senator, incidentally, on page 24, we have one error I have spotted, if we could correct it. Under the export average revenues in the table, the 1963 figure of 39.05 should be an average of 34.05. We have here shown the average revenues per import and export ton on the selected voyages.

But I think putting this entire study in perspective, it was not a typical sample of all liner operations. I do not know why these voyages were selected, but we made $1.39 per payable ton for all the cargo we carried not $3.02.

Chairman DOUGLAS. I understand these were selected at random.

Mr. NEMEC. I do not know. It seems to us there was a pattern of selection, but maybe Mr. Boggs would know.

Chairman DOUGLAS. I understand they were selected at random from the second quarter of each year for 3 years and they covered Atlantic and gulf to Europe, and Atlantic, gulf, and Pacific to Japan.

Mr. NEMEC. There were 5 trade routes of some 35 that we serve. The plain facts are——

Chairman DOUGLAS. Are not those the major trade routes?

Mr. NEMEC. Yes; they are among our trade routes——

Chairman DOUGLAS. But are not those four the major trade routes? Are not the rest minor compared with these four?

Mr. TURMAN. That varies with years.

Mr. NEMEC. They are among the major, no question.

Mr. TURMAN. I would say over a span of years, they are the principal.

Mr. NEMEC. Then it becomes perfectly plain that while these voyages were selected on major trade routes, they are not typical voyages because the results are so far higher than the averages, they must have been on offsetting voyages that showed little or no profit on the whole.

Chairman DOUGLAS. Again I would like to have your people consult with the Department of Commerce and the Maritime Commission to find the method of sampling. I do not think this was done in an attempt to prove a case. I think they were samples at random, one every so many voyages.

Mr. Boggs tells me that they felt the inbound cargo would be heavier around Christmas time, so they avoided that in order to lean over backward, choosing the second quarter rather than the fourth quarter. made every effort to give you the benefit of every doubt.

Mr. NEMEC. I am not suggesting how they were picked, but I am stating that they are not typical voyages, because the proof of the pudding is that we made $1.39 per payable ton on the average voyage and this one returned a rate which was far, far higher.

You will see here that these returned more than twice as much in 1961 and 1962 as did the average CASL voyage. They were more than 150 percent more profitable.

Chairman DOUGLAS. You may have some unprofitable routes, to Capetown and to the Galapagos, or to Barranquilla. But if you take the profitable routes, these main routes, I suggest that that is a justifiable sample. If Poor's is justified in taking a sample of these other lines, I think Commerce is justified in taking a sample of these four routes. Moreover, these are the routes over which most two-way traffic moves. These are the routes where we have found outbound routes to be higher than corresponding inbound routes.

Mr. NEMEC. It would be interesting to take a sample from the other routes in which we do maintain services at lesser profits. I am also certain that in these areas, there are also voyages that return lesser profits. I think we might get together and work up some of this material on another basis. We are all searching for the truth; perhaps we can learn something, too.

Chairman DOUGLAS. I have an inability to withstand discussion without questioning. I will try to become a Trappist monk for the time.

Mr. NEMEC. In the next section, we talk about shipping and balance of payments——

Senator PROXMIRE. Before you do, I understand you are going to go to chart 25.

Mr. NEMEC. Chart 24.

Senator PROXMIRE. On chart 23, here you have a real demonstration of the growing value of the stockholders' investment and of the investment in the shipbuilding companies. You project that by 1967, you expect to have stockholders' capital and retained earnings, after all liabilities are subtracted, of almost $1 billion—$955 million as I see it. That seems to be an honest and accurate reflection of the trend that has been established over the years, because you have gone from $655 to $804 million as a matter of historical fact already. Here is another reason why it seems that the stock market, as it often does, has grossly undervalued shipping shares. Your indication is that they are selling at 7 to 8 times earnings, whereas most shares are selling at 17 or 18 times earnings now.

So this would suggest to me that the actual financial position of the shipping firms is far, far better than the imperfect judgment of investors indicates in the stock market that it is.

Mr. NEMEC. I hope you are right.

Mr. MCNEIL. I think if the future looks better, the price will adjust itself.

Mr. NEMEC. I hope you are right, Senator. We have skipped over these three simply because they have been out of order. We will turn to them later because you have taken testimony which we will try to correct.

Looking at the balance of payments, we are here trying to illustrate our role in the balance of payments and the role of U.S. liners, U.S. shipping in general. We have prepared in this chart, No. 24, a condensed summary of the effect of shipping activities on the balance of payments. This represents the net amount of these invisible exports which are retained by the United States. You will see here that in this period of time, they have averaged something over $900 million a year, and while we have some reservations about some of the deductions which have been taken, we think this does give a reasonable benchmark of this standard of contributing, saving, conserving $924 million a year. In the year 1962, we feel that we are the third largest exporting industry and the largest exporter of invisible services.

Chairman DOUGLAS. How much do we pay to foreign lines for their freight charters?

Mr. NEMEC. Well, you have that set out, as I recall, in the balance-of-payments study prepared by the Department of Commerce. If I recall the figure, it was $2.125 billion.

Chairman DOUGLAS. In other words, we pay out twice what we receive so that the net balance on shipments is adverse by $1.2 billion?

Mr. NEMEC. But it would be a lot more adverse if these American-flag liners were not sailing the seas. We have the largest modern liner fleet in the world today.

Chairman DOUGLAS. This conflicts with the statement you made on page 8 underneath this table:

When evaluated in this sense it seems clear that American-flag liner vessels have obtained a major portion of the liner market revenue and that unlimited expansion of U.S.-flag liner participation over all trade routes would be neither attainable nor desirable, giving due regard to the need for maintaining friendly maritime relations with the rest of the free world.

So it looks as though you have resigned yourself to taking only about a third of the volume and leaving the foreign lines two-thirds. This is one of the points that I think has been emerging.

Very frankly, what we have felt we were unearthing was the dominance of these conferences by the foreign shipping lines and that in a sense you are captives of the foreign shipping lines, bound to them by the rules, possibly with even discriminatory rates against American goods as compared to foreign goods, and now you have this most revealing sentence that "Unlimited expansion of U.S.-flag liner participation over all trade routes would be neither attainable nor desirable," and then "Giving due regard to the need for maintaining friendly maritime relations with the rest of the free world," which in effect sort of means, well, if we break away from these conferences, if we try to go by the underground railway free somewhere from the slave territory, this will cause the Japanese, the British, the Norwegian, the other lines to resent it and we will be in trouble, so let us not rock the boat, let us not stir up the animals.

Mr. NEMEC. I think you are completely misinterpreting my statement, Senator. May I tell you what I intended it should mean?

Chairman DOUGLAS. Certainly.

Mr. NEMEC. In previous testimony before this committee, you had a witness who said something like this: The CASL lines are cash rich. They ought to build twice as many ships as they now have and put them on the seas to carry the cargo that can be carried.

We think this is a complete absurdity. You could not double the size of your fleet in liner operations and carry anything like the proportional increase in cargo. This simply is not obtainable. Our recognized objective in the line of trades is to carry 50 percent or, in the words of Secretary of Commerce Hodges, recently restated, that percentage which is commercially or practically attainable.

That is what we are saying, that you cannot simply wish to double or triple the size of your liner fleet and by putting the ships on the seas to reach that percentage.

Now, I think a fair statement of our objective would be in the last paragraph of this section which reads:

Given equal competitive conditions and a greater awareness of U.S.-flag shipping by exporters and importers, coupled with routing a fair share of commercial cargo via American-flag ships, CASL believes that U.S.-flag liners can increase present market participation and improve service to American shipping interests.

This, sir, is our belief.

Chairman DOUGLAS. I want to suggest that a reduction in rates to American shipping would certainly increase the proportion of our exports carried in American ships and it would switch a goodly portion of this trade if the Europeans did not follow suit, from European and Japanese lines to American lines.

Mr. TURMAN. Mr. Chairman, may I expound a little, give a little philosophy?

Chairman DOUGLAS. Yes, sir.

Mr. TURMAN. I have been in this business since 1919. I have seen this business before the war, after the war, during the war. I have a little philosophy that I will expound, not necessarily in accord with this group. They may agree, they may not.

I do not think we live in a world today that can be unilateral. I think 'twixt the buyer and the seller there is an equal desire and claim on everything that goes in it—meaning the services, the freight, and everything else. I think it would be unfortunate if we would say that we should capture all of the inbound, outbound cargo.

I can remember the time before World War II, in the twenties and the thirties, when we were the creditor nation, when these foreign countries here were coming in, soliciting just as we are today, because their balance of payments were bad. They said, "If we cannot earn in freights, we cannot buy your cotton, your flour."

These patterns change. You take our various trade routes. Lykes is on five trade routes. We go to the Orient, Mediterranean, South and East Africa, Caribbean, all of these places. You would be amazed if you could watch how these patterns of traffic are changing day to day.

Economics, political situations, both here and abroad affects all of it. I think one of our troubles that we are getting into here today and all the way along are these regulatory laws we are putting in. I think they are unrealistic. I do not think you should put in laws that you cannot enforce, that people will not accept.

I am not saying that we should not get away from discrimination. I am 1,000 percent for it. We are a company that does not believe in trading except above the board. But you are going to have human nature. But I contend that overrestriction, laws which are not enforcible, are no good. I think you are better off to provide self-policing, if you will, and it can be done.

You talk about us being captives. I am never a captive. I have never been prevented from getting out of a conference. We have done it. And I think we can do it tomorrow and may be doing it. But the answer to all of these things, this allegation that goes around that we are captives—certainly we are outvoted; at times we do not agree with the actions taken. But if anything gets too bad, you can't take it, you have an out. You can walk out.

Chairman DOUGLAS. For a long time, if you walked out, you lose your subsidy.

Mr. TURMAN. No, sir: that never happened.

Chairman DOUGLAS. You were threatened with it. I produced the memorandum——

Mr. TURMAN. I am glad you did, because it left an idea with people that you couldn't get out, which was incorrect.

Chairman DOUGLAS. Did I not introduce the memorandum?

Mr. TURMAN. I like your memorandum, because 2 or 3 years ago, the Maritime Commission said we could not get out of a conference. We said, "How can you expect us to meet our contractual requirements if we are not permitted to get out of a conference?"

And they did not stop us. We did not have to, because we came to talk.

Chairman DOUGLAS. Isbrandtsen got it on one.

Mr. WILL. I am Admiral Will, president of American Export and Isbrandtsen Lines. We were never penalized.

Chairman DOUGLAS. Were you not threatened with penalization?

Mr. WILL. No, sir; we agreed that we would operate within conferences.

Chairman DOUGLAS. If you did not, what would have happened?

Mr. WILL. No, sir; there was never any penalty nor were we threatened with any penalty. After we acquired the Isbrandtsen Steamship Co., we went down to Maritime in company with other lines in conference and proved to Maritime's satisfaction, because they never took any further action, that it was not to our advantage at that time or the advantage of the industry for us to get in certain conference.

Chairman DOUGLAS. Wasn't Isbrandtsen threatened and wasn't the reason it went into the conference because of the threat exercised against it?

Mr. WILL. No, sir.

Mr. MCNEIL. I might add that in Grace Lines, we left a conference in the Caribbean and were out for a year or 8 months, until we had commitments that people would play ball on the top of the table. We were not penalized.

Mr. TURMAN. We have had that happen over the years, perennially, Mr. Chairman. Sometimes I think it is kind of like you have a fuss at home and you have to fight and cry and make up. That is what happens to conferences. When people do not get along, they are always free to get out and become independent.

Chairman DOUGLAS. Let me read a letter addressed by Mr. Ralph E. Wilson, Chairman of the Federal Maritime Board, under date of February 23, 1960——

Mr. TURMAN. Addressed to me?

Chairman DOUGLAS. No; to Mr. Jacob Isbrandtsen.

Mr. TURMAN. I beg your pardon; I got one, too.

Chairman DOUGLAS. It is on page 124 of the hearings, part 1:

> After careful consideration of this matter, the Board is determined that in the event it should award a subsidy agreement to Isbrandtsen Steamship Co., it will require that such agreement contain a provision to the effect that the operator agrees to maintain conference rates, rules, and regulations effective for the subsidized services contained in such agreement, irrespective of whether the operator is a member of such conference.

Mr. TURMAN. Answer that, Will. That is your bailiwick.

Mr. WILL. This spoke to stability of rates and we answered that letter that we would maintain a stability of rates and we would work toward a stability of rates. This was addressed to——

Chairman DOUGLAS. How many conferences was Isbrandtsen in before they got the subsidy?

Mr. WILL. They were not in any.

Chairman DOUGLAS. Exactly; and after they came into the conferences, did they get the subsidy?

Mr. WILL. No. It was not based on the fact that they got into the conferences that they got the subsidy. These were taken over by American Export Lines, merged with American Export Lines, and we established the policies that we would work toward stability of rates, we would join conferences where we felt those conferences were clean and that it was in the best interests of the industry to join those conferences and there are a number that we still have not joined and there were a couple that we have gotten out of since we joined them because we did not like the conditions that existed within the conferences.

Chairman DOUGLAS. When the Isbrandtsen firm joined the American Export Line and operated according to conference rates, they received the subsidy; is that true?

Mr. WILL. Not because of that. They received the subsidy——

Chairman DOUGLAS. I said they received the subsidy. Is that not true?

Mr. WILL. Not because of the fact that——

Chairman DOUGLAS. Oh, the two have no relationship to each other?

Mr. WILL. No, sir; not at all.

Chairman DOUGLAS. Despite the fact that they were told in this letter that if they did not go into the conference, they would not get the subsidy.

Mr. WILL. That is right. We determined for ourselves whether or not it was to our advantage and the advantage of the industry to join the conference and Maritime went along with us.

Mr. TURMAN. Mr. Chairman, if I could interject, I think the worst thing that could have happened was this letter gotten out by Maritime which I think led some of the foreign lines to think that you could not get out of the conference. But as a matter of fact, that was not the case. I feel today that if I, to be competitive—I can get out of a conference any time.

Chairman DOUGLAS. Let me say I am glad the letter has been rescinded. You ought to be thankful to this committee for turning the spotlight on it and getting it rescinded. You ought to praise this committee for our efforts in this matter.

Mr. TURMAN. I do. I have been praising you all over the street, sir. I congratulate you.

Chairman DOUGLAS. Good.

Mr. TURMAN. I hope you back me if I have to get out of one of them.

Chairman DOUGLAS. We will stand behind you.

Mr. TURMAN. I hope we do not have to, because I do not believe in getting out.

Chairman DOUGLAS. Oh?

Mr. TURMAN. I want to tell you why. You said I could philosophize. I want to finish and this should be dear to your heart. I know you believe in fair treatment to everybody.

Chairman DOUGLAS. I try to. I am sometimes abused for not practicing it.

Mr. TURMAN. I will tell you more about that later, Mr. Chairman. You told me here not long ago, I remember I came up to see you and you finished up and you smiled and looked me in the eyes and said, "Boys, I am going to be easy on you."

Chairman DOUGLAS. No; I did not say that.

Mr. TURMAN. You said, "I am going to be fair with you." And I looked you in the eye and said "The way you smiled, I have to watch myself."

Chairman DOUGLAS. I never said I was going to be easy; I said I would be fair.

Mr. TURMAN. If I did say it, I apologize. I am sure I was wrong. I would like to finish up on this thing, forgetting facetiousness.

The day you break up these conferences, you are going to do irreparable damage, in my judgment, to small people, any way you take it. You are going to do irreparable damage to the foreign commerce of the United States, because you are not going to get the stability that that has to be had for people to make quotations and sell in advance. I think that is something that aside from all of the theoretical side of this thing, the facts of life ought to be looked at.

Chairman DOUGLAS. Has that never been tried?

Mr. TURMAN. Yes; it has been tried in many trades. You have periods of jungle wars and then people come back and they are honest one to the other and you start over again.

Chairman DOUGLAS. I guess I am one of the few people that seems to believe in competition.

Mr. TURMAN. You get competition in this business. That is sometimes why we get out; it is unfair competition. Unfair competition is the thing that makes you get out.

But I say a conference where people live up to their obligations, never say there is not competition. Everybody is in their fighting for the traffic.

Chairman DOUGLAS. It results in punitive rates for American exports as compared to imports, punitive rates, and injures individual shippers and injures the foreign trade balance of the United States.

Mr. TURMAN. I may say to you sir, I do not care about what happens to France and Japan; I am interested in the United States. I can say to you, sir, in my career, I only know of one instance where it ever appeared to me there was any motivation in making a rate that it was unfair to the foreign commerce of the United States. That is only once over the years.

I do not think this question of the imbalance of rates has anything to it. It is a matter of supply and demand. There is nothing more sensitive to market conditions than the freight rates. It is just quite obvious, when you have an excess of shipping, you have an excess of exports, you are going to have shipments coming out here on prospect to take anything they can and they make the rate.

Now, many of us liners, we do not take this cheap steel, we do not take a lot of these things that are not compensatory. But our foreign-flag tramp competitors take them. I think this is—in any judgment, I think you are doing a wonderful thing to get us into all of these things. It will bring some understanding.

But I just do not believe that what you term a disparity of rates has one thing to do with any imbalance in our trade.

I must say this. I remember this little lady over here, reading her testimony. She said that somebody said, well, these are paper rates, the steel is not going to move outward, because the shippers never come to us. She said "If it doesn't mean anything, why not equalize the rates?"

I went down to our conference and suggested that. We were accused of playing politics. I was not.

Chairman DOUGLAS. I want to congratulate you for going down to the conference and fighting for that. What happened to you when you went there?

Mr. TURMAN. That will come in due course. Just a minute.

Chairman DOUGLAS. Oh, no; what happened to you when you went there trying to get equal rates?

Mr. TURMAN. Mr. Chairman, every time you ask a girl for a date, you don't get it the first time, do you? You do not give up, do you?

Chairman DOUGLAS. Weren't you outvoted?

Mr. TURMAN. I am not always right. Listen, my position was this. If it is not going to mean anything and will not do any harm, try it.

Chairman DOUGLAS. How many foreign lines are there in that conference?

Mr. TURMAN. As a matter of fact, there might have been eight or nine or two.

Chairman DOUGLAS. How many domestic lines?

Mr. TURMAN. I don't know.

Chairman DOUGLAS. Didn't the foreign lines vote against you?

Mr. TURMAN. Well, of course.

Chairman DOUGLAS. Well, you have bloc voting and are captives.

Mr. TURMAN. No; they voted against us because they might think they are admitting to you that you are right and they do not believe you are right.

Chairman DOUGLAS. Well, they voted against you because they wanted to punish American commerce and get their exports into the United States.

Mr. TURMAN. No; no; no, sir. Listen, I am having a heck of a fuss with these people, but I wouldn't accuse them of that.

Chairman DOUGLAS. Be stronger.

Mr. TURMAN. Don't you worry about me being strong when the time comes. I just want you to know that I do not agree with you.

Chairman DOUGLAS. I congratulate you on your virile fight. I hope these hearings will help you and I hope your example will spread. And remember this, the Thirteen Colonies, when the oppression of Great Britain became too severe, seceded and set up a new nation. This is always possible.

Mr. TURMAN. May I say one thing? You are making that speech now and I want to be sure you got it right. I would not get out of the conference over this thing. It is too piddling, in my judgment.

Chairman DOUGLAS. Oh, no; it is very important.

Mr. TURMAN. But I would get out over other things. I want to say I do not think we are always right, if meaning that putting these rates down is not going to produce a bit of cargo, which I am convinced it won't. It can't do any harm, so if it doesn't do any harm, let's try it. That is the only reason I would do it.

Chairman DOUGLAS. I believe, Mr. Nemec, you are the witness.

Mr. NEMEC. Thank you, sir.

Chairman DOUGLAS. You might have forgotten that.

Mr. NEMEC. I had. I was enjoying the repartee.

To go back to the thread, we have on this chart an illustration showing the contributions which we make as U.S.-flag operators to the balance of payments.

On page 27, I think we have outlined some interesting material. I have obtained from the Department of Commerce records of the principal exporting industries. Aircraft, parts and accessories in 1962 were $1.4 billion. This includes exports of jet planes which seems to be of a nonrecurring nature. Automobiles, trucks, and parts, including those for assembly abroad, $1,160 million. The biggest single element were parts for assembly abroad, about $834 million. Then there were other electrical machinery and apparatus, $878 million; construction, excavation, mining, oil field, and related machinery, $828 million.

Net earnings in the foreign trade of $924 million places U.S.-flag shipping as the third most important industry in foreign trade.

We have set out down below the net amount which the CASL group, these 15 lines, have retained for the use of the United States, $526 million, this is our contribution, if you will, to it the balance of payments. I philosophize a little bit and say, as you no doubt have thought, that in this balance-of-payments field, a penny saved is a penny earned.

The next section, Mr. Chairman, is general material, principally intended to rebut the testimony of some witness you had before you, which we feel was inaccurate and incomplete, and in this series of three charts, we have shown the vessel replacement program of the CASL lines.

To save time, I will run over it briefly, but to flavor it for you, we are engaged in the investment of $2 billion of corporate money and debt obligations which we will assume and this is a vast obligation on our part. It is going to put every cent of stockholder investment at risk and this has to be recovered over an exceedingly long period of time.

By the end of this year, we shall have already contracted for the 117 vessels which you see here, at a total cost to us of $707 million. In this period of years, 1964 to 1967, we will build, assuming the Government appropriates the construction subsidy for shipyards, 99 additional vessels at a total cost to us—I believe this figure is low—of $540 million additionally. The balance of the program, 79 ships that will cost CASL about $700 million, will be completed in the last period of our entire replacement program.

Then to further examine where we stand, we have made a couple of companion charts. This one shows a cash flow. I shall not go into it now unless you are very much interested in it. It is our best projection of where we will be and the amount of money that will be expended for ships over this ensuing period to 1967 and in chart 23, we have prepared this interesting balance sheet, which Senator Proxmire has referred to previously. This is a projection, the best projection we can make of where we will be at the end of 1967, putting this shipbuilding program together.

During these 4 years, we will spend a gross amount of about $800 million for plant improvement, we will recover $200 million in depreciation, making the net addition to plant about $600 million in round amount.

You can see as this progresses, and we have not yet gotten to the extremist stage, that funded debt is starting to mount heavily. The important thing is that at the end of 1967, rather than being cash-rich as your previous witness alleges, we are cash-poor.

This $200-odd million which remains in the reserve funds is earmarked. The three earmarkings of it are shown on the schedule; pointing to them, $50 million represents amounts due and repayable to the Maritime Administration; $87 million is going to be required to pay off shipbuilding contracts which were entered into and on which balances remained unpaid at the end of that time, and $66 million cannot be used.

This latter amount is frozen by terms of the Merchant Marine Act.

There we are, Senator. We are not cash-rich. This is a vast program we are assuming. It requires a lot of debt obligation on our part. In the future period, as we get beyond this stage, debt will mount even higher. I say to you that our companies are going to have a serious problem in funding depreciation in sufficient amounts to be able to service this debt unless the earning climate improves substantially.

If you do not have any further questions, I will get on to this section of tax deferment. I have summarized our position. We have covered it because of your interest in testimony by earlier witnesses on this subject. I will ask, if you will, that the memorandum I have handed to you be included in the record.

Chairman DOUGLAS. That will be done.

(The document referred to appears in Part 5—Appendix—of the hearing record.)

Mr. NEMEC. I have given a rather full development of the background of this subject and also have put in some tables showing the tax position of other industries.

We have characterized why we think that the tax advantages some of these other industries get are superior to ours. We are not complaining but we do say this is a very moderate program and it is the only way this Nation of ours can go on and acquire the kind of a fleet it has for its maritime objective.

Chairman DOUGLAS. May I make this point; this reserve is in addition to depreciation, is it not?

Mr. NEMEC. The depreciation is put into the reserves, Senator. The reserve funds—these are actually money funds which are set up in depositaries controlled jointly by ourselves and the Government. We must put in each year an amount equal to depreciation.

Chairman DOUGLAS. Just a minute—do you not charge off depreciation before you get to net income?

Mr. NEMEC. Yes, sir.

Chairman DOUGLAS. And the 70 percent you put in does not include depreciation but is a deduction from net income?

Mr. NEMEC. Yes, sir.

Chairman DOUGLAS. That is the point I want to make. It is in addition to depreciation charges.

Mr. NEMEC. Yes; absolutely. But this is covered, in any case, in the memorandum together with four supporting documents. Two of

them are legislative histories of the parity principles of the act. One is a study prepared by Price Waterhouse, showing significant features of taxation of shipping companies in certain foreign countries. Another attachment is an abbreviation, a synopsis, if you will, of certain provisions of the Internal Revenue Code, as they affect extractive industries, life insurance companies, and others.

The last section of my statement is one that also has been invited by previous testimony before this committee. Briefly, it has to do with what people have characterized as a lack of technical progress in this industry of ours.

I have listed on pages 33 and 34, eight major areas of substantial accomplishment in liner construction in the past years. In speed and size, the CASL replacement fleet today, taken as a whole is the fastest and most modern group of liner ships on the high seas.

The ships are larger, faster, and they are getting goods to their destination in much faster time. We have among our freighters the holders of the blue ribbons of the world in almost all trade routes.

Their cargo-handling gear is undoubtedly the most improved and efficient of any group that floats. We are experimenting with cargo gear all the time. We have used container ships. A number of our lines have gone far into various types of sophisticated gear in an effort to reduce handling cost. This is a risk. We are running into problems so far as labor is concerned, not only in the United States but abroad.

The experiment by the Grace Line to establish a container ship service to Venezuela, was frustrated for more than 2 years by refusal on the part of foreign stevedores to unload containerized cargo from that ship. They simply said, "Take your ship home, we will never load or unload her again except under our terms."

After 2 years on the hook here in Chesapeake Bay, these ships finally reverted to service. In cargo handling, we have to confront problems not only in the United States but also in other, many other foreign areas of the world in which we operate.

Also, we have progressed the use of advanced types of materials such as plastics, rust-resistant steels, and other metals which have lessened shipboard labor and maintenance. Other developments include navigational aids, breakthroughs in corrosion barriers on board ship—this includes inorganic zinc compounds, new paint compounds of various kinds, cargo containerization and unitization, both of which hold promise ultimately of reducing the economic cost of shipping and thereby in some measure being reflected in rate benefits.

The purpose of this discussion is to lead up to something, Senator, that a group of our companies feel quite proud about. Today for the first time we are announcing publicly that vessels are now being constructed in the United States which have a very high degree of shipboard mechanization. These ships are large ships, fast ships, and they will be manned with 32 officers and men as contrasted with a conventional crew ranging from 46 upward. In our judgment, this development has been made possible by the great cooperation of labor, industry, and Government. We look at it with a measure of pride,

because in one swoop, we have accomplished an advance in mechanization on which certain other American industries have been impassed on for many, many years. This, I think, is perhaps the day of coming of age of the maritime industry in many senses. We hope it forebodes more realism in many areas and I think that the record ought to show that this was done with the complete cooperation of two of the major unions that are involved—the NMU, the National Maritime Union and its president, and the MEBA and its president. Mr. Curran is president of the NMU and Jesse Calhoun is MEBA president.

There are a few other problems left, but these ships are building—Lykes, United States Lines, Grace, Moore-McCormack, and Gulf South America now have ships under construction which will proceed to operate with this type of complement. We are happy to have the opportunity to tell you of it first, Senator.

Chairman DOUGLAS. That is an increase of output per man of almost 50 percent?

Mr. NEMEC. Yes. In our judgment, this was a security crew that we needed to operate this ship. We were not willing to operate this ship at the present state of development with any less men. And the unions cooperated 100 percent across the board.

Chairman DOUGLAS. I do not wish to be sarcastic, but in accordance with your previous statement, this means the Government is going to get all the profits.

Mr. NEMEC. They get most of it. Over the life of the ship, for each ship, the Government will benefit in reduced subsidy payments of not less than $2½ million, a quarter of a billion dollars for each 100 ships that are built. This represents a very, very substantial benefit to the United States.

Mr. TURMAN. That is based on present wages.

Mr. NEMEC. As wage costs go up over the future, it will be larger.

Chairman DOUGLAS. Then we can look forward to a decrease in the construction subsidy in the future.

Mr. TURMAN. Operating, not construction.

Mr. NEMEC. These ships will cost money.

Chairman DOUGLAS. Then it will be an increase in construction subsidy?

Mr. TURMAN. There will be some for the added cost of mechanization.

Mr. NEMEC. The $2.5 million figure I gave you is after offsetting after netting off the additional subsidy cost of the technical features included in this ship. Presently, these improvements are costing between $300,000 and $400,000 per copy. This is a very moderate investment, really, to get this kind of a long-term reduction in operating costs.

Mr. TURMAN. It may go a little more.

Mr. NEMEC. Well, I am ranging it at present estimates.

Chairman DOUGLAS. I have no further questions.

Mr. NEMEC. Thank you, Senator.

Chairman DOUGLAS. Thank you, Mr. Nemec. You have furnished us with a very interesting morning.

The hearings will be resumed tomorrow morning at 10 in this room.
(The prepared statement of Mr. Nemec follows:)

PREPARED STATEMENT OF FRANK A. NEMEC, APPEARING ON BEHALF OF THE COMMITTEE OF AMERICAN STEAMSHIP LINES

My name is Frank A. Nemec. I am executive vice president of Lykes Bros. Steamship Co., Inc., headquartered in New Orleans, La., appearing here today on behalf of the Committee of American Steamship Lines. I will discuss matters in which this committee has indicated interest or previously has received testimony which, in our opinion, was inadequate or inaccurate.

Further, in order that this committee may consider rate and conference problems against an adequate factual background, I believe it essential that you be furnished with a brief characterization of the present status of world shipping and rate trends, as well as a complete disclosure of the actual results of cargo carryings and operations of CASL companies.

Accordingly, during the course of my testimony, I will cover:

(1) International shipping, world rates, and indicated future trends;

(2) A new look at U.S.-flag liner participation in the foreign trade;

(3) A review and evaluation of the financial results of CASL company operations—7 years;

(4) The results of an independent analysis and report by Standard & Poor's;

(5) 1962 average revenues and analysis of the results of the carriage of export and import cargoes;

(6) Increasing domestic cargo-handling costs and their significance to our waterborne trade;

(7) The CASL vessel replacement program, the financial resources dedicated thereto, and the prospects for building additional ships;

(8) The rationale of tax-deferment provisions of the 1936 act;

(9) U.S.-flag shipping and its role in the balance of payments; and

(10) Breakthroughs in the technological field and their portent to Government and trade.

To conserve the time of the committee, much of the factual material will be presented in a series of graphs and exhibits.

INTERNATIONAL SHIPPING AND RATE TRENDS

The active privately owned U.S. merchant marine engaged in the foreign trade is a relatively small part (less than 10 percent) of the vast international shipping community, and to a large degree its fortunes are affected and rise and fall under the influence of worldwide economic forces. Ships are migratory assets, and while they differ in many respects, adaptations are made under economic stress.

World shipping markets and particularly the bulk, charter markets are a classical example of the laws of supply and demand. When the demand for ships significantly exceeds the supply, there is no single economic power on earth which can control rates in this market except more ships.

The reverse is also true. For when the supply of ships substantially exceeds cargo, then ships become idle and rates fall to distress, noncompensatory levels, and neither Government fiat nor controls nor agreements between owners can or do influence the world rate level to any marked degree.

During recent years, world shipping has been depressed, but now seems to be emerging from the trough which commenced during 1958 and lasted until the fall of this year.

All segments of international shipping felt the effect of this depression, with the tankers and tramp bulk carriers in the spot markets probably being affected most. This period was characterized by a worldwide oversupply of ships competing for an inadequate volume of cargo.

In large measure, this recent period was a consequence of the overbuilding brought about by the three great shipbuilding waves after World War II, i.e., (1) the reconstruction of war-torn fleets. (2) the post-Korean shipbuilding fever, and (3) the Suez speculation.

Following World War II, merchant marines of most nations of the world were decimated, and the immediate postwar period was devoted to rebuilding those fleets. Just at the time when this reconstruction was tapering off, the Korean war stimulated further shipbuilding and resulted in a substantial enlargement of world fleets. These successive waves of shipbuilding culminated with the feverish worldwide speculation which developed as a consequence of the Suez crisis and resulted in substantial overbuilding at high prices.

The last 5 years have brought demand for shipping services closer to the supply of world shipping.

Chart 1 compares the present status of the United States and the leading other maritime powers of the world and indicates the growth of the respective fleets during the period from 1939 to June 1963. During this period of time, the world fleet increased from a total of 12,800 ships aggregating approximately 58 million gross tons to a total of 17,900 vessels of 134 million gross tons.

During recent years, the influx of shipbuilding orders in the world market has tapered off, and ship deliveries have exceeded new orders excepting only the year 1961.

In the spring and summer of this year, however, the trend was reversed, perhaps anticipating the new demand for vessels which became evident during the summer and early fall. This shipbuilding trend is shown by chart 2[1] which compares new shipbuilding orders with the comparable deliveries of seagoing merchant tonnage. Tankers and other specialized ships represent the largest tonnage volume of new orders. A summary of the present backlog of shipbuilding orders is furnished as chart 3, and indicates that at the end of September the World Order Book aggregated about 18 million gross registered tons, of which about two-thirds represented tankers.

Open market charter rates, which are highly responsive to the demand for shipping tonnage, declined severely from the alltime highs following Nasser's seizure of the Suez Canal. The decline in world shipping charter rates is illustrated by chart 4 which covers the period from 1947 through the summer of this year. The substantial decline in charter rates and the excess tonnage on hand induced many tramp owners to attempt to establish new liner services—or at least to seek to carry parcels of liner-type cargo.

While liner rates do not move with the rapidity and to the extremes of rates in the charter market, underlying competitive conditions can and do affect the general level of liner rates. To illustrate the relative stability of liner rates over an extended period of time, as well as their long-term response to charter rates, we have prepared, as an overlay to chart 4, a representative group of liner commodities moving in the gulf-to-continent trade during the years 1947 to 1963.[2] Incidentally, you will note that most of the liner rates actually declined in this service over this period.

These data are furnished to illustrate the relative stability of liner rates in the face of aggravated sharp peaks and valleys in world tramp or charter markets.

World shipping, laid up for lack of employment, has declined from about 8 million tons in early 1960 to about 2,182,000 tons at the beginning of October 1963. Chart 5 summarizes this unemployed world tonnage by dry cargo and tanker vessels, showing the principal flags of registry.

About 84 percent of the unemployed dry-cargo tonnage is of World War II vintage and earlier, and because of their age many of these ships have relatively short competitive lives and some may never enter service again, except at much higher rate levels.

At the present time, world charter rates have appreciated substantially from recent low levels due not only to the underlying improvement in the tone of the market, but also to the effect of Soviet and Komekon actual and prospective purchases of wheat and other farm products.

Chart 6, which uses the year 1951 as a base, furnishes a combined charter index by weeks and clearly indicates the nature and extent of the recent rate surge.

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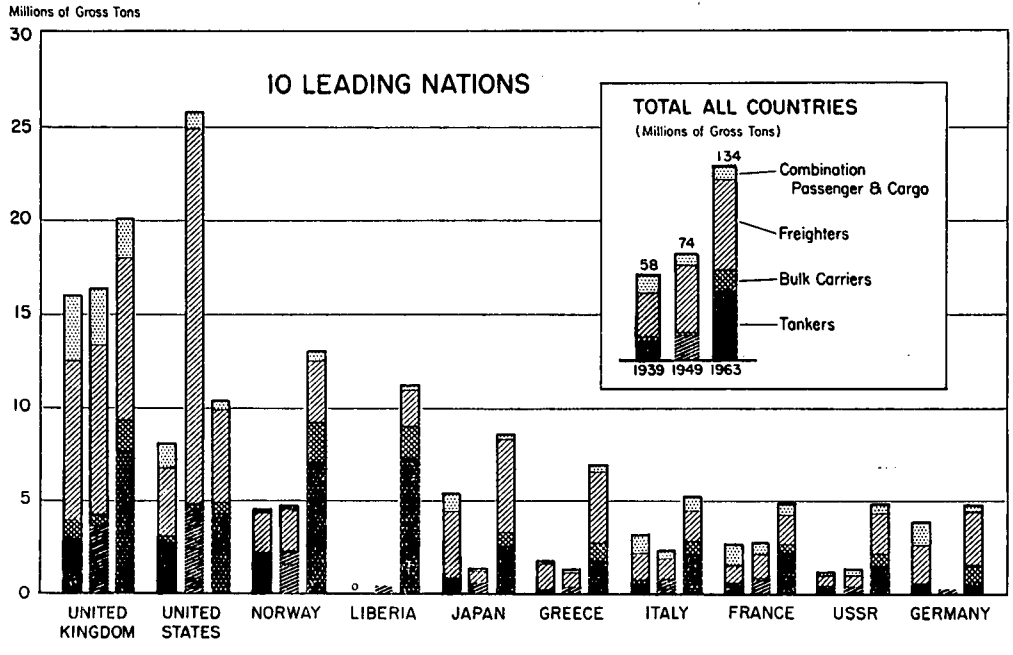
[1] In committee files.

[2] To our knowledge, there is no reliable freight index in existence which represents general cargo freight rates in the foreign trade of the United States. The data we have furnished, with respect to these typical commodities moving over this one trade route, are for illustrative purposes only and do not purport to represent either the general rate level or general movement of commodity freight rates in the overall liner trades of the United States.

CHART 1

MERCHANT FLEETS OF THE WORLD

By type of vessel and gross tonnage - 1939, 1949, 1963



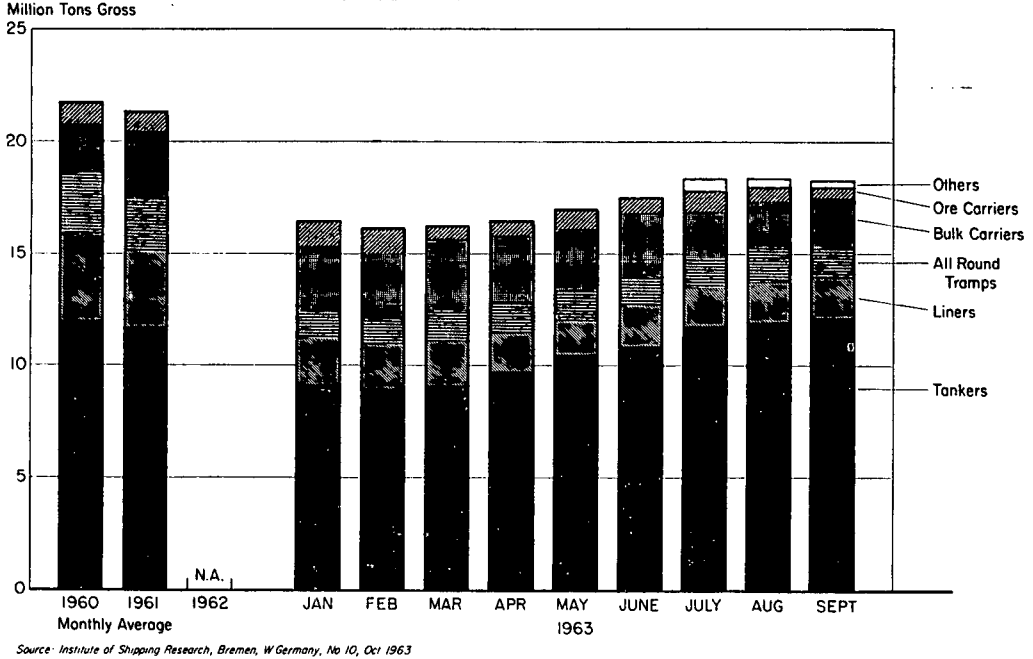
Source: U.S. Dept. of Commerce, Maritime Administration

CHART 3

CASL

TONNAGE OF NEW SHIP CONSTRUCTION IN HAND OR ON ORDER (1000 Tons Gross and Over)

WORLD WIDE

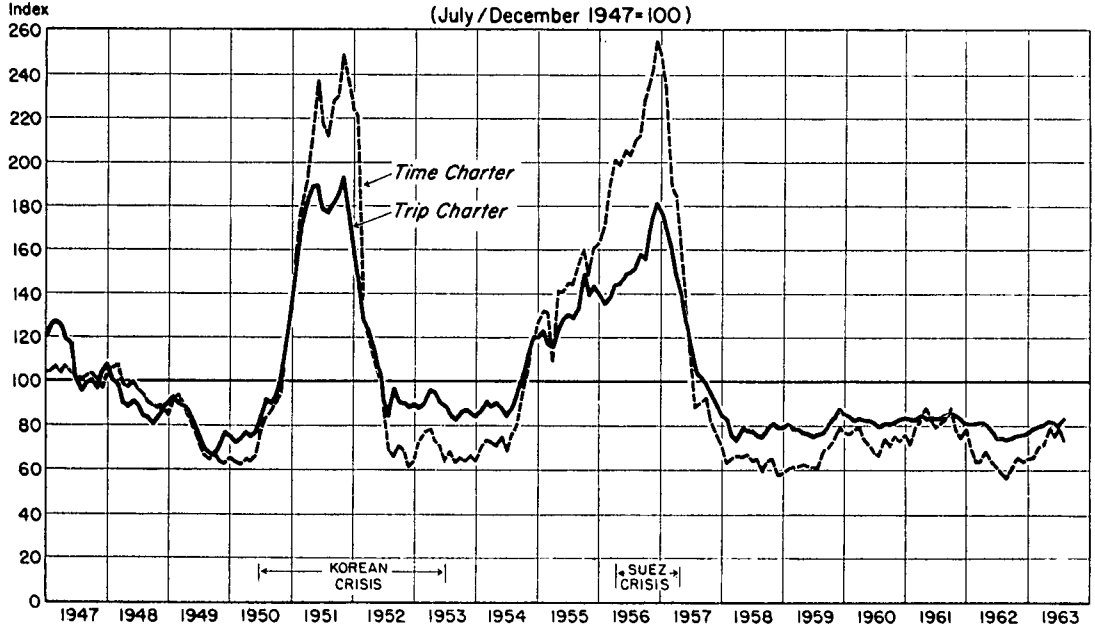


Source: Institute of Shipping Research, Bremen, W Germany, No 10, Oct 1963

CHART 4

CASL

WORLD-WIDE CHARTER RATES FOR DRY CARGO VESSELS, 1947-August 1963

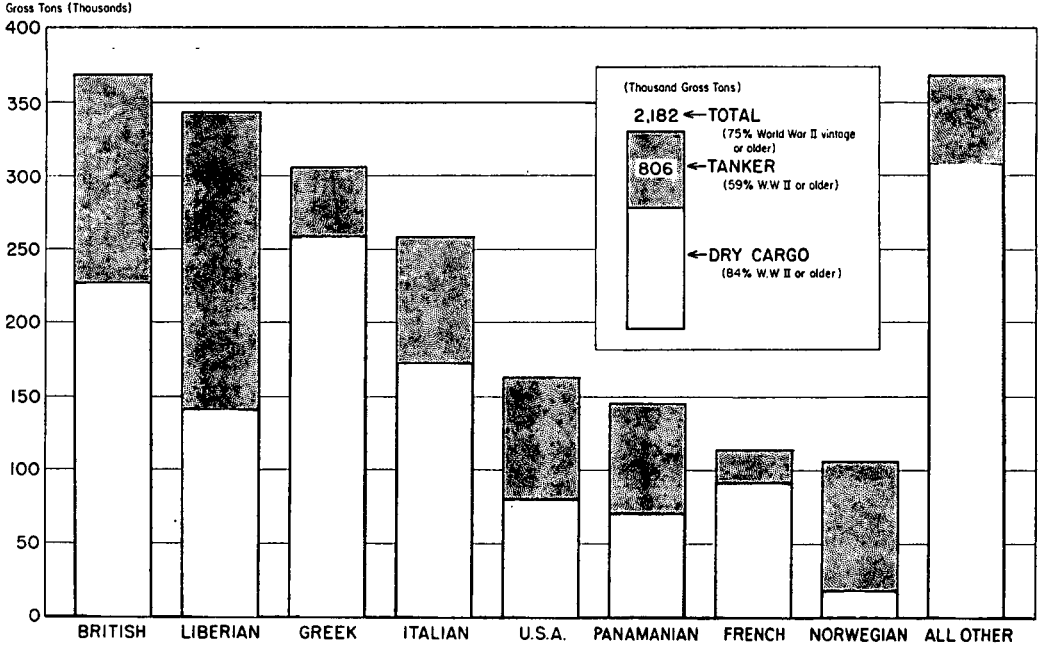


Source: Norwegian Shipping News-Freight Indices.

CHART 5

WORLD SHIPPING LAID UP

FOR LACK OF EMPLOYMENT, BY FLAGS - October 1, 1963

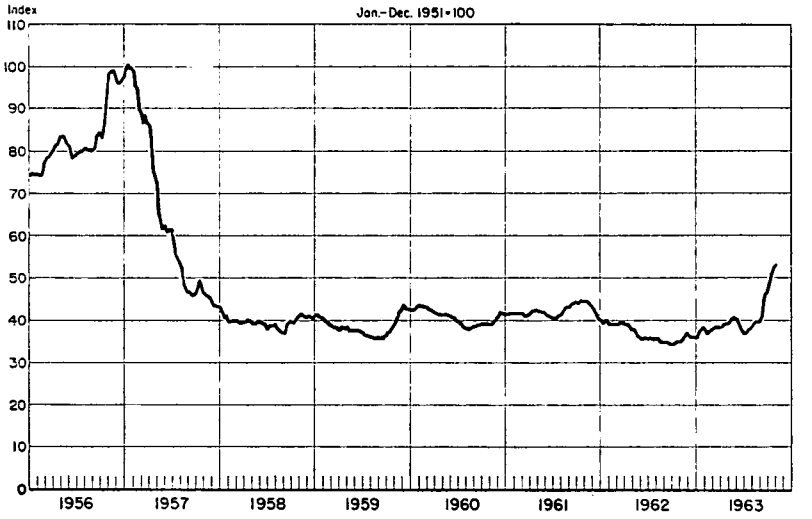


Source International Chamber of Shipping, London, England.

CHART 6

CASL

WEEKLY GENERAL FREIGHT INDEX OF CHARTER RATES



Source: Maritime Research, Inc., New York.

Because of the cost-price squeeze in which international shipping has been bound during recent years and because of inevitable increases in the prices of new ships, it seems plain that the secular trend of both tramp and liner rates is upward.

I shall discuss later the relatively sharp increases in cargo handling costs in the U.S. ports as well as smaller foreign dollar increases which may increase the level of both outbound and inbound liner rates in the near future.

U.S. LINER CARRYINGS

Statistics concerning the waterborne foreign commerce of the United States almost without exception are stated on a weight ton basis. In their usual context the following results appear:

Year 1962

[In millions of long tons]

Dry cargo exports and imports	U.S. ocean-borne trade	U.S. carryings	
		Tons	Percent
Total	171.5	20.9	12.2
Liners	47.0	13.2	28.1
Irregular or tramp	124.5	7.7	6.2

NOTE.—The foregoing does not include movements of military and strategic cargoes which move preponderantly by U.S.-flag vessels.

Source: U.S. Department of Commerce, Maritime Administration.

Weight tonnage data of this nature leads to completely misleading and erroneous conclusions as to the efficiency, capacity, and performance of the American-flag liner fleet.

The principal bulk-type dry cargoes moving in our foreign trade are dense, relatively low value, homogenous commodities which are carried preponderantly by tramp vessels and specialized bulk carriers. Typically, in the export trade, these tramp or bulk cargoes consist of grains, including wheat, and phosphate rock and coal. In the import trade, these bulk cargoes are largely iron ore, forest products, bauxite, and other ores. Significant quantities of the import ore trade are relatively short-haul commodities moving from Canada or nearby Caribbean areas.

It is meaningless to equate this type of cargo with the characteristically high value liner cargo which requires specialized handling, specialized treatment, and different and regular types of service. The rate levels for these liner-type commodities are different and generally higher than the rates for bulk cargoes. Historically, the foreign liners have carried relatively more of the bulk cargoes while U.S.-flag ships have carried more of the general cargo. This combination has resulted in a higher revenue per weight ton for U.S.-flag liners.

To judge performance or efficiency of liner companies by considering market participation measured in weight tons is to ignore the facts of shipping reality. Liners can and do carry parcels of bulk cargo as bottom or nucleus cargo, if rates are compensatory, but their main purpose is to seek and obtain the higher valued general cargo which moves largely on a measurement ton basis.[3]

Thus, we conclude, as must all experienced shipping men, that weight tonnage participation is an inadequate indicator of liner performance.

Of the possible alternate methods of evaluating performance of liner companies, the extent of market participation based on liner revenues is the most realistic. Certainly this is true in evaluating performance in the light of the balance of payments.

The following table indicates the proportion of total market revenues computed obtained by U.S.-flag ships during 1962, from which it will be observed that American-flag vessels obtained more than 35 percent of the total commercial liner freight market in addition to moving significant quantities of military and other strategic cargoes which have been excluded from these statistics:

Liner movement—Exports and imports combined, 1962

	Weight (in millions of long tons)	Average revenue per weight-ton	Revenue total (in millions)	Percent
Total	47.0			
Foreign flag	33.8	$30	$1,014	63.1
U.S. flag	13.2	45	594	36.9

Source: U.S. Department of Commerce, MARAD for tons; advice of Office of Business Economics for foreign-flag revenue per ton; CASL for U.S.-flag liner revenues per ton.

When evaluated in this sense it seems clear that American-flag liner vessels have obtained a major portion of the liner market revenues and that unlimited expansion of U.S.-flag liner participation over all trade routes would be neither attainable nor desirable, giving due regard to the need for maintaining friendly maritime relations with the rest of the free world.

In considering realistically an attainable objective for liner commercial carryings, we call attention to a recent statement on liner cargo participation issued by Secretary of Commerce Hodges for the guidance of the Maritime Subsidy Board which states in part:

"* * * I believe the congressional declaration of policy should be interpreted to mean we should consider a 50-percent objective as a goal in determining whether we have a merchant marine sufficient to carry 'a substantial portion of the waterborne export and import foreign commerce of the United States,' and in applying this guideline to any given factual situation no particular arithmetical percentage will be deemed per se adequate or per se inadequate; rather,

[3] Measurement ton cargo generally moves (*a*) outbound and inbound from certain areas on the English basis of 40 cubic feet to the payable ton, and (*b*) inbound from metric areas at 35.3 cubic feet per payable ton.

it will be recognized that a U.S. merchant marine service of the highest percentage *practically attainable* is our goal.

"The foregoing statement is hereby adopted as a guideline to be followed in making determinations on the issue of inadequacy in future section 605(c) proceedings." [Emphasis supplied.]

Source: Opinion and order of the Secretary of Commerce, dated May 23, 1963, in Atlantic Express Lines of America, Inc., subsidy application, combination passenger and cargo service, trade routes 5, 7, 8, and 9, docket S–124.

The significance of the present participation in the liner trade (more than 35 percent) is sometimes obscured by the fact that comparison is made with the abnormally high percentage participation of U.S.-flag ships during the postwar rehabilitation period wherefrom it is concluded that the trend is down and that U.S.-flag liners are inefficient and ineffective. During these early postwar years, however, and until such time as the maritime fleets of the world were rebuilt, the United States was in the unique position of having the only merchant marine in being of adequate size to carry out the relief and rehabilitation of the stricken world.[4]

Given equal competitive conditions and a greater awareness of the importance of U.S.-flag shipping by exporters and importers, coupled with routing a fair share of commercial cargo via American-flag ships, CASL believes that U.S.-flag liners can increase present market participation and improve service to American shipping interests.

THE CASL COMPANIES

Chart 7,[5] which was distributed to thousands of exporters in March 1963, shows the essential trade routes over which the 15 companies which comprise the Committee of American Steamship Lines operate regular liner services. This chart also indicates the principal foreign areas in which offices are maintained and other relevant information.

The CASL companies each year make a total of between 1,800 and 1,900 sailings over these essential trade routes and during 1962 carried 17,835,000 payable tons of cargo of which 10,536,000 were outbound. 5,778,000 payable tons of cargo inbound, with the balance representing carrying of foreign interport cargo.

Financial data

Before analyzing and evaluating the financial results and condition of the CASL companies, it may be well to pause for a moment to obtain the perspective of history. In November 1937 the U.S. Maritime Commission, then under the chairmanship of Joseph P. Kennedy, issued a landmark report entitled "Economic Survey of the American Merchant Marine." This report was made at a crossroads in our maritime history at a time when operations under the Merchant Marine Act of 1936 had barely commenced and following almost 20 years of wasteful ineptitude in seeking to establish and maintain an effective merchant fleet by mail-pay subsidy and other means.

In analyzing the financial condition of the subsidized lines this report stated:

"Analysis of the financial condition of the subsidized lines, in view of the replacement needs of the companies, reveals a truly depressing outlook for this segment of the industry. Some of the lines appear to be in good shape; the condition of others is dubious; some apparently have little chance of survival" (p. 27).

The report then proceeded with a detailed analysis of various companies which had theretofore been receiving subsidy from the Government, calling attention to the fact that various realinements, consolidations, and reorganization seemed both inevitable and necessary in order that the United States might have the opportunity to develop an efficient, modern fleet in the foreign trade and that only 9 of the 31 mail-pay contract lines could proceed.

These original nine companies were later increased by a number of others and the group made a brave beginning on a vessel replacement program, a beginning which entailed grave financial risk and exposure.

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[4] In an effort to rebuild foreign merchant marines and to narrow the "dollar gap," the United States substantially aided in the reconstruction of foreign-flag fleets by selling to foreign buyers more than 1,000 war-built ships (mostly Libertys) at the same prices and at the same terms at which they were made available to U.S. citizens.

[5] In committee files.

I will not burden the present record with the manner in which this shipbuilding program assisted the United States through the first crucial, dark days following the Pearl Harbor period nor will I detail the degree and importance of contributions these companies made to the national welfare during the World War II period and in the critical postwar years. These and many other facts are available, and if the committee so desires I will be glad to return at a later date and complete the record in this respect.

It is most important at the present juncture, however, to recognize the fact that CASL has progressed and today are reasonably financed. Many problems do remain and completion of CASL's contractual vessel replacement program will entail grave risks. However, the improvement in the financial solvency of CASL is a solid accomplishment of the 1936 act and one which CASL and Government recognize with sober satisfaction.

With this preliminary, I should now like to submit to the committee a combined statement of net income and retained earnings of the CASL companies for the 7 years ended December 31, 1962, and yearend balance sheets for 1957, 1959, and 1962.[6]

Chart 8 depicts the earnings of the group during the 7 years and the rate of earnings, on average stockholder capital and retained earnings for each of the indicated years. A similar computation combining stockholder and borrowed capital is shown separately.

CASL net earnings varied from a high of $73.6 million in 1956 to a low of $27.2 million in 1960; the average rate of return for the indicated 7 years was only 6.38 percent. When regard is given to borrowed capital, the return is lower.

CHART 8

CASL

COMBINED NET EARNINGS AND RETURN ON INVESTMENT

FOR SEVEN YEARS ENDED 1962

(IN THOUSANDS OF DOLLARS)

YEAR	NET EARNINGS	NET EARNINGS AND GAINS	STOCKHOLDERS INVESTMENT	PERCENT		STOCKHOLDERS INVESTMENT PLUS BORROWED CAP. (LONG TERM)	PERCENT	
				NET EARNINGS	NET EARNINGS AND GAINS		NET EARNINGS	NET EARNINGS AND GAINS
1962	$37,905	$43,253	$804,466	4.71	5.38	$1,074,725	3.53	4.02
1961	28,481	38,306	774,472	3.68	4.95	1,017,561	2.80	3.76
1960	27,235	30,084	747,492	3.64	4.02	983,284	2.77	3.06
1959	29,835	36,311	728,784	4.09	4.98	927,262	3.22	3.92
1958	52,000	68,277	709,094	7.33	9.63	886,696	5.86	7.70
1957	70,609	72,284	655,019	10.78	11.04	834,562	8.45	8.65
1956	73,599	77,084	588,244	12.51	13.10	759,960	9.68	10.14
7 YEAR AVERAGE	$45,666	$52,228	$715,367	6.38	7.30	$926,292	4.93	5.64

Source: Combined Financial Statements-CASL

[6] Each of the 15 CASL companies has independent public accountants who make examinations of their financial statements for purposes of reports to stockholders, to the Securities and Exchange Commission, and to the Maritime Administration. Additionally, the Maritime Administration maintains a large staff of auditors who make detailed examinations of company records. Periodically, CASL has combined statements prepared on behalf of all of its companies by a group of independent public accountants. Three of these combined reports were prepared during the 7-year period ended 1962, and the reports of the independent public accountants, from which the foregoing statements were taken, will be furnished for the committee files.

It is not generally understood, however, that a substantial part of net income is deposited in reserve funds and is not available for general corporate purposes including dividends. The financial provisions of the 1936 act and contracts negotiated thereunder require maintenance of statutory reserve funds to insure the vessel replacement program and the maintenance of essential shipping services. These deposited moneys are under joint control of each company and Government.

Chart 9 analyzes the net income of CASL into amounts deposited in the reserve funds and unrestricted corporate earnings. During this 7-year period an average of only $14 million per year or 30.56 percent of the total reported earnings represented unrestricted net earnings.

Dividend returns to CASL stockholders have been meager. This is evidenced by chart 10, which indicates aggregate stockholder investment, dividends paid in cash, and the percentage of such dividends to indicated capital and retained earnings. These dividends dropped from an average of about 3 percent during the earlier years of this 7-year period to an average of 1.55 percent during 1961 and 1962.

CHART 9

CASL

ANALYSIS OF NET EARNINGS

As between required deposits and unrestricted earnings

(IN THOUSANDS OF DOLLARS)

YEAR	COMBINED NET EARNINGS	REQUIRED TO BE DEPOSITED	PERCENT	UNRESTRICTED CORPORATE EARNINGS	PERCENT
1962	37,905	22,736	59.98	15,169	40.02
1961	28,481	23,382	82.10	5,099	17.90
1960	27,235	18,237	66.96	8,998	33.04
1959	29,835	15,667	52.51	14,168	47.49
1958	52,000	38,940	74.88	13,060	25.12
1957	70,609	50,000	70.81	20,609	29.19
1956	73,599	53,000	72.01	20,599	27.99
7 YEAR AVERAGE	45,666.3	31,708.9	69.44	13,957.4	30.56

NOTE: Net earnings and deposits are shown excluding capital gains which are of a non-recurring nature. Amounts shown above as required to be deposited are amounts accrued or deposited in statutory reserve funds established under the Merchant Marine Act, 1936, to fund ship replacement obligations and for the other purposes specified in that Act; voluntary deposits are also included.

Source: Combined Statement of Earnings and Retained Earnings - CASL

CHART 10

CASL

ANALYSIS OF DIVIDENDS

Amounts as a percentage of stockholder equity

(IN THOUSANDS OF DOLLARS)

YEAR	STOCKHOLDER INVESTMENT	DIVIDENDS PAID IN CASH	PERCENT
1962	804,466	13,245	1.65
1961	774,472	11,342	1.46
1960	747,492	14,350	1.92
1959	728,784	16,413	2.25
1958	709,094	20,367	2.87
1957	655,019	19,104	2.92
1956	588,244	17,583	2.99
7-YR. AVERAGE	715,367	16,058	2.24

Source: Combined Financial Statements - CASL

During the 7 years ended 1962, the capital and retained earnings of the CASL lines as shown by the books, increased by $245,784,000 over January 1, 1956, or 44.7 percent.

An increase in retained earnings of the CASL companies during this 7-year period does not, however, realistically measure their financial performance. Generally, this span of years covered only the beginning of the CASL ship replacement program and, accordingly, the earnings were burdened only with vessel depreciation based on the relatively low acquisition values of the old CASL fleet. Since acquistion of this old fleet, the price of replacement vessels has increased by a factor of about 5 to 1.

To reflect the effect of this inflation in ship replacement values, I have in chart 11 stated the net earnings and gains of the CASL lines and shown an adjustment factor which reflects amortization of present-day replacement values of the fleet less depreciation actually taken on the books. After subtracting dividends paid and miscellaneous other adjustments, during these 7 years, CASL incurred a net erosion of shipping capital amounting to $7.8 million.

In effect, during this period of years the CASL companies did not earn and retain in the business sufficient moneys to replace the ships which were wasting away.

While in some measure this may be true of other American industry the block obsolescence problem of CASL aggravates this situation and makes replacement cost evaluations both necessary and meaningful.

CHART 11

CASL

NET EARNINGS AND GAINS

Adjusted for depreciation on replacement capital costs

(IN THOUSANDS OF DOLLARS)

YEAR	NET EARNINGS AND GAINS	ADJUSTMENT FOR DEPRECIATION ON REPLACEMENT COST			NET ADDITION OR EROSION OF SHIPPING CAPITAL
		Depreciation on Replacement Cost of CASL Fleet	Less: Depreciation Based on Present Acquisition Costs	Adjustment	
1962	43,253	72,000	38,205	33,795	9,458
1961	38,306	72,000	33,976	38,022	284
1960	30,084	72,000	33,890	38,110	8,026
1959	36,311	72,000	39,158	32,842	3,469
1958	68,277	72,000	38,236	33,764	34,513
1957	72,284	72,000	35,765	36,235	36,049
1956	77,084	72,000	29,245	42,755	34,329

Net for Period	110,076
Less: Dividends paid in Cash (At average rate of 2.24%)	112,404
Other Adjustments - net	5,452
Net Erosion of Shipping Capital	7,780

NOTE: Depreciation on Replacement Capital Cost computed as follows:

Net Capital Cost of 300 ship replacement program to CASL	
Estimated $12/2\frac{1}{2}$ Billion - say	$2,000,000,000
Less: Residual Scrap or Sales Value at end of useful 25 year life - 10%	200,000,000
Net	1,800,000,000
Yearly Depreciation 25 year life	72,000,000

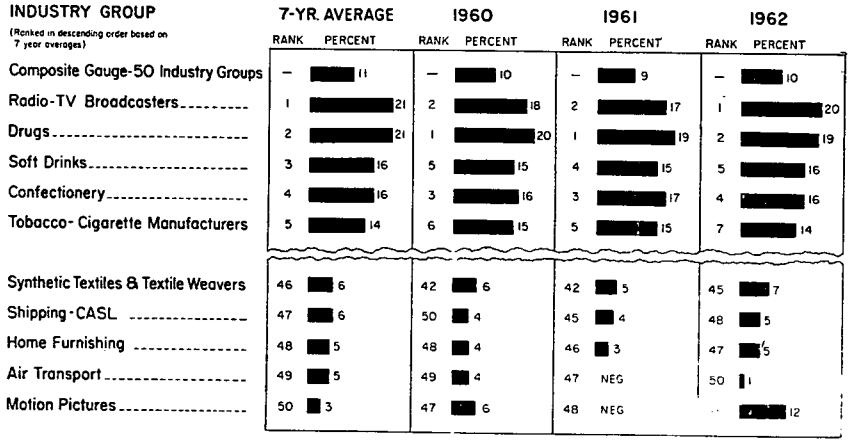
Source. Net Earnings and Gains - Combined Report - CASL

CHART 12

CASL

RETURN ON COMMON EQUITY

Seven Years Ending 1962 and 1960-1962



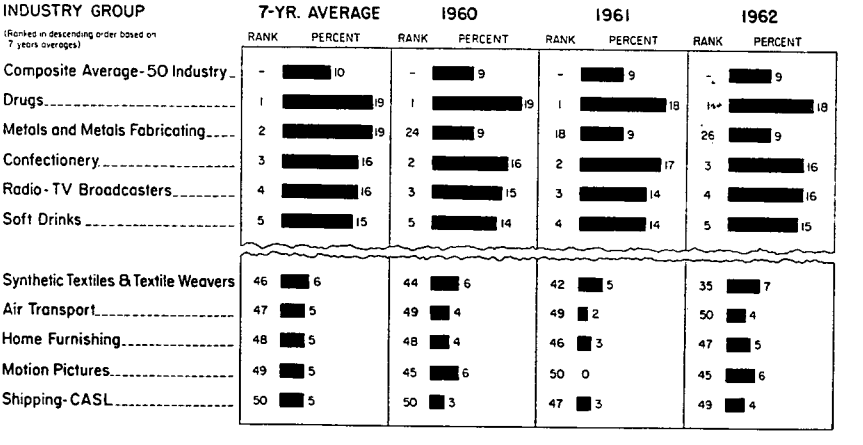
Source: Standard & Poors, Comparative Financial Analysis of American Industry, Nov 1963, and Combined Financial Statements - CASL

CHART 13

CASL

RETURN ON TOTAL INVESTED CAPITAL

Seven years ending 1962 and 1960-1962



Source: Standard & Poors Comparative Financial Analysis of American Industry, Nov 1963, and Combined Financial Statements - CASL

STANDARD & POOR'S

In order to measure the performance of the CASL companies against all other American industry, CASL commissioned Standard & Poor's Corp., an internationally recognized financial authority, to make a searching comparative analysis. I hand you herewith a complete copy of their revealing report, dated November 1963, entitled "Comparative Financial Analysis of American Industry." [7]

The results of this survey are astounding and completely demolish any impression that the CASL group made high or unreasonable profits during the 7-year period covered by this study. Quite the contrary is true, and the plain facts are that CASL profit margins have been inadequate.

In this report Standard & Poor's outlines the scope of its work as follows:

"This analysis was prepared at the request of the Committee of American Steamship Lines by Standard & Poor's Corp. as an independent study of comparative financial data for American industry. The industry groupings were decided upon by Standard & Poor's Corp., based on statistics available on its Compudata Service magnetic tapes. These tapes are in common use by many leading banks and financial institutions. The statistics cover 384 companies, all of which are included in the Standard & Poor's 425 industrial stock price index. The company selection was made on the basis that only companies were included on which consistent data were available for all years from 1956 through 1962. It is estimated that the 384 firms used in this study account for over 75 percent of the valuation of the securities on the New York Stock Exchange."

Standard & Poor's summarized its findings by preparing industry rankings and ratios for 50 major industrial groups.

A CASL batting average based on period averages is shown below. followed by a brief commentary:

	7-year average	
	Rank in 50 industries	Commentary
Return on common equity	47	Close to the bottom.
Return on total invested capital	50	Dead last.
Dividends as a percent of common equity	50	Do.
Growth index—		
After deducting dividends	39	Poor, lowest quartile.
Before deducting dividends	44	Close to the bottom.
Market valuation of industries (based on price and earnings ratios of 74 industry groups).	73	At the bottom.

In the language of baseball this batting average would conisgn CASL to the bush leagues.

The next series of charts illustrate the results of the Standard & Poor's survey and compares in each instance the performance of CASL with other American industries.[8]

Rate of return

Chart 12 shows the five highest and five lowest industry groups during this 7-year period measured in terms of percentage return on stockholder equity. While the average for all groups for the entire 7 years was 11 percent, CASL realized only a 6-percent rate of return and ranked 47th of the 50 industry groups.

Chart 13 shows similar information as a percentage of return on total risk capital employed in the business—whether stockholder or borrowed—and shows that on this basis the CASL rate of return for the period was the lowest of any of the 50 industry groups.

[7] In committee files.

[8] The Standard & Poor's study made its comparison with CASL members listed on recognized stock exchanges for the entire 7-year period. Our charts substitute therefor the combined CASL data per the combined financial statements except for the price and earnings ratios for which combined CASL data are not available since certain companies are not traded publicly.

During the last 3 years of this period the CASL performance was as follows:

	Rate of return			
	Common equity, industry rate		Total investment, industry rate	
	Rank in 50	Percent	Rank in 50	Percent
1962	48	5	49	4
1961	45	4	47	3
1960	50	4	50	3

Source: Charts 12 and 13.

This rate of return is completely inadequate, particularly since shipping is a high-risk industry.

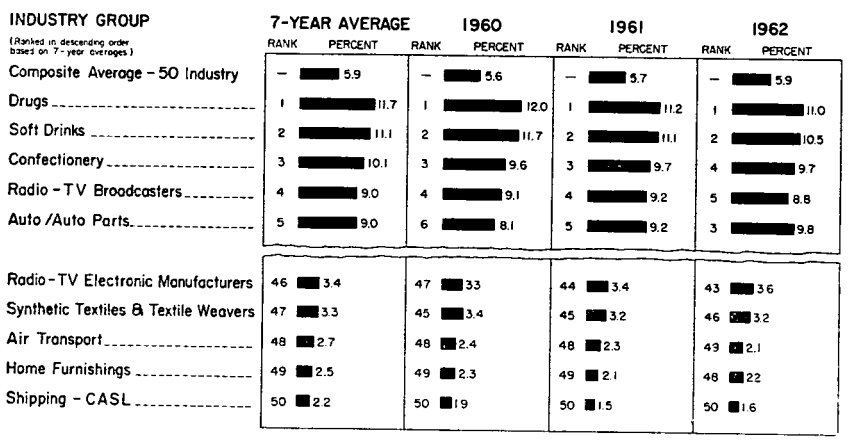
Dividends

The next vital statistic measures dividend returns to stockholders and this is portrayed by chart 14. In this vital statistic CASL had the most consistent record of any industry and rated as follows:

	Cash dividends	
	Rank in 50	Percent
7-year CASL average	50	2.24
1962	50	1.65
1961	50	1.46
1960	50	1.92

Source: Chart 14.

CHART 14



Source: Standard & Poors Corporative Financial Analysis of American Industry, Nov 1963 and Combined Financial Statements - CASL

Growth

To measure accomplishment in the area of capital generation and retention, Standard & Poor's uses two indexes:

1. An index of common equity per books, and
2. An index of common equity plus accumulated dividends.

The poor CASL performance is shown below:

Growth index (1956=100)

Industry	On common equity		On common equity plus dividends	
	Rank	Index	Rank	Index
CASL	39	132.31	44	150.92

Source: Chart 15.

In essence, while the rate of CASL capital accretion was poor, even this showing was due in some large measure to holding stockholder dividends to exceedingly low levels.

On the first basis, the CASL growth index over the 6-year period ending with 1962 shows 132.31 and placed CASL 39th in 50 industries or in the lowest quartile (chart 15). Even this performance, however, was attributable more to retention than to earnings.

To illustrate the manner in which the capital conservation provisions of the 1936 act and the conservative dividend policies of CASL have operated to retain shipping capital for fleet replacement purposes, chart 15 also shows a growth index based on common equity plus accumulated dividends. On this basis CASL drops to 44th in the 50 industry groups with a growth index of 150.92, despite the fact that (*a*) block obsolescence and depreciation on acquisition values overstates CASL's recorded earnings in the real economic sense and (*b*) these earnings include tax-deferred increments on which future taxes will be paid.

CHART 15

CASL

INDEX OF COMMON EQUITY

(1956=100)

INDUSTRY GROUP	COMMON EQUITY ONLY RANK	COMMON EQUITY ONLY INDEX
Composite Average - 50 Industry	–	145.21
Publishing	1	264.66
Office & Business Equipment	2	238.15
Radio - TV Broadcasters	3	193.50
Drugs	4	187.99
Retail - Food Chains	5	177.91
Shipping - CASL	39	132.31
Copper	46	116.11
Lead & Zinc	47	114.03
Home Furnishings	48	113.62
Motion Pictures	49	94.60
Heating, Air Conditioning & Plumbing	50	90.57

INDUSTRY GROUP	COMMON EQUITY PLUS ACCUMULATED DIVIDENDS RANK	COMMON EQUITY PLUS ACCUMULATED DIVIDENDS INDEX
Publishing	1	309.15
Office & Business Equipment	2	281.23
Drugs	3	273.62
Radio - TV Broadcasters	4	263.25
Soft Drinks	5	242.55
Shipping - CASL	44	150.92
Distillers	46	146.24
Auto Trucks	47	145.55
Home Furnishings	48	127.38
Motion Pictures	49	117.24
Heating, Air Conditioning & Plumbing	50	112.31

Source: Standard & Poors Comparative Financial Analysis of American Industry, November 1963 and Combined Financial Statements - CASL.

Market values

During the 7-year period analyzed by Standard & Poor's CASL not only realized low rates of return on capital and earnings retained in the business, but their stockholders neither had nor have prospects for converting accumulated earnings into real market value. During most of this period the stocks of the companies for which public markets exist have sold at very substantial discounts from their book values. At the present time, despite a recent upward move in market prices apparently triggered by news of the possibility of a Russian wheat deal, most companies are still selling at about 40 percent of their indicated book values.

Chart 16 shows the manner in which shipping companies have been evaluated in the cold logic of the marketplace on a price times earnings basis. While the favored industries have sold at multiples of more than 25 times annual earnings, the CASL companies ranked as next to lowest of all the 74 industry groups—selling at an average multiple of only 7.60 times earnings.

Summary

The overall results of Standard & Poor's searching survey of American industry demonstrates conclusively that (1) net profits of CASL are extremely low by standards of American industry, (2) cash dividends have been the worst of any group and (3) despite low dividends, capital accumulation measured by the growth index has been poor. Further, insofar as market prices are concerned, steamship stocks are selling at very low multiples of earnings and at substantial discounts from stockholder capital and retained earnings.

These facts should once and for all lay to rest any allegations that the CASL companies are profiting either from the subsidy program or at the expense of American foreign trade.

OPERATIONS 1962

Results

Turning to a closer analysis of operations for the year 1962, chart 17 portrays the freighter operating results for 1962 converted into a payable ton basis (excluding results of passenger and combination vessels and other income). During 1962 (1) average revenue per payable ton aggregated $29.70, (2) vessel expenses net of operating subsidy, cargo handling, port charges, overhead, and all other expenses aggregated $28.31, (3) leaving a net earning after taxes amounting to $1.39 per payable ton.

CHART 16

CASL

PRICE EARNINGS RATIOS

(Industry appraisal in terms of market value)

Seven years ending 1962 and 1960-1962

INDUSTRY GROUP (Ranked in descending order based on 7 year averages)	7-YR. AVERAGE RANK	7-YR. AVERAGE RATIO	1960 RANK	1960 RATIO	1961 RANK	1961 RATIO	1962 RANK	1962 RATIO
Average-74 Industry Groups	–	16.6	–	18.4	–	20.6	–	15.7
Office & Business Equipment	1	46.9	1	57.0	1	70.8	1	41.5
Electronics	2	34.8	3	43.6	2	45.3	2	35.2
Machine Tools	3	32.2	14	23.0	19	23.6	38	14.8
Aluminum	4	27.9	5	33.0	7	31.2	12	19.1
Electrical & Electronic Leaders	5	26.5	7	30.3	11	28.8	4	24.2
Beet Sugar Refiners	70	10.2	66	11.5	62	14.8	67	10.6
Textile Weavers	71	9.8	74	6.5	68	13.3	70	9.0
Sugar Cane Refiners	72	8.7	71	9.0	70	11.6	69	10.0
Shipping	73	7.6	73	8.8	57	15.4	72	7.8
Motion Pictures	74	7.5	25	18.2	72	N.A.	16	18.3

Source: Standard & Poors, Comparative Financial Analysis of American Industry, Nov 1963

During 1962 CASL carried the following payable tons of cargo:

	Payable tons (in thousands)	Average revenue per ton
Exports	10,544	$31.62
Imports	5,778	[1] 28.49
Foreign Interport	1,063	17.18
Total	17,385	29.70

[1] The average inbound revenue per payable ton is understated to some extent because inbound payable tons in some trades include the smaller metric measurement ton (35.3 cubic feet) as compared with the outbound measurement ton (40 cubic feet). Reducing imports to 5,500,000 payable tons to make the comparison with export tons more valid gives $29.93 per payable ton.

A breakdown of these freighter operations is available and will be furnished if either the committee or its staff is interested in same.

Export cargo revenue of $31.62 per payable ton exceeded the comparable figure on imports ($28.49) by $3.13 per payable ton; correcting import tonnage to make a more consistent comparison reduces the difference to only $1.69 per payable ton. Cargo carryings break down as follows:

	Percent
Exports	60.64
Imports	33.23
Foreign Interport	6.13
Total	100.00

Insofar as vessel operating costs are concerned, the operating differential subsidy provisions of the 1936 act tend to equalize the ship operating costs of CASL with those of its principal foreign competitors.

An analysis of principal vessel, voyage, and cargo handling costs is also shown on chart 17 and is summarized hereunder:

	1962	
	Per payable ton	Percent of revenue
1. Vessel operating expenses, net of subsidy	$9.09	30.6
2. Stevedoring and other cargo expenses	8.46	28.5
3. Port expenses	2.67	9.0
4. Fuel	2.35	7.9
5. Other vessel and voyage expenses	1.49	5.0
Total	24.06	81.0

The cost of stevedoring and other cargo handling amounted to $8.46 per payable ton or 28.5 percent of total revenue and was almost as large as vessel expenses net of subsidy.

STEVEDORING AND CARGO HANDLING

During the postwar years the constantly increasing cost of domestic stevedoring and cargo handling expenses have been of deep concern to CASL as it must be to this committee.

Accordingly, there is shown as chart 18 the comparative hourly cost of longshore labor on the Atlantic and gulf coasts of the United States for the period 1947 to early 1963. The cost of stevedoring labor has increased from an average of $1.93 an hour in 1947 to $5.05 per hour in 1963, an increase of $3.12 per hour or 162 percent.

CHART 17

CASL

FREIGHTER OPERATIONS

Analyzed on Revenue Dollar and Payable Ton Basis – Year 1962

VESSEL EXPENSES GENERALLY INCLUDE:	Revenue Dollar	Per Payable Ton
Wages, payroll taxes, welfare, subsistence, etc.	39.45¢	$11.72
Insurance (hull and machinery, protection and indemnity, other)	6.26	1.86
Repairs and maintenance	5.64	1.68
Stores	2.61	.77
Less: Operating Subsidy	(23.36)	(6.94)
	30.60¢	$9.09
Fuel	7.93	2.35
Stevedoring and other cargo expense	28.49	8.46
Port expenses	8.97	2.67
Other vessel and voyage expenses	5.02	1.49
	81.01¢	$24.06

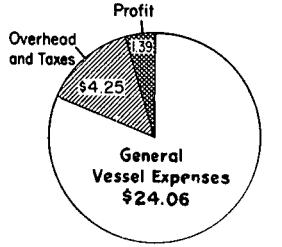
Average Revenue per Payable Ton was analyzed as follows:

	Tons	Revenue	Average Per Ton
Outbound	10,543,664	$333,423,087	$31.62
Intermediate	1,063,620	18,272,882	17.18
Inbound	5,777,994	164,638,000	28.49
	17,385,278	$516,334,192	$29.70

Source: CASL Corporate Records and Financial Statements

PER PAYABLE TON

CASL made 1,437 freighter voyages during 1962 – sailed 22,046,948 miles and carried 17,385,278 payable tons on which it realized a net profit of $1.39 per payable ton.



REVENUE DOLLAR

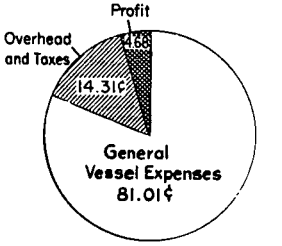
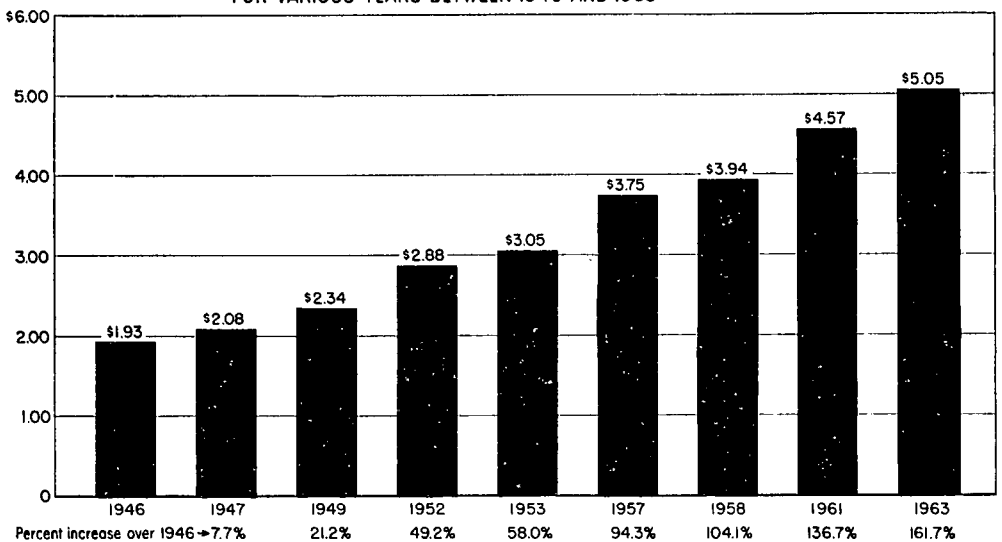


CHART 18

COMMITTEE OF AMERICAN STEAMSHIP LINES

LONGSHORE LABOR COSTS PER PRODUCTIVE MAN-HOUR, Average of Major Ports on the Atlantic and Gulf Coasts

FOR VARIOUS YEARS BETWEEN 1946 AND 1963



Source CASL Corporate Records

NOTE.—The foregoing wage cost trend is considered representative of all labor costs in cargo handling operations.

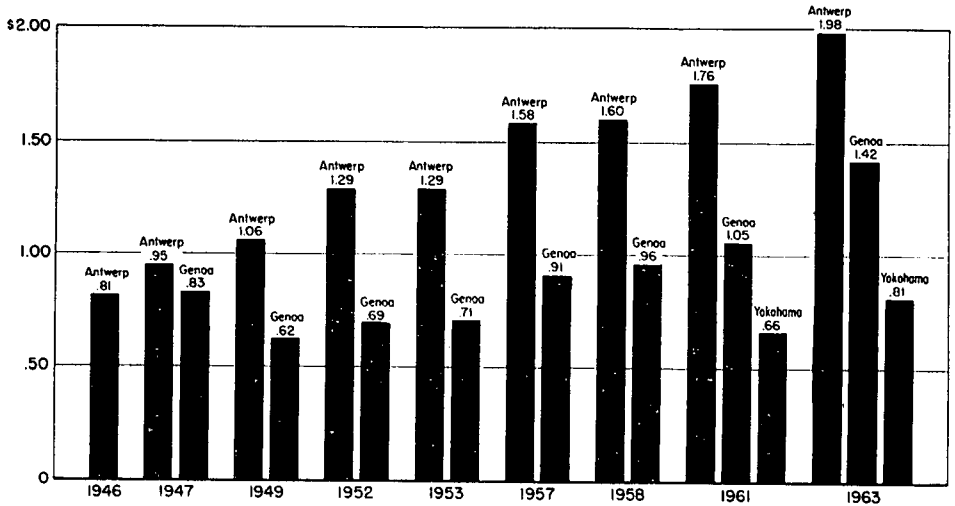
Labor costs include: Payroll taxes, nonworking guarantees, funded benefits, average overtime per hour, and straight time.

CHART 19

COMMITTEE OF AMERICAN STEAMSHIP LINES

LONGSHORE LABOR COSTS PER PRODUCTIVE MAN-HOUR, including fringe benefits[1]

Antwerp Belgium, Genoa Italy, and Yokohama Japan- Various years, 1946-1963



[1] Fringe benefits include social security, unemployment insurance, Christmas gratuities, and family allowance.

NOTE.—Labor costs include: Payroll taxes—funded benefits, nonworking guaranties, average overtime per hour, and straight time.

The same relative increase has not occurred in foreign areas and as evidence of this we attach chart 19 which shows the trend of longshore wages per hour in Italy, Holland, and Japan; these include the same wage factors as U.S. stevedoring wages. This foreign comparison shows that the percentages of increase have been substantially less than in the United States. The two countries for which the period series is available show the following increases:

	Hourly increase 1963 over 1947	
	Amount	Percent
Italy	$0.59	71.1
Belgium	1.17	144

NOTE.—Japanese series not completed; Japan was occupied and under ASCAP control during part of this period.

Source: Chart 19.

A comparative summary of the 1947 and 1963 wage cost follows:

	Per hour	
	1947	1963
United States	$1.93	$5.05
Italy	.83	1.42
Belgium	.95	1.98
Japan		.81

Source: Charts 18 and 19.

The foregoing illustrates that the present difference in the relative wage levels is of far more importance than the relative percentage increase, for this difference may affect liner rate levels in third country movements.

In the absolute sense, during these years the cost of American stevedoring labor increased by the following dollar amounts over their foreign counterparts:

	Excess U.S. cost per hour of longshore labor		
	1947	1963	Relative increase
Japan	(1)	$4.24	(1)
Belgium	$0.98	3.07	$2.09
Italy	1.10	3.63	2.53

[1] Not available.

While the full effect of recent domestic wage increases has not been reflected in the American-liner rate structures, in view of changing worldwide shipping conditions and the need for more satisfactory profit margins, it is possible that recent increases in longshore labor will have an effect on both inbound and outbound rates.

EXPORT VERSUS IMPORT CARGO

In view of the committee's interest in the relative profitability of inbound versus outbound cargo, we have made certain analyses of this type.

First, however, a reminder that during 1962:

1. CASL realized a net profit after tax of $1.39 per payable ton of cargo, and
2. CASL revenues were:

	Average per payable ton
Export	$31.62
Import	28.49
Spread	[1] 3.13

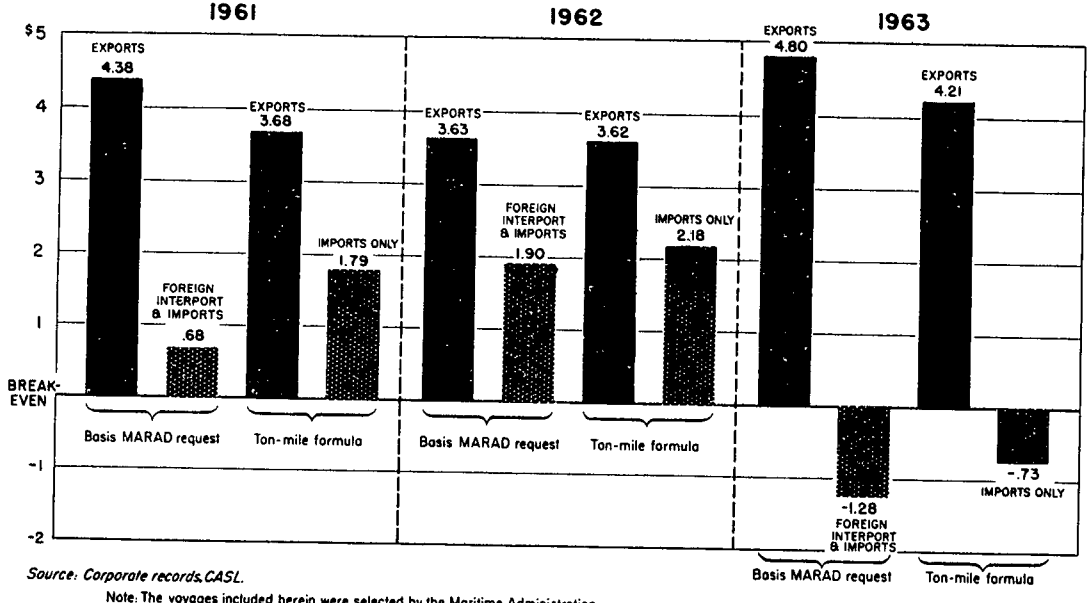
[1] As previously explained this difference is only $1.69 per payable ton on a consistent tonnage basis.

CASL

CHART 20

NET EARNINGS PER PAYABLE TON (AFTER FEDERAL INCOME TAXES) ON EXPORT AND IMPORT CARGOES

Basis requested by Maritime Administration compared with generally accepted Ton/Mile Basis



Source: Corporate records, CASL.

Note: The voyages included herein were selected by the Maritime Administration during August 1963, and consist of a total of 20 sailings each year from the Atlantic, Pacific and Gulf Coasts.

In order to illustrate the results of inbound versus outbound carryings there is summarized in chart 20 an analysis giving the net earnings per payable ton for an aggregate of 20 voyages each year during 1961, 1962, and 1963, as selected by the Maritime Administration. On these voyages three of the CASL companies, one on each of the three coastal areas, submitted breakdowns by voyage legs on the basis requested by the Maritime Administration.

It is axiomatic in steamship operations that the entire voyage is the venture. This concept stems from the days of the Phoenicians and is equally true today. Voyages are scheduled and services extended or contracted on the basis of the results of the round voyage. To separate the results by voyage legs on the basis of the Maritime Administration request produces completely meaningless and misleading results. We have informed MARAD that we disagree with both the method and results of such allocations.

There are, of course, many ways in which to arrive at profits attributable to different cargo; but arbitrarily breaking down results by voyage legs is the least realistic. The generally accepted accounting method used in all forms of transportation—both domestic and foreign—is to allocate all costs which cannot be specifically charged against cargo on a ton-mile basis. The ton-mile basis of allocation not only is accepted as yielding fair and reasonable results in most modes of transportation, but most recently has been endorsed and is required in allocating vessel expenses by the Federal Maritime Commission. (See Federal Register, vol. 28, No. 207, Oct. 23, 1963, p. 11320, sec. 7c(2)(i).)

Under this method, movements of cargoes between ports and the number of nautical miles involved in such movements is utilized in establishing ton-mile factors which are used as a basis for allocating expenses that cannot otherwise be directly allocated as between outbound and inbound cargo movements. Those expenses which can be directly allocated such as stevedoring and cargo handling costs are directly applied against cargo. Overhead, depreciation subsidy, and similar items are allocated on this ton-mile formula.

Accordingly, we have reworked these voyages on a ton-mile basis and have summarized the comparative results of the two methods on chart 20. The following gives the average revenue and net profit per payable ton of these selected voyages:

Per payable ton

	Average revenue		Net profit after taxes		
	Export	Import	Export	Import	Average voyage
1961	$32.63	$32.74	$3.68	$1.79	$3.03
1962	33.27	33.56	3.62	2.18	3.05
1963	39.05	28.09	4.21	[1] (.73)	2.36

[1] Imports show loss because of rate war.

Aside from 1963 when the results of an inbound rate war in the homebound Far East and North Atlantic trades distorted the inbound results of two of the lines, the net difference in results was relatively small as is shown below:

Excess exports over imports

	Net earnings per payable ton
1961	$1.89
1962	1.44
1963	4.94

Insofar as CASL is concerned the foregoing selected voyages are not representative of CASL's overall cargo operations, since the net average earnings of $3.05 per payable ton in 1962 significantly exceed CASL's average results of $1.39 per payable ton.

However, applying the 1962 results of these MARAD selected voyages, for purposes of weighing CASL's profits from overall operations in 1962, we arrive at the following results per payable ton:

	1962 results of selected voyages—Net profit after tax	1962 actual CASL results		
		Tonnage distribution (percent)	Tonnage distribution weighted by selected voyage results (percent)	Profit per payable ton
Export	$3.62	64.60	75.18	$1.72
Import	2.18	35.40	24.82	1.04

NOTE.—Foreign interport cargo has been ignored in above.
Source: Chart 20 and CASL files.

Therefore, even by applying the abnormal results derived from the voyages selected by MARAD and applying same to CASL results for the entire year 1962 we find that the average difference between import and export cargo profits is only $0.68 a payable ton. In view of the fact that the selected voyages were not typical of CASL's 1962 operations and other factors it is likely that the difference is less than $0.50 per payable ton.

U.S. SHIPPING AND THE BALANCE OF PAYMENTS

Mr. McNeil has heretofore commented on the important role which American-flag merchant shipping plays in earning and conserving the foreign exchange resources of the United States.

Chart 24 indicates the extent to which the net foreign-trade earnings of U.S. ship operators favorably affected our balance of payments during recent years.

In 1962 earnings from all sources for goods and passengers carried in the foreign trade amounted to about $1,330 million. This was reduced by expenditures for stevedoring, port charges, and all expenses of whatsoever nature which resulted in foreign disbursements and totaled $241 million. This amount and an item of $165 million representing charter hire for foreign-flag vessels have been subtracted from the gross foreign-trade earnings to arrive at $924 million, the amount of foreign exchange which the U.S. ship operators either earned or conserved for the United States.[9]

For the years 1954–62, these invisible exports aggregated $8,409 million or an average of $934 million for each of the years. In 1962 these foreign-trade earnings of more than $924 million, put shipping in the foremost ranks of the American export industry.

The 1962 statistics prepared by the Department of Commerce show the following as the largest exporting industries:[10]

	1962 value (in millions)
Aircraft, parts, and accessories	$1,440
Automobiles, trucks and parts including those for assembly abroad	1,160
Other electrical machinery and apparatus	878
Construction, excavating, mining, oilfield, and related machinery	828

Source: U.S. Department of Commerce, Bureau of Census, F.T. 930–E, July 1963.

[9] These figures are based on estimates supplied by the balance-of-payments group of the Department of Commerce. CASL has reservations both as to the completeness and accuracy of this data; such reservations are set forth in the notes to chart.

[10] Excluding agricultural products which are in some large degree exported under Public Law 480.

I believe that the net foreign trade revenues of U.S.-flag operators which amounted to $924 million in 1962 places the shipping industry as the third most important industry in foreign trade.

The CASL portion of these foreign trade earnings can be fixed with precision and are shown below:

CASL—1962 dollar exchange retained

	Millions
Gross revenue from vessel operations	$672,427
Less revenue from domestic operations included above	(20,577)
Net revenues from foreign operations	651,850
Port and other expenditures abroad	(125,797)
Net dollar exchange retained from foreign operations	526,053

This $526 million of CASL export dollar earnings during 1962 represents 57 percent of the total of $924 million attributable to the entire group of U.S.-flag operators during that year.

These statistics highlight a fact which is generally recognized by the major world maritime powers—that national shipping services contribute to a healthy balance of payments and constitute an important invisible export.

In the activities affecting the balance of payments it seems to me that as a nation we should recognize—as others have before us—that:

"A penny saved is a penny earned."

CASL VESSEL REPLACEMENT PROGRAM

CASL is now engaged in a major renewal of its fleet—a program which will require a total corporate investment and debt obligation of about $2 billion.[11] Each of the replacement fleet (through a combination of additional size and speed) will have about 25 percent more cargo capacity than the ships being replaced.

The status of this large replacement program—on a contract commitment basis—is shown by chart 21 and summarized as:

	Cost to CASL	
	Number of ships	In millions
Vessels actually contracted or to be contracted through 1963	117	$707.1
Contractual replacement program 1964–67	99	540.6
Balance of program—1968–75	79	698.7
Total	295	1,946.4

The foregoing is based on present cost levels and it is likely that these estimates will be significantly lower than actual replacement costs.

To correct the impression left by previous testimony before this committee to the effect that CASL had accumulated excess idle cash reserves which could be used to substantially expand the U.S. liner fleet, we have prepared a realistic analysis of CASL's shipbuilding resources.

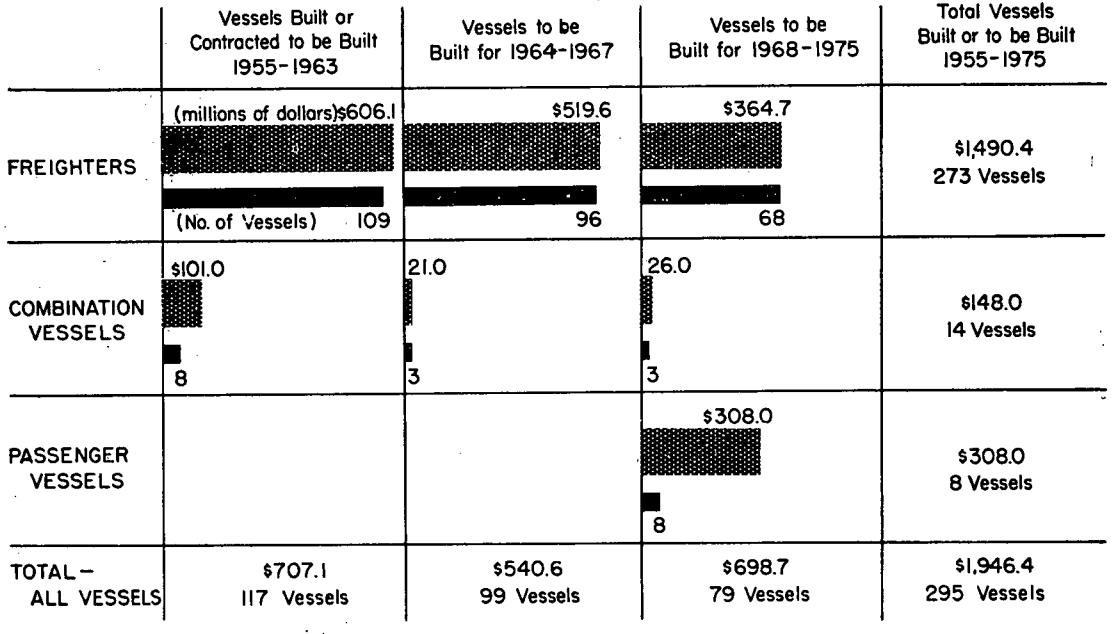
[11] The domestic cost of building this new fleet is estimated at not less than $4 billion and the total cost is estimated to be divided as follows: Government payments of shipyard subsidy, $2 billion; cash corporate commitments, $2 billion; total $4 billion.

CHART 21

CASL

INVESTMENT IN SHIP REPLACEMENT PROGRAM

1955-1975 Number of Vessels and Cost to Operator



Notes: 1. Estimated costs for vessels to be constructed after 1963 are based on current cost levels. In view of increasing cost trends both in the U.S. and abroad actual costs may be significantly higher.

2. Chart based on current contract requirements adjusted for prospective charges.

CHART 22

CASL

CASH FLOW PROJECTION OF CAPITAL AND SPECIAL RESERVE FUNDS

(IN THOUSAND DOLLARS)

Balance as at December 31, 1962			$280,000
Deposits			
Depreciation of Vessels	$213,000		
Trade in Allowance or Proceeds of Sale	59,000		
Voluntary Deposits of Earnings	27,000		
Mandatory Deposits of Earnings	21,000		
Interest Earned on Invested Funds	30,000		
Borrowed Capital	455,000	805,000	
Withdrawals			
Payments for Vessel Construction	779,000		
Repayment of Borrowed Capital	103,000	882,000	77,000
Projected Balance as at December 31, 1967			$203,000

Source: CASL estimates prepared for Douglas hearings.

Chart 22 projects CASL's cash flow for shipbuilding during the years 1963–67 and is summarized below:

	1963–67 (in thousands)
Reserve fund balances at Dec. 31, 1962	$280,000
Deposits from all sources, including borrowed capital of $455 million	805,000
Total	1,035,000
Less:	
Payments for vessel construction	(779,000)
Repayments of borrowed capital	(103,000)
Balances at Dec. 31, 1967	203,000

To show the impact of the vessel replacement program, chart 23 compares condensed balance sheets of CASL at 1957, 1962 with a projected balance sheet at the end of 1967.[12]

During the period 1957–62, property and equipment (mostly ships) increased by about $269,200,000 and was financed by—

	Thousands
1. Borrowed capital net	$106,127
2. Net reduction in reserve fund balances	19,728
3. Reinvested earnings	143,345
Total	269,200

[12] This is based on current CASL contract obligations, present cost of ships and continuance of earnings at 1957–62 level. This also presumes that Government will appropriate required amounts of shipyard subsidies.

Based on our projections, quite a different pattern will develop between 1963 and 1967. According to our best present estimates, shipping property and equipment will increase by $591 million and will be financed as follows: [12]

	Thousands
1. Borrowed capital, net increase	$354,000
2. Net reduction in reserve fund balances	156,000
3. Reinvested earnings	81,000
Total increase in property	591,000

[12] This is based on current CASL contract obligations, present cost of ships and continuance of earnings at 1957–62 level. This also presumes that Government will appropriate required amounts of shipyard subsidies.

During this 10-year period the ratio of funded debt to stockholder capital and retained earnings will have increased as follows:

[Dollars in millions]

	Capital and retained earnings	Funded debt	Percent
1957	$655	$180	27.5
1962	804	286	35.6
1967	955	640	67.0

Source: Chart 23.

The large increase in borrowed capital will burden future income and funds with debt service. At the end of 1967, the combined debt of the CASL group—both funded and unfunded—is fixed at about $640 million and accordingly even at a 5-percent net rate, interest charges during ensuing years will be increased by about $18 million over the 1962 level.

CHART 23

CASL

CONDENSED COMPARATIVE BALANCE SHEETS

December 31 of 1957 - 1962 and projected to 1967

(IN THOUSANDS OF DOLLARS)

	Actual 1957	Actual 1962	Projected 1967
Net Current Assets	$ 29,830	$ 59,763	$ 80,000
Statutory Reserve Funds and Related Items	378,863	359,135	203,000 ← *Of this amount –*
Property and Equipment	427,198	696,395	1,287,000
Other Assets	56,172	25,575	75,000
TOTAL	$ 892,063	$1,140,868	$1,645,000
LESS: Long Term Debt (largely vessel mortgages)	$ 180,329	$ 286,456	$ 640,000
Recapture of Operating Subsidy	56,716	49,946	50,000
	$ 237,045	$ 336,402	$ 690,000
Stockholder Capital and Retained Earnings	$ 655,018	$ 804,466	$ 955,000

1. $50 million is reserved to offset recapture payable to MARAD.
and
2. $87 million is reserved to pay for shipbuilding contracts executed prior to 12/31/67
leaving
3. The remaining $66 million is not earmarked but under the provisions of the 1936 Act is not available for ship replacement purposes.

Source: CASL - 1957 and 1962 - Combined Reports of Independent Public Accountants
1967 - CASL Projection have applied contract obligations so as to reflect source of funds.

An examination of the documents underlying the vessel replacement projection (chart 22) clearly proves that while a number of companies will have minimal financing problems, others will be mortgaged to the hilt and may have serious problems in meeting debt service charges unless the level of earnings improves materially. If the committee desires, CASL can furnish a breakdown by companies.

The increase of funded debt over the 10-year period ($460 million) will not be spread evenly over the CASL group and there is little doubt that a number of companies will risk their entire capital in fulfilling their contractual vessel replacement program.

At December 31, 1967, the combined reserve funds will have no uncommitted balances available for additional shipbuilding (chart 23).

While a number of companies will be able to build additional vessels by mortgaging ships already built, any suggestion that CASL is "cash rich" is simply not warranted by the facts. Further, any expansion beyond present contract obligations must be based upon the realities of being able to secure additional cargo over the 25-year life of these ships and realizing a more satisfactory rate of return on the large additional risk, as well as a willingness on the part of Government to expand its long-term contractual obligations.

TAX DEFERMENT

In view of previous testimony before this committee, I should now like to submit for the record a memorandum [13] I have prepared concerning the parity principle and tax deferment under the 1936 act. I do not intend to read this memorandum but merely to summarize my conclusions.

Basically, the 1936 act is designed to equalize the economic conditions under which qualified American liner companies operate with those of their predominant foreign-flag competitors. This cost equalization generally called the parity principle, operates through—

(*a*) Shipyard subsidies to equalize capital costs,

(*b*) Operating subsidies to equalize vessel operating costs, and

(*c*) Tax deferment to equalize opportunity for capital accumulation.

Under existing law, depreciation, vessel gains and certain operating earnings are required or may be deposited in the so-called statutory reserve funds where they remain under joint control of the operator and the United States. In effect, these moneys are escrowed, are separated from funds under direct control of the operator and are dedicated to the policies and purposes of the act. Unlike many other industries, CASL does not obtain tax deferment unless and until moneys are deposited in reserve funds established to promote our national maritime policies.

In large measure, these statutory reserve funds are intended to encourage the retention of shipping capital for ship replacement purposes. Secondarily, they may also be used to sustain essential shipping services during perods of loss. The memorandum outlines in considerable detail the manner in which these funds operate and the legislative purposes for which they were established. I have also included in this memorandum a substantial commentary on the manner in which tax deferment works.

Further, contrary to the testimony of other witnesses before this committee, I have found that while the Federal tax treatment of the CASL companies differs from ordinary taxpayers, it is not unique and a considerable volume of information on this point is included in our memorandum. In an attachment [13] to this memorandum I have outlined some of the principal tax features extended to other major industry groups which currently receive special tax treatment under the Internal Revenue Code. These include extractive industries such as petroleum, coal mining, and others; timber and agriculture; and life insurance companies. I have also included a tabulation [13] prepared for CASL by Standard & Poor's comparing the ratio of Federal taxes to pretax earnings of selected groups of companies for the 7-year period ended 1962 and for 1960–62.

Importantly, while CASL is accorded only temporary tax deferment most of these other tax treatments either exempt or exclude earnings from taxation.

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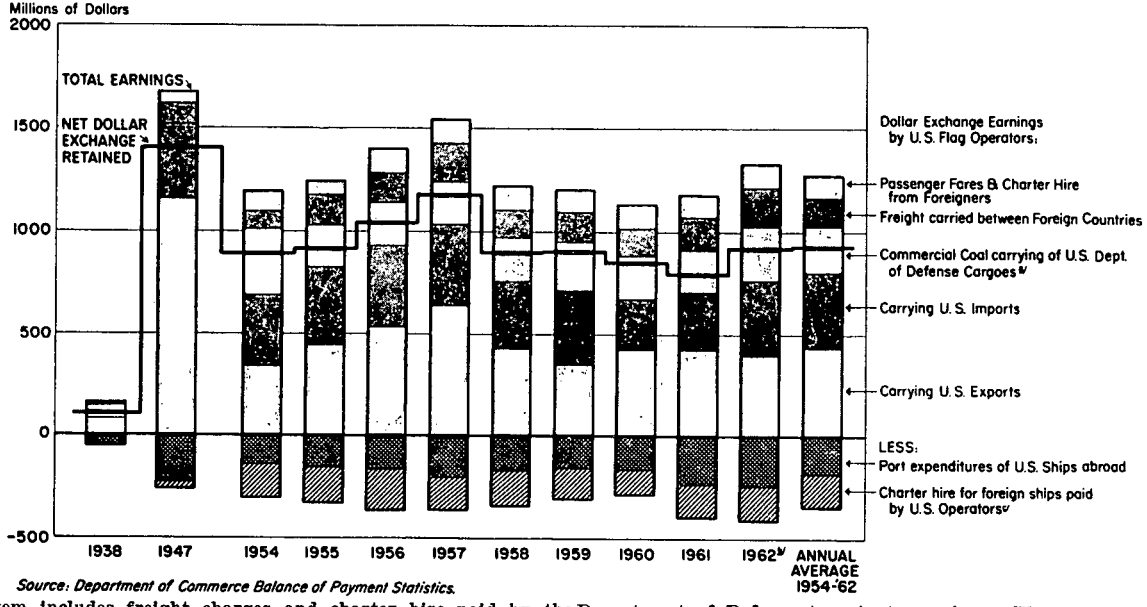
[13] The exhibit referred to is contained in the appendix.

CHART 24

DOLLAR EXCHANGE RETAINED BY U.S. FLAG OPERATORS



Source: Department of Commerce Balance of Payment Statistics.

(*a*) This item includes freight charges and charter hire paid by the Department of Defense to private carriers. These amounts, which were supplied by the Military Sea Transportation Service (MSTS), are not normally included in statistics of the Department of Commerce. The figures in the table above do not include the proprietary shipping of U.S. firms in oil, steel, and other commodities, or a credit for goods shipped on MSTS-owned vessels or other military vessels of the U.S. Government.

(*b*) Figures for 1962 are based on preliminary or estimated figures of the Department of Commerce. The Department of Commerce statistics are not necessarily precise. However, they do show the order of magnitude of the dollar exchange contribution made by the U.S.-flag fleet.

(*c*) The table includes a deduction for charter hire paid by U.S. operators for foreign-flag vessels and to some extent there is an offsetting credit for earnings on the vessels in the revenue figures. However, such earnings are not segregated in the Department of Commerce statistics, hence there may be an indeterminate debit or credit in the net dollar exchange savings to the extent that earnings on such vessels and the offsetting charter hire payments are not included on a comparable basis.

For purposes of analyzing the tax benefits of our principal foreign competitors, I have outlined the situation as it affects the three major organization types into which this competition falls and find that in each instance the principal foreign maritime powers are either arms of the State, enjoy tax exemption, or are favored with substantial tax incentives and benefits. I have also attached to this memorandum [13] a study prepared by Messrs. Price Waterhouse & Co., during 1960, which outlines some of the principal tax benefits accorded the historic maritime powers of the Western World.

This memorandum concludes that tax deferment is an essential third form of parity and without opportunity to accumulate vessel replacement funds on a basis comparable to that of principal foreign maritime powers, the purposes and policies of the 1936 act would be frustrated and large sums of Government moneys would be wasted.

For these reasons, among others, I submit that tax deferment in its present form is a moderate and temporary form of tax treatment which is necessary to sustain the merchant marine policies of the United States.

RECENT TECHNICAL DEVELOPMENTS

Over the years, many well-intentioned but generally uninformed observers have been critical of the apparent lack of technical progress of American-flag shipping in general and CASL in particular. The plain facts of the matter are that over the last several years great technical progress has been made and this has taken place in many areas and in many different ways. Some of these changes are obvious and others are not. Some are dramatic but others are equally important. Large improvements have taken place aboard ship in the following areas:

1. Speed and size: The CASL replacement fleet today is the fastest and most modern group of liner ships on the high seas.
2. Their cargo-handling gear is without doubt the most improved and efficient aboard any fleet that floats.
3. Substantial improvements have been made in reliability of plant and equipment.
4. The use of advanced types of material, including plastics, rust-resistant steels and other metals, have tended to lessen shipboard labor and maintenance.
5. Safety at sea has been increased through structural improvements as well as by widespread use of radar and other electronic navigational aids.
6. The eternal battle against salt-water corrosion is finally yielding results and new corrosion barriers such as Dimetecote and other inorganic zinc compounds give promise of substantially eliminating most of the continuous painting heretofore performed aboard ship.
7. Of real importance to our foreign trade is the aggressive and extensive program of cargo containerization and unitization being developed by CASL. In future years this program may lead to significant savings in costs of cargo handling.
8. Perhaps most importantly, a real breakthrough has recently been accomplished by a number of our companies in the field of shipboard mechanization and work rationalization. As a result of technical studies initiated by certain CASL companies, a feasible program of shipboard mechanization has been developed working with firms such as Westinghouse, General Electric, and others, which will enable newly constructed vessels to be operated with substantially reduced crews. This program was pressed by President Kennedy and we received complete cooperation in its development from the Department of Commerce and particularly from the Office of Ship Construction of the Maritime Administration.

Today, publicly for the first time, we acknowledge that shipboard mechanization is an accomplished fact and vessels are now being constructed for companies such as Lykes Bros. Steamship Co., Inc.; Moore-McCormack Lines, Inc.; the United States Lines Co., and Gulf & South American Steamship Co., Inc., which will sail the seas with a high degree of shipboard mechanization.

We are pleased to state that the principal unions heretofore involved with this group of companies, the National Maritime Union (NMU) with Mr. Joseph Curran as its president, and the Marine Engineers' Beneficial Association (MEBA), with Mr. Jesse Calhoon as their president, have contributed greatly to the future maritime progress of these United States. Those of us who have

[13] The exhibit referred to is contained in the appendix.

CHART 25

CASL

TYPICAL MANNING OF FULLY MECHANIZED vs. CONVENTIONAL VESSELS

U.S. FLAG NEW CONSTRUCTION

DECK DEPARTMENT	CONVENTIONAL	MECHANIZED
Master	1	1
Chief Mate	1	1
Second Mate	1	1
Third Mate	2	1
Radio Officer	1	1
Boatswain	1	1
Purser/Clerk	1	1
Deck Utility	3	1
Able-bodied Seamen	6	4
Ordinary Seamen	3	2
Total Deck	20	14

ENGINE DEPARTMENT	CONVENTIONAL	MECHANIZED
Chief Engineer	1	1
First Assistant	1	1
Second Assistant	1	1
Third Assistant	4	2
Electrician	2	1
Oilers	3	-
Firemen-Watertenders	3	-
Wipers	2	2
Engine/Deck Mechanics	-	3
Total Engine	17	11

STEWARDS DEPARTMENT	CONVENTIONAL	MECHANIZED
Chief Steward	1	1
Other ratings	9	6
Total Stewards	10	7

TOTAL CREW

Conventional - 47	Mechanized - 32

NOTE: The foregoing manning of a mechanized ship is the manning applicable to a basic new ship with Sustained Sea Speed - 20 knots, Cargo Capacity - 750,000 cu. ft., Reefer - 16,000 cu. ft., and Deadweight, Gross - 12,000 tons, Cargo - 10,000 tons. Special cargo features such as larger reefer capacity requires additional manpower in each case.

been in the forefront of discussions with them recognize the frankness and directness with which they reacted to this problem and on behalf of the CASL companies involved, I would like to publicly acknowledge and commend their statesmanlike approach and contribution to a solution of this important national problem.[14]

As a consequence of this breakthrough, these new mechanized vessels will have a basic crew of 32 officers and men as compared with the conventional manning of 46 officers and men for conventional vessels of this type. A detailed manning comparison has been shown as chart 25 and I shall be glad to discuss it in detail if the committee desires.

At the present state of maritime development and giving due regard to doctrines of seaworthiness and sea law which are interwoven within the international legal framework in which we operate, this 32-man crew is the level at which our companies feel that these vessels can be safely operated and maintained.

Insofar as the United States is concerned, these developments will have the following major results:

1. Reduce operating differential subsidy payments, and
2. Lowering costs of U.S.-flag shipping services will help accelerate similar foreign-flag developments; resulting operating cost reductions will lower the relative threshold of compensatory freight rates.

In any case, we believe this is a proud day for the merchant marine and in this, our first public announcement of this technical breakthrough, we hope that you will share with us our pride and satisfaction in a job well done through the cooperative efforts of labor, industry, and Government.

(Whereupon, at 1:30 p.m., the committee recessed, to resume Wednesday, November 20, 1963, at 10 o'clock.)

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[14] Some problems remain and while we have not yet reached agreement with the licensed deck officers (Marine Mates & Pilots—M.M. & P.) it is not conceivable to us that any single union will stand in the way of such a forward-looking step which will contribute so much to the long-term job security of men who follow the sea.

Further, those companies whose vessels are manned by seamen of the SIU have not yet reached agreement with the owners, but they are sanguine that this, too, will follow.

DISCRIMINATORY FREIGHT RATES IN OCEAN SHIPPING AND THE BALANCE OF PAYMENTS

WEDNESDAY, NOVEMBER 20, 1963

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

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

Present: Senators Douglas, Pell, and Jordan.

Also present: Representative Tollefson.

William H. Moore, senior economist; Thomas H. Boggs, Jr., and Donald A. Webster, economists; Hamilton D. Gewehr, administrative clerk; and John M. Drewry, chief counsel, House Committee on Merchant Marine and Fisheries.

Chairman DOUGLAS. Ten o'clock having arrived, the committee will come to order.

The panel today is Mr. S. S. Colker, economist, Washington, D.C.; D. F. Wierda, vice president, United States Lines Co.; Mr. A. C. Cocke, vice president, Lykes Bros. Steamship Co., Inc.; and Mr. H. B. Luckett, vice president, American President Lines, Ltd.

We join with the representatives of the industry in the love of the sea and in the glory of shipping and in the economic as well as the romantic qualities of life on the ocean.

As a member of a family which followed the sea from about 1720 to 1880, I think I have a deep attachment to deep water, although I must admit that I frequently get seasick when I venture out upon it.

The issue is not whether the merchant marine is or is not a fine institution. The issue is whether there are differential rates, heavier on exports from the United States than on imports into the United States and also whether rates from American ports to third countries such as Latin America are not higher on a mile or ton-mile basis than rates from ports of other nations.

We have presented over a period of time a vast mass of material and I must say thus far I have not heard the rate issue seriously disputed. But we shall await with interest any statement that is made.

Let me say I do appreciate being corrected on a point I made in my introductory statement as of yesterday. I said that on November 4, the United Kingdom-Gulf Freight Conference increased its eastbound rates by 10 percent, but then added that to my knowledge, the westbound or inbound rates have not been increased. Mr. Cocke has corrected me and I understand that a 10-percent rate increase was imposed on both directions. My statement, therefore, was not correct and I want the record to be changed accordingly.

I would like, however, testimony as to whether my second statement was or was not incorrect. I went on to say another recent example of the harmful effects of foreign-dominated conferences can be seen in the actions of the three conferences which cover United States, Manila, and Japanese trades. I said the United States-Manila Conference imposed on U.S. exporters a $10 per ton surcharge on all shipments to Manila. The Japan-Manila Conference imposed on Japanese exporters to Manila only a $2 surcharge. I went on to say that of the 18 member lines in the Japan-Manila Conference, 12 are Japanese, 6 are American. Ten of these same Japanese lines are in the United States-Manila Conference; in other words, the same foreign lines which voted a $2 surcharge on Japanese exports also voted a $10 surcharge on exports from the United States.

It is my understanding that there are representatives of the American lines which participated in these conferences, here today, so if my statement is incorrect, I would like them to correct me now. I shall pause for a moment to allow sufficient time for correction.

Mr. H. B. LUCKETT (vice president, American President Lines, Ltd.). The statement is correct. There are some reasons for it I would like to explain later on.

(Subsequently, Mr. Luckett submitted the following communication:)

AMERICAN PRESIDENT LINES,
Washington, D.C., November 21, 1963.

MR. THOMAS BOGGS,
Joint Economic Committee,
Senate Office Building,
Washington, D.C.

DEAR MR. BOGGS: During the course of yesterday's hearings, you and Senator Douglas made some statements and asked certain questions concerning application of surcharges to cargo destined to Manila. I believe the chairman said the Japan/Philippines Conference consisted of 18 member lines of which 6 are U.S.-flag companies. I was reasonably certain this was not a correct description of the makeup of that conference, but did not at the time have the facts at hand.

The Japan/Philippines Freight Conference has a membership of 34 of which only 3 are U.S.-flag operators (American President Lines, Pacific Far East Line, and States Steamship Co.). By flag of the ship operated the other member companies are:

Japanese	19
Filipino	6
Swedish	1
Italian	1
Indian	1
Korean	1
French	1
Mixed (Panamanian corporation)	1

All members are entitled to one vote and two-thirds majority is required to carry any matter except an amendment to the agreement itself which requires unanimous vote. Vast majority of the cargo moving in this trade is handled by vessels that do not participate in the carriage of cargoes from the United States to Manila.

It is suggested that the foregoing informaiton be made a part of the record of yesterday's proceedings.

Respectfully,

H. B. LUCKETT,
Vice President, Freight Traffic.

Mr. A. C. COCKE (vice president, Lykes Bros. Steamship Co., Inc.). Except this, Lykes Bros. is not a member of the Japan-Manila Conference.

Chairman DOUGLAS. I did not say you were. I merely said that there were representatives of American lines present who were members of these conferences.

I want to thank you, Mr. Cocke, for correcting me on the gulf rates.

Mr. COCKE. You are bound to have inaccuracies creep in.

Chairman DOUGLAS. Thank you.

We are glad to hear as our first witness this morning Mr. Matthew S. Crinkley of American Exports' Isbrandtsen Line. As I understand it, he is appearing before the committee as representing the American Steamship Lines group because he feels that, since Isbrandtsen was an American operator for so many years, his testimony will be somewhat different from that of the conference lines.

After Mr. Crinkley, we will hear from the American Steamships Traffic Executives' Committee.

Mr. Crinkley, will you proceed? And would you identify your assistant or associate who is here with you?

STATEMENT OF MATTHEW S. CRINKLEY, EXECUTIVE VICE PRESIDENT, THE ISBRANDTSEN CO., INC., NEW YORK, ACCOMPANIED BY R. W. KURRUS, ATTORNEY, ISBRANDTSEN CO., INC.

Mr. CRINKLEY. Thank you. This is Mr. R. W. Kurrus, attorney for Isbrandtsen. I do not appear representing the American Export-Isbrandtsen Lines. I appear representing the Isbrandtsen Co., myself.

Chairman DOUGLAS. This relationship is an interesting one, but I appreciate it.

Mr. CRINKLEY. I have prepared a statement which I would like to read into the record, after which I shall be glad to answer any questions that I am able to.

Chairman DOUGLAS. Proceed.

Mr. CRINKLEY. My name is Matthew S. Crinkley and I reside at 205 Hillside Avenue, Allendale, N.J. I am executive vice president of the Isbrandtsen Co., Inc., 26 Broadway, New York City, with which firm—and its predecessor companies— I have been employed for 33½ years. The Isbrandtsen Co., Inc., until the merger of its common carrier steamship business with the American Export Lines, Inc., New York, in June 1962, was the oldest, largest independent steamship liner operator in the world, using unsubsidized American-flag vessels in all of its liner services.

Prior to joining the Isbrandtsen organization in 1930, I was employed for approximately 10 years by A. C. Monk & Co., Inc., Farmville, N.C., a still highly active exporter of raw leaf tobacco to countries all over the world. One of my responsibilities with this company was the handling of all domestic and oversea transportation, and at the time I was a member of the Traffic Advisory Committee of the Leaf Tobacco Association of the United States.

I have been engaged in the transportation of export cargo as a shipper and as a steamship man for more than 43 years.

In my work with the Isbrandtsen organization, after 1932, I had the total responsibility for making and establishing all the freight rates applied in the various trades where we operated. At the present time I am a director of the American Export Lines, Inc., and a mem-

ber of the executive committee of the board of directors of that company.

I am appearing here by invitation and hope to be helpful to this committee in its inquiry into the imbalance between export and import freight rates on many products—the situation where freight rates to world markets from our ports are in many instances higher than freight rates applying from competing foreign countries—and certain aspects of the balance-of-payments problem.

It is my understanding that the matter of the imbalance between export and import freight rates first arose from testimony given before this committee concerning American exports and imports of iron and steel products, and I should like to first explain this particular situation.

In order to understand this situation, it must be remembered that during World War II most of the steel manufacturing facilities of Europe were about destroyed.

In the postwar reconstruction period it was necessary to import huge quantities of iron and steel products in the United States. During the years directly following the end of the Second World War, steamship operators generally had insufficient ships because of war casualties for the requirements of international trade, and wartime insurance and labor costs still prevailed. The combination resulted in high freight rates on exports of iron and steel and many other items of cargo. The American steel industry was called upon to supply the other foreign commercial markets previously served from Europe.

Largely because of the massive aid of our country, European industry was restored with the latest and most efficient equipment, including the European steel industry. Due to the great difference in European and American production costs, mostly accounted for by the much lower labor costs, European steel mills not only regained their previous foreign markets but have been and still are able to undersell many of the important iron and steel products in this country. European steel producers can ship steel products to the United States, pay ocean freight rates, plus domestic overland freight rates from the U.S. ports of discharge to the interior—the Midwest, for instance—and sell these products at lower prices than many domestic steel producers in the very cities or areas where such steel products are manufactured.

The significance of this situation is that, if the steamship lines were to offer to carry these certain U.S. iron and steel products to Europe free, domestic steel producers could still not compete in Europe and Japan, too. The apparent difference, therefore, between export and import ocean freight rates on iron and steel, seems exactly nothing in most circumstances. This explains why our domestic producers of iron and steel products have not protested the imbalance in export-import freight rates to the Federal Maritime Commission nor appeared generally before this committee.

Chairman DOUGLAS. Mr. Crinkley, granted that differential freight rates are certainly not the sole cause for the increase in steel imports and the decrease in our steel exports, does it not add to the difficulties of the steel industry? We have never maintained it was the sole factor, but is it not a factor?

Mr. CRINKLEY. Senator, I believe my statement is correct that, if the steamship lines were to offer to carry steel to Europe free, the American steel manufacturer could still not compete.

Chairman DOUGLAS. I certainly would like to place a question mark after that statement. But go ahead.

Mr. CRINKLEY. Incidentally, I do not have this in my statement, but I have here with me a discussion that took place in 1958 by Mr. Roger M. Blough, of the United States Steel Corp., which illustrates the point I am talking about, if there is any interest in it.

Chairman DOUGLAS. I would be very glad to have that.

Mr. CRINKLEY. I shall put it in.

(The document referred to follows:)

A TALK OF TWO TOWNS

(By Roger M. Blough)

For the opportunity to be with you here[1]—for your generous hospitality and for your warm and cordial welcome—I am deeply grateful. And by way of reciprocity, let me assure you—right at the outset of these remarks—that I do not come before you today as an expert on subjects economic.

An expert, as you know, has been defined as a man who is able to avoid all minor mistakes as he sweeps on to the grand fallacy. And judging from all the divergent and contradictory panaceas that are currently being offered as a cure for the present economic recession, it occurs to me that another expert with another plan of that kind—added to those which already afflict us—could set our business recovery back indefinitely.

So for the sake of your business and mine, I shall prudently refrain from unveiling before you the Blough prescription for the care and feeding of prosperity. And instead, I should like—very simply—to talk of two towns * * * two towns which are many thousands of miles apart, but which—in this shrinking world—are exerting an ever greater influence upon each other and upon the business conditions which now confront us.

And much to your surprise, no doubt, one of these towns is Cleveland.

Now a lot of things have been happening in Cleveland. Its population has grown, its industries have been expanding, and 50 new ones moved into Greater Cleveland last year. Thus its job opportunities have been growing, too; and so have the many cultural advantages which it affords. In short, then, it is a good town in which to live, to work, to raise a family, and to engage, generally, in the pursuit of such happiness as we are privileged to seek in this topsy-turvy world.

The other town I have in mind is Dusseldorf, in Germany, and, in many respects, it's a lot like Cleveland. It, too, is a great industrial center which has been growing rapidly in recent years. It is attracting new industries, providing new jobs, building new schools, adding 12,000 to 15,000 housing units per year, and enlarging still further the many cultural and artistic aspects of its community life.

True, it is only about two-thirds the size of Cleveland; but still its transportation facilities have to handle some 380,000 persons in the rush hour traffic; and the number of passenger automobiles on its streets has multiplied by 2½ times in the past 2 years. And if there remains in your minds any lingering doubt as to the similarity between these two delightful communities, let me simply quote a sentence from Fortune magazine which reports that "Dusseldorf, today, is noted for its rich and beautiful women and for its hard-working and ambitious men."

So we must conclude, definitely, that Dusseldorf, too, is a good town in which to live, to work, to raise a family and to engage in the pursuit of happiness.

Now, by a curious coincidence—which is by no means unintentional—it happens that a major industry of both of these towns is steelmaking. Steel is one of Cleveland's largest single industries; and Dusseldorf is the center of an industrial area which produces 85 percent of all the steel that is made in West Germany.

But right at this point the similarity between Dusseldorf and Cleveland gives way to a number of significant differences which provide considerable food for thought. Let's look at a few of them.

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[1] An address before the annual meeting of the Cleveland Chamber of Commerce, on Apr. 17, 1958.

First and foremost, perhaps, is the fact of the recession. In Cleveland, many steelworkers—together with many men and women from other industries—are currently unemployed; and the primary concern of all of us in this room here today is to get these people back on the job and to find markets for the products they once made. But in Dusseldorf, steel and other industries are humming along at much higher rates of operation. There is no marked unemployment, and they are managing very well with the markets for their products.

Next is the fact that virtually all of the market for Cleveland's steel lies here in the United States. At best, only a minor percentage of your steel is sold in foreign markets. But 27 percent of the steel that is made in the Dusseldorf area is exported; and these export markets for German steel have been growing considerably in recent years. So the prosperity of Dusseldorf's steel mills does not depend on the ups and downs of their domestic demand to nearly the same extent that yours does here in Cleveland.

Then, too, most of the steel mills here in the Cleveland area are modern and highly efficient; and while it is true that great strides are being made in improving the Dusseldorf area mills, it is also true that a steelworker in Cleveland—using its modern, highly productive tools—can turn out more high-quality steel with the expenditure of less time and effort than his German counterpart can. There is, however, another major difference; the weekly wage of a steelworker in Cleveland is more than three times as high as the corresponding pay of the steelworker in Dusseldorf. So the cost of producing finished steel products there is substantially lower than it is here.

Now what does all this mean to you in Cleveland? What does Dusseldorf matter to you?

Well, let me give you just one example which concerns a spool of barbed wire. This one I am talking about is a very ordinary spool of barbed wire—one of the types most commonly used for fences. It was manufactured by our American Steel and Wire Division; and it was delivered to a jobber whose warehouse is right here in Cleveland.

But, in the jobber's warehouse, it was placed alongside another spool of barbed wire that had been manufactured in Dusseldorf. That German wire was of exactly the same type, and it had come from a mill many thousands of miles away. It had been shipped from Dusseldorf to the sea, and across the ocean to New York. It had been freighted to Cleveland by rail, and hauled from the freight yards to the warehouse by truck. Yet, delivered to that warehouse, it still cost the jobber $40 a ton less than the spool of wire we sold right here in Cleveland.

Now next spring, of course, the people of Cleveland will celebrate the opening of the St. Lawrence Seaway, and Cleveland itself will become a great inland seaport of the United States.

Perhaps the people of Dusseldorf will have reason to celebrate, too. Their wire will no longer face the costly overland haul from New York to Cleveland. It can be shipped by boat direct to the docks on your Lake Erie waterfront, and thus it can be sold here even more cheaply than it is today.

Now it is certainly true there must be give and take in order to have international trade. It is also true that many Americans had jobs in the last few years because our exports of steel were considerably greater—primarily because of availability and quality—than our imports, although the historic pattern is changing. Nevertheless, had this foreign wire—some 64,000 tons of it last year—been produced at home, as much of it formerly was, it would have provided hundreds of thousands of man-hours of work in the steel industry alone and kept coming those most important pay envelopes to the many American steelworkers who formerly made that wire; pay envelopes to the tune of about $6 million.

So when a farmer comes into this city to buy wire for new fences, what is he going to do? He likes progress in America, and he is just as anxious as you and I are to buy the products of American industry and to support the jobs of American workmen. But he has his problems, too, and the high cost of building fences is one of them. Does he buy the imported wire then?

Well, a great many farmers certainly did last year—for while barbed wire is as American as blueberry pie * * * while it was first patented and manufactured right here in the United States, and while it is little used in Europe and in other countries of the world—the fact remains that more than half of all the barbed wire sold in America last year was imported from abroad.

And barbed wire, of course, is only one small, but an important, example of what is happening in steel—just as Cleveland and Dusseldorf are merely symbols

of the many steel-producing centers, at home and abroad, which are vying with each other for markets.

Out on the west coast, the industrious Japanese have bought scrap metal at premium prices, hauled it back to their mills in the Orient, manufactured it into finished products, shipped them back across the wide Pacific, and still undersold American producers by such substantial margins as $29 a ton on reinforcing bars.

To show how serious offshore competition has become, I understand cast iron soil pipe is being imported for sale at $100 per ton in California, where the price of the domestic product is $175 per ton.

And so it is with a wide variety of imported steel products which are rapidly moving into the American market, not only on the west coast, but on the eastern seaboard, at the southeastern seaports and along the gulf coast as well. For the year 1957, total steel imports into the United States were about a million and a quarter tons—considerably less than we exported, but still a lot of tonnage. And let us note in passing that the production of 1¼ million tons of steel here in America would provide direct employment for some 11,000 people, and that indirectly it would provide jobs for thousands more than that number in supporting industries.

So we must acknowledge the fact, I think, that what is happening in all of the "Dusseldorfs" of the world is profoundly affecting the welfare of the people in all of the "Clevelands" of America. But I do not wish for a moment to leave the impression that the steelworker is the only loser—or even the principal loser—of this new influx of goods from abroad. He isn't.

The same situation prevails to a greater or lesser degree in industries like lumber, chemicals, textiles, watches, and many, many others. Until very recently, for example, this Nation has been a leading exporter of automobiles; but now it is a net importer. I noticed a news report the other day which stated that Great Britain had already exported more autos in the first 2 months of this year than she did in the entire 12 months of last year.

Now why is it that foreign industries can turn out some of the very products that we make best and most efficiently, then send those products thousands of miles to our shores, and sell them in our markets at a price so low that we can no longer compete, even here at home—let alone in the faraway markets of other countries of the world?

Gentlemen, nobody loves a fact man. But there are times when facts—like spinach and taxes—must be faced with fortitude, and this, I believe, is one of them. So I would like to lay before you today, two simple and undeniable facts—however unpalatable their implications may be in certain political circles.

First is the fact that when an American consumer buys any average American product—whether it be a spool of barbed wire, an electric toaster, or a pair of pajamas—very little of the price he pays for that product is for the actual, tangible materials out of which it is made.

More than three-quarters of the purchase price goes to pay the wages and salaries of the men and women who transformed the raw materials into the finished product, brought the product to the marketplace, and sold it to the consumer. In other words, what you and I are really buying when we spend a dollar at the store, is a few cents worth of materials and more than 75 cents worth of the time of some worker or group of workers.

So much for fact No. 1. Fact No. 2 is that in almost every country of the world today, the American dollar will buy more of a workman's time than it will here at home. The same American dollar which will buy 20 minutes of working time here in America, will buy more than 60 minutes of working time in Germany, nearly as much in England, and considerably more than that in Japan.

That situation, of course, is nothing new. It has prevailed in varying degree ever since America's industrialization began. And despite this disparity in wage rates, we have been able to remain competitive in many markets because of what we call American ingenuity or know-how and because of capital investment in machinery and equipment.

By providing the most efficient tools of production that the world has thus far seen, by devising American methods of mass production, and by devoting billions of dollars annually to unending research and improvements, we have made it possible for the American worker to produce considerably more in an hour's time than his foreign competitor can. And that kept the cost of our products competitive.

But since the end of World War II a great change has been taking place. The technological revolution that began in America in the early part of the present century is sweeping across the face of the globe at a vigorous pace; and happily so. And American know-how is being exported from our shores in even greater degree, I suspect, than are the products of our factories.

Fine new steel plants are being built in Europe and Asia—some of them with American financial assistance. When United States Steel built its Fairless works only a few years ago, it was the last word in steelmaking efficiency. Today its counterpart can be found in Wales; and I am told that an equally modern, and perhaps just as efficient, plant is now operating in Poland.

Moreover, much of our marvelous machinery, like the electrolytic tinning lines that were developed and perfected by United States Steel, is now being installed in European plants under licenses which we have readily granted to all comers.

It can produce just as efficiently in Europe as it can in America; and with foreign wage rates far below the American level, these new machines can be installed, and these new steel plants can be built, at far less of a capital outlay than we, here at home, must make for our new and improved facilities.

Beyond that, too, is the program of technical assistance through which American steelmakers, for example, are helping, under Government auspices, to train technicians from India and other countries.

It is hoped that by thus exporting our American know-how, we can enhance greatly the prospects for world peace; and as long as there is any possible chance of progress in this direction, then certainly no one of us would have it otherwise.

But meanwhile the fact remains that we are rapidly losing the technological margin that we have had over other nations, and that has thus far supported American wages at levels high above those prevailing elsewhere in the world. And this situation has been gravely complicated by the fact that not only have American wage rates risen enormously in recent years, but that the wage costs in almost every American product have gone up as well.

If an American worker gets three times as much pay as a German worker, but produces three times as much steel per hour, the direct wage costs per ton remain about the same in both countries and the porducts of the two workers are fairly competitive in world markets. That is obvious.

But when the wage costs in the American product keep rising, as they have, farther and farther above those in the foreign-made product, the area in which the two can still compete begins to shrink alarmingly; first in foreign markets, then in our own coastal markets, and finally, even-farther inland from our shores.

And as our market shrinks, so too does the number of jobs that remain in American industry. That is obvious also; and while I do not know how much of our unemployment today can be attributed properly to the inability of American workmen to compete, wage-costwise, with their foreign competitors, there can be no doubt, I think, that this is a significantly important factor in the present business recession.

Certainly it accounts for the growing clamor for high tariffs, rigid import quotas, and a general scuttling of the trade agreements program; a clamor that comes these days not only from a number of distressed businessmen, but equally loudly from a number within the ranks of American labor.

Now while I realize that some of you here in this room may disagree with me profoundly on this point, I must say to you frankly that increased tariff protection, in my opinion, is not the basic answer to this problem.

If experience can teach us anything, then certainly we have learned that the power to erect tariff walls or other trade barriers is not one in which America enjoys a monopoly. We can shut foreign imports out of our markets only by shutting our exports out of foreign markets. And if we look at markets in terms of people, as we must if we are realistic about it, let us remember that only 6 percent of the world's population would be inside our tariff wall, while the other 94 percent would lie outside it. And don't forget that the raw materials so necessary to our Nation's production may also recede beyond our reach.

Nor can I see the wisdom of spending millions and millions of dollars to build a seaway that will transform Cleveland, Detroit, Chicago, and other Great Lakes cities into seaports, and then building tariff walls around those cities to keep their ports in idleness.

Presumably such a policy might, as a temporary expedient, restore a substantial number of workers to their jobs in manufacturing industries; but it would also throw out of work a large part of the 4½ million other Americans who gain their living in foreign trade. So in the end, we should merely have exchanged one group of jobless Americans for another.

Tariffs, then, provide no permanent solution, as I see it.

An equally doubtful solution to our difficulties, I think, is to found in the realm of direct Government subsidy.

We know today that ships built in American shipyards at American wage costs can compete with foreign-built ships only because our Government subsidizes American construction at the expense of all of us as taxpayers. It supports these high wage costs out of taxes primarily because the maintenance of a shipbuilding industry here is essential to the security and the defense of the United States.

But many other industries are equally essential to our national defense and security—steel, oil, chemicals, motors, and dozens and dozens of others—and should the day ever come when these, too, must be subsidized by the Treasury, the resulting burden would soon bankrupt the American taxpayers.

So it seems to me that recognizing the value of such expedients as tariffs, quotas, subsidies, controls, freezes, and all of the other "ways out" sooner or later we will have to face up squarely to one undeniable fact: That American workmen today are pricing themselves out of the market; or to put it even more accurately, that America, as a nation, is costing itself out of the market.

There is, I believe, an inexorable law which can never be defied, nor escaped, for long. I won't call it an economic law, because, as I say, I am not an economic expert. But it is a fundamental law of business, and every businessman knows it. That law is: Compete or die.

There is no other choice. Twist, turn, squirm as we may, in the end we are going to have to compete with our foreign friends or else resign ourselves to the fact that America will soon be on its way to losing the industrial leadership it now possesses.

Yet if we are to be competitive and remain competitive, we have today the greatest opportunity and the greatest potential market for the products of our people that we have ever had in our history. With European production and standards of living rising at a rapid rate, millions of Western Europeans are eager to buy for themselves and their families all the luxuries of life that have become so commonplace to our people here in America—the very products that we have so long excelled in producing. This is also true in other areas of the world.

To serve these new markets and to be able to compete with foreign producers, a number of American companies have established factories abroad where the combination of American productive efficiency and low wage costs provides a solution to at least some of their problems. Indeed I have seen figures recently which show that a growing number of these companies are shipping their foreign-made products back here to the American market.

And this, of course, is a logical and natural development dictated by the present disparity in wage costs at home and abroad. But carried to its ultimate extreme, it, too, becomes self-defeating, because without a job, the American workman has no money with which to buy anything, and there is then no market in America for the products of these factories overseas.

So again we come back to the one, inescapable fact that nobody wants to face: that the only practical way to keep foreign-made products from overcrowding our markets here at home is to compete on equal terms in quality, in price, and in service; and that the only practical way to reach foreign markets successfully is to keep our costs, which means primarily our wage costs, competitive.

And right here is where I think that the American workman is being misled in a big way by some of his most vocal and most powerful leaders.

He is being told that his wages in recent years have not kept pace with rising output per man-hour, that he is entitled to more than he is getting, and that he can get it without increasing the wage cost in his product.

Such statements, unfortunately, are not even within shouting distance of the truth, either in the steel industry or in industry as a whole.

The latest official reports of the U.S. Government show that during the first 6 years of the present decade, average hourly earnings in all manufacturing industries, as a whole, went up more than 35 percent; while output per man-hour in these same industries rose less than 19½ percent. Thus wages have gone up more than 80 percent faster than output per man-hour in these 6 years alone.

Now raising the standard of living for everyone in this country by producing more of the goods which everyone needs and wants is one thing. But raising the cost of producing these goods, so that the producer and his employees are placed at a competitive disadvantage, is quite another thing. And when those who profess to speak in the interests of the American workingman advocate raising wage costs as a means of increasing consumer purchasing power, they are

seeking to perpetrate what is, in my opinion, the most dangerous hoax of our times.

They know that higher wage costs can only be met by higher prices, so in the end no increase in purchasing power results.

Meanwhile the ability of American workmen to compete with their industrious counterparts abroad is further diminished, thus shrinking the market for American products and diminishing the number of available American jobs.

To me, then, the perpetrators of this hoax are labor's one-way philanthropists. They would take jobs away from our workmen here and give them to workmen abroad. And that kind of labor philanthropy is my idea of economic crime on the waterfront.

Let me sum it up this way:

We are all striving, as I have said, to get our people back on their jobs by finding markets for the products of their labor. The only way to find those markets is to make our costs competitive and to keep them that way. How then can this be done?

Well if it is done, then we as businessmen must do everything in our power to maintain our technological advantage over foreign producers by replacing as rapidly as we can every obsolete and obsolescent machine, technique, and facility we have, with new, better, and more efficient methods and facilities. That is our part of the job.

Government, too, has a vital role in this task as I see it. If we are to maintain our technological superiority, then Government must certainly reexamine some of our antiquated and misbegotten tax laws which discourage investment, penalize the productive use of wealth, and treat as taxable profits what is really the excess cost of replacing our wornout tools and equipment.

But despite all that we and the Government may do to promote our competitive position, the final decision rests with the American workingman, and with his delegated leaders. For the fact remains that in the last analysis the only one who can fully protect the American workman is the American workman himself. If he can keep wage costs from mounting while rising productivity brings our total costs into competitive balance with foreign costs, then truly I believe that he can expect to see the greatest era of prosperity our Nation has ever known.

But if, on the other hand, he permits the vast economic and political power that he now possesses to be used to force wage costs ever higher, then I am very much afraid that the great St. Lawrence Seaway—when it opens next year—will be nothing more than a one-way street—westbound.

Mr. CRINKLEY. It may be reasonably asked, however, why otherwise there exists a large imbalance between export and import freight rates, and a partial answer is rather simple. Ocean freight rates in each trade have been established on many items of cargo which at some time or other have moved in large volume but where changing conditions have eliminated the movement of such cargo entirely. The export movement of noncompetitive iron and steel products from this country is only one example of this phenomenon. I would like to stop and say I saw some figures on greatly increased steel imports into this country. It showed what the volume had currently been and what they are just recently.

Chairman DOUGLAS. We have introduced these figures.

Mr. CRINKLEY. It is my understanding that a great portion of the steel being exported now is a part of the aid program. Previous to about 2 years ago, when the policy was changed requiring purchases for aid program materials to be made in this country, 90 percent of the steel that was in the aid program was bought from Europe. It is now being produced here.

So the point that I am making is simply that the steel industry in this country is not competitive at all with that of Japan and Europe.

Chairman DOUGLAS. In other words, that the decline is even greater than indicated by our figures?

Mr. CRINKLEY. Yes. The commercial exports, if you brought it down to that and not the aid program, are very, very minor.

Ocean freight tariffs carry many such items at rates previously established, where no requests have been made for adjustment. Some years ago I had to prepare some material for a hearing before the former Federal Maritime Board concerning the movement of cargo from the United States to Europe and the freight rates involved. I found that the conference tariffs carried some 2,500 to 2,700 separate items of cargo, whereas the actual number of cargo items moving in that trade totaled less than 1,000. Many of these rates are nothing more than paper rates, with no cargo moving under them. This is precisely the situation as to freight rates to Europe—and Japan—on iron and steel products, but the question still remains concerning the discrepancies between export and import rates on other products manufactured in the United States and also in Europe, and possibly Japan.

Chairman DOUGLAS. If these are purely paper rates, there certainly would be no problem in equalizing them.

Mr. CRINKLEY. There would be no problem if the rates were even taken out of the tariff in many cases where they are not moving. There is no place in them. It has just been left in there by inattention.

Chairman DOUGLAS. Why not equalize them if they do not matter? Of course, sometimes the rates are so high, we all know this in connection with tariffs, that it does not pay, in the case of tariffs, to import goods and the freight rates might be so high that it does not pay to export goods. In other words, the absence of trade does not indicate that the rate is unimportant. The rate indeed may be so important as to shut off all movement.

Mr. CRINKLEY. Well, that could be and I think it is an important problem, as I shall point out in a little bit in my statement. But there are many, many items represented in the tariff there that simply represent cargoes that do not move any more, for changing conditions and otherwise. The freight rate does not particularly bear on it.

As to many of these products, the U.S. manufacturers who formerly exported to Europe and other countries, in the immediate postwar period found themselves priced out of the market by increasing labor and other costs—including taxes—here, and have in hundreds of cases built or purchased plants abroad from which they serve not only European markets but other foreign markets as well, previously supplied from this country. Moreover, in many, many cases these American companies are importing into this country the products manufactured in their European factories. In many cases the same situation and explanation applies which I have described as to the imbalance between export and import freight rates on iron and steel products.

However, there are certainly an important number of products manufactured here and abroad where a real imbalance betweeen export and import freight rates does prevail to the disadvantage of American exporters, and the matter does call for careful and searching consideration. Why does this situation exist?

First, let us consider the position of the steamship liner operators. It is generally known that on most of our essential foreign trade routes there is a considerably larger flow of export cargo as compared with import cargo, so that the steamship lines generally have a great amount of unused or free space in their ships on the return voyages to the United States.

If a European exporter proposes a worthwhile volume of business to the steamship lines at freight rates showing at least some profit, the

steamship lines would generally be receptive to requests for establishing such rates. This is exactly the same as applies in our domestic transportation by the railroads, truck, and water carriers, regardless of the competitive changes producers may experience. I do not see how common carrier transportation suppliers can do otherwise, and I do not for a moment think the answer to the problem is for steamship operators to undertake the responsibility for maintaining the same freight rates inbound as outbound.

In my opinion, the steamship operators, especially the American-flag steamship lines, have an obligation to give American exporters the maximum consideration in establishing reasonable rates which will allow American products to compete in world markets.

American exporters are certainly entitled to as much consideration as the steamship lines give to European or other foreign exporters seeking to do business in the United States. Generally, however, it has been the traditional practice and approach for carriers to expect shippers to request needed rate adjustments, and to justify such requested adjustments. I might add at this point that in my experience the European and Japanese exporters are generally more aware of the impact of freight rates on competitive prices than American exporters, and they seem more vigorous in their efforts to obtain freight rates established or adjusted to meet their requirements. This question should not be confused by talk of return ballast voyages to the United States for that situation prevails mostly as to tramp ships carrying outbound full shiploads of bulk cargo, such as grain, coal, and the like, but not generally to the common carrier steamship lines.

The most significant problem—and, of course, this is my opinion—is the basis on which freight rates are established by the common carrier steamship lines the world over. This problem of the establishment of ocean freight rates also applies to the second phase of your inquiry; namely, whether freight rates applying on U.S. exports to many foreign markets are justifiably higher than from competing foreign exports to the same foreign markets.

I have recently seen a published statement by a group of European steamship lines to the general effect that the answer to this particular question is that it costs much more to load and to handle cargo in our ports than it does at European ports. It is perfectly true that there is a large difference in the cost of loading and handling cargo between American ports and European ports, but it is clear from studies that I have made that the differences in freight rates on many products to many foreign markets are much greater than could be explained by reference to loading and handling costs.

I am sure that the studies which the committee has conducted have reached this same conclusion. Differences in loading and handling costs between United States and European ports would not justify nor explain any difference between export and import rates between the United States and Europe, and these differences do not supply the whole answer as to freight rates to common world markets.

Chairman DOUGLAS. Mr. Crinkley, imports have to be unloaded in American ports, just as exports have to be loaded; is that not true?

Mr. CRINKLEY. That is my point, that the difference there has nothing to do with the imbalance on freight rates between the United States and Europe, because the same set of costs is involved in both cases.

In the tramp trade, which might be called contract carriage as opposed to common carriage, freight rates are based strictly on the law of supply and demand, calculated on exact and easily discernible costs. As to the common carrier steamship lines the world over, freight rates are based simply upon what the traffic will bear. This is an old adage and it is indisputably true. Steamship line operators will always tell you that they would never establish freight rates which would prohibit the cargo from moving, and they really mean it—but, unfortunately, they often achieve that undesirable result for a variety of reasons.

In the first place, most steamship liner operators—common carriers—say they cannot predetermine the cost of carrying a ton of cargo on their ships—that this can only be done after the ship sails, and the figures vary from one sailing to another. Of course, these steamship people are wrong in that theory.

To illustrate, the rail carriers—and other domestic common carriers, I am sure—in this country can establish to several decimal points the cost of carrying a ton of freight 1 mile, but whether a given railroad makes a profit or not, naturally depends on the volume. Now, bearing in mind that perhaps the majority of steamship people say they cannot establish in advance the actual cost of carrying a given product, since an average outbound sailing may include several hundred cargo items, then it is obvious that their approach to the problem of ratemaking is dictated by the oft-repeated maxim, "What the traffic will bear."

When the statement is made that ocean freight rates are based on "what the traffic will bear," it often carries some opprobrium, but if the steamship lines went further and carefully studied the competitive situation as to every cargo item, this approach might be justifiable because then there would be only freight rates which would guarantee the movement of cargo. The truth is, however, that a great many factors affect the competitive price of goods in foreign markets other than freight rates.

I can tell you that in our company we established a workable cost basis for carrying cargo, and I have had to decline literally hundreds of requests for rate adjustments because the rate required for the exporter to sell was considerably below our costs—and a common carrier has no moral or other obligation to conduct his business at a loss so that someone else can make money. Indeed, if a common carrier carries one item of cargo at below cost, he is penalizing other items of cargo which are carried at remunerative rates.

On the other hand, I am glad to say that in thousands of cases over the years our company could and did make rate adjustments, sometimes quite substantial adjustments, in order to enable an American exporter to enter, maintain, or expand a foreign market served by our vessels. I should add that we were not necessarily moved by patriotic or philanthropic considerations, but, rather, that we realized there could be no export cargo unless and until export sales had been made by our actual would-be customer.

Chairman DOUGLAS. Mr. Crinkley, were you members of any conferences when you made this adjustment?

Mr. CRINKLEY. No, sir.

Chairman DOUGLAS. In other words, you were outside the conferences?

Mr. CRINKLEY. Yes, sir.

Chairman DOUGLAS. If you had been a member of an appropriate conference, what would have happened to you?

Mr. CRINKLEY. We might well have proposed a rate adjustment and then it would have been up to a vote between the members as to whether the recommendation was followed or not.

Chairman DOUGLAS. Suppose you were not granted this?

Mr. CRINKLEY. If we were a member of the conference, so long as we remained a member, we could not do other, of course, than to quote the established conference rate.

Chairman DOUGLAS. What would influence the decision of the conference?

Mr. CRINKLEY. I think that very often, they are influenced by information that rates from competing countries are lower than the rates from here. I think that is one of the prime bases on which conference lines make adjustments of freight rates. But there are many other considerations that come into making an adjustment. If there is a worthwhile volume of business involved, if it is a type of cargo that the lines would prefer to carry—there are many considerations that come into making an adjustment on freight rates, quite a number of them.

Chairman DOUGLAS. Do you have any knowledge of special rates being made by shipping firms that are in conferences?

Mr. CRINKLEY. No, sir; during the time that I was conducting my company's business, we were never a member of any conference. I never sat in a conference meeting.

Chairman DOUGLAS. And you did not pay any attention to gossip in the industry?

Mr. CRINKLEY. Yes; I suppose competition being what its was then, we listened to the truth and gossip and everything else we could hear about it.

Chairman DOUGLAS. But very properly, you do not believe in passing on gossip as fact?

Mr. CRINKLEY. Oh, no; not as fact; certainly. It should be labeled properly.

Chairman DOUGLAS. Do you think the facts could be established?

Mr. CRINKLEY. Facts as to what?

Chairman DOUGLAS. As to rebates or special rates granted to special shippers as kickbacks?

Mr. CRINKLEY. I think the work done by the Celler committee there was rather informative in that direction. That was the only time I have ever seen anything undertaken where the facts could be ascertained. They had this power to subpena the papers and they did so and there it was.

Chairman DOUGLAS. And they showed special rates and rebates, did they not?

Mr. CRINKLEY. They did; very much.

Chairman DOUGLAS. Go ahead.

Mr. CRINKLEY. In connection with this statement, I might say I received only Friday afternoon a transcript of the testimony that has previously been given here and I do have two or three comments I would like to add.

One is that despite the fact that in the case of Manila, which you mentioned, quite a number of the Japanese lines are in the conference

from Japan to Manila and also from the United States to Manila; as a general thing, there are relatively few lines that operate both from the United States to given foreign markets and also, let us say, from Europe to most of the foreign markets. They are usually entirely different lines.

Chairman DOUGLAS. Are you speaking of the South American trade?

Mr. CRINKLEY. South America or Asia or Africa or the Mediterranean, and so forth, as a general thing.

Chairman DOUGLAS. But on the other hand, it is true that every ship that comes into the United States from Europe has to go back from the United States to Europe; is that not true?

Mr. CRINKLEY. Yes, sir.

Chairman DOUGLAS. And, therefore, lines which are in westbound conferences are also in eastbound conferences.

Mr. CRINKLEY. I was not speaking of that particularly, but third countries, for instance from here to the Mediterranean. Most of the lines that operate from here to the Far East, except the Japanese lines from Japan, are not the operators from European countries. The point, of course, is that it is not one group of lines making the rates from United States to foreign markets and that same group of lines is making the rates from Europe to the foreign markets.

Chairman DOUGLAS. The committee has never said that.

Mr. CRINKLEY. The committee has said the word "discrimination" against American exporters.

Chairman DOUGLAS. It simply raised the question as to whether in the conferences the American lines were not outnumbered and outvoted by the foreign lines. It is not a question that one set dominates all conferences, but virtually in every conference, the foreign lines had greater voting power than the American lines.

Mr. CRINKLEY. I thought I saw some references to the facts that the lines in the United States might be discriminating against American exporters. To discriminate, there must be one party that is doing the discriminating.

Chairman DOUGLAS. We are not going into the question of comparability. We simply point out that you get largely identical memberships between lines going from the United States to a given set of ports, whether in the Pacific or the Atlantic, and the lines coming back to the United States.

Mr. CRINKLEY. That is true. It is generally the same lines.

Chairman DOUGLAS. I am not saying there is a group of English or Norwegian shippers that dominate in the South American trade, as in the Atlantic trade, or Japanese lines which dominate on the west coast of South America.

Mr. CRINKLEY. All right; I was just making the point, there. Then I will pass it.

Chairman DOUGLAS. Very well.

Mr. CRINKLEY. In my opinion, as a matter of fact, it has seemed to me that some of the members of this committee in some statements, according to press reports, have demanded that steamship lines generally, and American steamship lines in particular, should base their freight rates on what the traffice would bear, eliminating consideration of the cost factors involved; but, again, in my opinion this is not the answer.

Chairman DOUGLAS. I would like to know who said that.

Mr. CRINKLEY. What I am getting at is has it not been the tendency for it to be said that the American lines, in their rates to the third markets, should quote the same rates as from Europe?

Chairman DOUGLAS. What I have said is that on the basis of miles or distance, the European rates were much lower than American rates per 1,000 nautical miles.

Mr. CRINKLEY. Yes, sir. I would like to make this much comment about that particular factor, and that is this: The distance a vessel travels, of course, means in sailing time a definite item of cost. But that factor is largely disregarded in ratemaking. One, rates are based on what the traffic will bear.

Two, the question of mileage is not as important as it might have otherwise been for the simple reason that there is so much congestion in so many world ports that in a great many trades, the steamship vessels that are operated spend more time in port than they do sailing.

Chairman DOUGLAS. Is there more congestion common in American ports than in European?

Mr. CRINKLEY. No; there is more; not in European or American, but in Indian, South American, other ports.

Chairman DOUGLAS. But both American and foreign lines have to go to those ports, so there is no more of a cost factor on the American lines than on the foreign lines.

Mr. CRINKLEY. I am just saying that in a lot of trades, the steamships spend more time in ports than they do in sailing time. But the fact is that the competitive factors in most trades, and not only in foreign commerce but domestic, disregard to some extent the mileage factor. Every railroad working from Chicago to New York, and there are about seven or eight, quote the same rates, though the mileage over different railroads is very substantial.

I was just reading in this week's Business Week that the American Commercial Barge Line Co. has just bought a big trucking outfit in Georgia. This is the point that struck my eye:

> A possible more immediate reason for the deal would be to break a longstanding railroad practice, barges are often so much the cheapest method of bulk transportation that it would seem to pay a shipper to use them even if he were 150 miles from the waterway. But the railroads have generally countered this by charging higher rates for short hauls to river ports and lower rates for long hauls paralleling waterways.

In other words, even in our domestic transportation, the mileage factor, while it is a factor, is oftentimes disregarded when competitive factors outweigh it. I am just bringing to the attention of the committee there that this would seem to be a very logical and very important cost item, but because of the nature of things, it is not so calculated from the trade.

Chairman DOUGLAS. I thought from your statement that you had believed that rates should be based more on cost and less on what the traffic will bear.

Mr. CRINKLEY. That is very, very true.

Chairman DOUGLAS. Why do you object to our trying to get figures on comparative cost?

Mr. CRINKLEY. I am not objecting to it whatsoever. I am just calling your attention to the fact that while the mileage seems to be an all-important factor, it is disregarded largely on our foreign trade, because the rate is based on what the traffic will bear.

Chairman DOUGLAS. Should it be? If you say we shall get as much as we can, this means that the hard bargainer will get better rates than the easygoing person, and you say the Americans tend to be more easygoing than the foreigners.

Mr. CRINKLEY. Yes. But I say even in the United States, where everything is regulated, the mileage factor is largely disregarded, often, in the rate situations as they are put up. It is just one of those things. That is my only point in bringing it up.

Chairman DOUGLAS. As a northerner, I was always a defender of the South on the matter of comparative freight rates because I felt the South was being discriminated against in railway rates, that the rates from Nashville to Chicago were higher than the rates from Chicago to Nashville. I made myself very unpopular in my State by urging that there should be a greater equalization of freight rates. I have been accused of being somewhat critical of the South. I want to say that this web of railway rates which was imposed after the Civil War to my mind directly injured the South. It has been partially reduced, but it needs to be reduced still further.

One of the discouraging things was when Ellis Arnold started his campaign for equalization of freight rates, the railways of the South threw their influence against the equalization of rates and we got resolutions from the southern chambers of commerce protesting against the efforts which we were making to help them. This was one of the strangest things I have ever heard of. And we are running up against much this same tendency now.

We are trying to defend American exporters and with the exception of a few who have come forward, most of the have remained quiescent.

Mr. CRINKLEY. Yes; that is very true.

Chairman DOUGLAS. We will.

Mr. CRINKLEY. You cannot ask a steamship operator to establish a freight rate which is required by an exporter to sell goods when, for instance, his production costs are completely out of line with corresponding costs of production in competing countries. This simply cannot be done, subsidy or no subsidy.

Then can anything be done in this direction by steamship lines in order to help in the maintenance, promotion, and expansion of our export trade? I submit that the answer is a big "Yes."

I practically strong-armed the late Mr. Hans Isbrandtsen to employ me in 1950, because I was tremendously attracted to the concept of an independent, nonconference steamship liner operation. The Isbrandtsen organization actually maintained such an operation through the years, until 1962, when our common carrier liner business was merged with the American Export Lines, Inc. However, in 1956, and on many occasions after that, I publicly stated our company would join, and fight to join, if necessary, every steamship conference operating on the trade routes we serve, if three things were to be done by the conference.

1. That someway were found to insure that conference members would keep their promise to adhere to the uniform rates and practices established by the conference.

Chairman DOUGLAS. In other words, that there be no kickback and no special rates given.

Mr. CRINKLEY. That is right.

Chairman DOUGLAS. But you have said you had no knowledge that such differential rates or kickbacks were being given.

Mr. CRINKLEY. But I have it from the outside, not from the inside.

Chairman DOUGLAS. You suspected it but did not know it.

Mr. CRINKLEY. No; a little more than that. For a long time we retained the same rates as the conference from Singapore to New York on rubber. We quoted the same rate. We never got a pound of rubber and we were always pounding the shippers, and they said, you are the highest man in the trade. I was not in conference, but I was quoting the same rate as the conference. They were saying that nobody pays the conference rate.

Chairman DOUGLAS. I would say that that was fairly good evidence.

Mr. CRINKLEY. But I could not get them to make me a written statement to that effect that I could do anything with.

Chairman DOUGLAS. But you never got any rubber?

Mr. CRINKLEY. That is right.

Chairman DOUGLAS. The big American rubber companies were the exporters; is that not true?

Mr. CRINKLEY. Not all were American firms.

Chairman DOUGLAS. Do not most American companies get natural rubber from Singapore?

Mr. CRINKLEY. Three or four of the big ones have their own rubber plantations. Most of them buy from importers in New York.

Chairman DOUGLAS. That is not true of all of them, though.

Mr. CRINKLEY. No; for instance, Goodyear has their own plantations. They grow their own rubber and ship it.

Firestone does and some others, but except for three or four of the biggest——

Chairman DOUGLAS. But you never got any rubber, despite the fact that your rates were the same?

Mr. CRINKLEY. That is right. I thought it might be because we did not belong to the conference, although we were charging conference rates, but we were told by the shippers our rates were too high. We reported this in some cases.

Chairman DOUGLAS. Has there been any change since you went in?

Mr. CRINKLEY. The American Export and Isbrandtsen are members of the conference from Singapore to this country.

Chairman DOUGLAS. That is not the answer to my question.

Mr. CRINKLEY. My company is not operating there now.

Chairman DOUGLAS. Oh, it is American Export. It is a very interesting relationship, a Siamese-twin relationship with a cordal connection between the two, but denial of entity.

Mr. CRINKLEY. No; we own a certain percentage of the stock in American Export Lines and that is it. We sold them our business and our ships.

Chairman DOUGLAS. Is it true that you have acquired control of American Export in turn?

Mr. CRINKLEY. A percentage of the ownership in stock is subject to change at any time. It is now 26 percent.

Chairman DOUGLAS. Is the stock widely distributed?

Mr. CRINKLEY. Yes.

Chairman DOUGLAS. So 26 percent tends to be a controlling interest.

Mr. CRINKLEY. It tends to be at this time, but I do not know for how long.

Chairman DOUGLAS. You do not know how long you are going to be on top.

Congressman Tollefson?

Representative TOLLEFSON. I would like to ask Mr. Crinkley a question with respect to carrying rubber from Singapore.

You made reference to the fact that perhaps the conference system was in effect then and there?

Mr. CRINKLEY. Yes, it was.

Representative TOLLEFSON. Were you quoting the published high rate?

Mr. CRINKLEY. No; the contract rate.

Representative TOLLEFSON. The lower rate, in other words?

Mr. CRINKLEY. The lower rate; yes, sir.

Representative TOLLEFSON. Just one other question, Mr. Chairman, if I may.

Chairman DOUGLAS. Yes. You are very welcome.

Representative TOLLEFSON. You made reference to the subject of rebates. Could you say whether or not the foreign operators were guilty of effecting rebates more than the American operator?

Mr. CRINKLEY. No; I could not say that.

Representative TOLLEFSON. Any difference at all?

Mr. CRINKLEY. I do not know. As a general rule there—you see, we were competing against a group, competing against a conference. We were told by receivers that they were getting something we would not be able to identify on a particular line.

Representative TOLLEFSON. I neglected to follow up on the conference contract. Did you get the impression that the rubber exporters had signed up their contracts with the American operators?

Mr. CRINKLEY. A good many of them had; yes, practically all of them.

Representative TOLLEFSON. Therefore, they could not very well ship by Isbrandtsen?

Mr. CRINKLEY. No; the people who were buying the rubber might have arranged a shipment with us, however.

Representative TOLLEFSON. Thank you.

Chairman DOUGLAS. At the bottom of page 11, you stated that your company would join, and fight to join if necessary, most conferences.

Mr. CRINKLEY. In most cases, it is very easy, but there have been cases where conference membership has been denied, though not recently, or conditions have been put on some members which have created some hardship.

Chairman DOUGLAS. In these conferences, is the provision one line, one vote?

Mr. CRINKLEY. I think so; as I understand it, it is.

Chairman DOUGLAS. Regardless of tonnage? It is not a weighted vote?

Mr. CRINKLEY. No, I do not understand that it is.

Chairman DOUGLAS. To go ahead, you stated the three conditions; you discussed the first one. Let's go to the second.

Mr. CRINKLEY. Second. That conference lines fully realize they had no business until and unless goods were sold by exporters—and considering their huge investment in ships—the conference lines should allocate funds to provide effective facilities to promote foreign trade

and commerce. I am not referring to ordinary solicitation of cargo from exporters as the promotion of foreign trade and commerce.

Chairman DOUGLAS. What are you referring to?

Mr. CRINKLEY. I say if a steamship operator calls on an exporter to get those goods, he is not acing to promote the foreign commerce of the United States.

Chairman DOUGLAS. I see.

Mr. CRINKLEY. Third. That conference of lines operating on American trade routes keep themselves informed on freight rates applying from competing countries to the foreign markets served, and, where necessary and possible, that they make freight rate adjustments which would assist in the maintenance, promotion, and expansion of our foreign commerce, without necessarily waiting for the exporter to plead for rate adjustments.

I would like to comment briefly on these points, since it seems to me that they represent, at least in principle, an effective way that the steamship lines can assist in carrying out the purpose of the Trade Expansion Act of 1962, and in improving our international balance-of-payments position. These purposes, I understand, are the real basis of the worthwhile inquiry being conducted by this committee.

First, as to our company giving up its independence by joining conferences, I should explain that since the early 1950's the world has owned and built far more ships than the international commerce of the world requires.

In 1956, Stanford University published a report of certain studies concerning ocean shipping and steamship conferences. The report carried the information that only 56 percent of the space available in the world's fleet was being utilized. This illustrates quite vividly the oversupply of ships at that time. Following the closure of the Suez Canal in October 1956, there was a tremendous temporary boom in shipping. More orders were placed for the construction of new ships than in any other period in history, including wartime orders, of course, and more orders were placed than were justified by economic conditions.

Although the shipping market became depressed in mid-1957, these new vessels continued to be delivered in larger numbers in the years 1957 through 1959. I might say that, in 1957, more commercial ships were delivered than any other peacetime year in history, and 1958 was only slightly behind it.

Also, there is a definite trend for many countries as a matter of nationalistic pride or prestige, to buy or build ships when there is no economic need for them. This is especially true in several so-called underdeveloped countries whose economies are beginning to develop, largely with economic aid provided by the United States. Under such conditions, competition has not only been hectic but it has reached extremes unfavorable to industry, and it has created enormous instability of freight rates. One undersirable result has been that many conference lines have resorted to giving rebates or other malpractices so that the conference line attempting to abide by the conference agreement has taken a beating.

Chairman DOUGLAS. Well, now, just a minute ago you said you had no evidence to indicate that special rates or kickbacks were given. Now you come out and make this charge.

Mr. CRINKLEY. That is because I have not made it clear. In competing for business, we have often found that despite the fact we may have offered a lower rate, we still could not get the business, because the buyer of transportation, whether the shipper or the clerk, told us he could ship for lower than any rates we were willing to quote.

Chairman DOUGLAS. Is it not true that shippers have to agree that they will send all their shipping by lines in the conference? Is that not true?

Mr. CRINKLEY. Well, the conference uses what is known as the exclusive package, the conference contract, or bill rate system. If the shipper wants to get a rate that he can use, he has to sign a contract to ship only with the conference.

Chairman DOUGLAS. Is this not comparable to the block booking which was declared illegal in the motion picture industry, whereby a theater would have to guarantee to take the entire run of the pictures of a given movie-producing company in order to get the good pictures?

Mr. CRINKLEY. I think there is some similarity. I might say in connection with this conference contract system, that was a matter of very exhaustive hearings a few years back and legislation was enacted to legalize it, but supposed to set up a good number of safeguards against the exporters and importers being damaged.

I will come to that in just a moment, something that touches on that. We will see if that might answer the question.

Senator JORDAN. Mr. Chairman, I am surprised to find that such an excess capacity of shipping space exists. Mr. Crinkley, could you give us an idea how much of the present shipping space facilities are obsolete?

Mr. CRINKLEY. If you are talking about the world's fleet, I have no way to measure it at all. It takes a very exhaustive study to get at it. But if we see a number of ships in the trade and we know something about the flow of cargo, we know whether all of those ships are actually required to ship the cargo or whether a lot of them are running with empty space.

Senator JORDAN. If only 60 percent of the space is being utilized, it would be well to know how much of the space needs replacement by reason of obsolescence.

Mr. CRINKLEY. There is bound to be quite a lot of it. That would include, of course, 1956, and by this time many ships have been scrapped and many are laid up because they are obsolete. In the meantime others have been built and are coming along. I would think unless there is some temporary situation, the situation is that far more ships still exist than are required for foreign trade. If this Russian wheat deal goes through, there will probably be a temporary shortage of ships. But over any period of time——

Senator JORDAN. A shortage of ships as there was at the time of the Suez crisis?

Mr. CRINKLEY. Yes, sir.

Chairman DOUGLAS. Would you suspend operations for a minute?

Gentlemen, there is an important vote in the Finance Committee coming up, of which I am a member, to which I must go. I am going to ask that the hearing continue and that Senator Jordan preside. I am sorry I have to leave, but I shall be back as soon as I can.

Thank you, Senator.

Mr. CRINKLEY. A remedy must be found.

Some shipper witnesses have seemed to advance the theory that such a competitive situation is desirable and helpful, that competition in rates is more important than stability. Such an unhealthy situation in shipping as here described is never desirable, however. Indeed, it is not desirable in any form of transportation or else we would remove domestic regulation over the truck, rail, and water carriers.

I believe it is well recognized that our country cannot regulate rates in foreign trade unilaterally without the agreement and acceptance of the other countries involved, and at this time it seems to me that such international agreements are extremely unlikely. The United States can, however, regulate trade practices and we have done so in certain respects with the enactment of the Shipping Act in 1916, and section 19, Merchant Marine Act, as amended. Freight rates that are exorbitant, or below the cost of handling, constitute unfair trade practices and are detrimental to the commerce of the United States. They can now be dealt with by the regulatory authority under existing law. We have urged for years that the former Federal Maritime Board and its predecessor agencies exercise their statutory authority in this direction.

Senator JORDAN (presiding). Has that statutory authority ever been used?

Mr. CRINKLEY. Never been used completely. It has been used in part.

Senator JORDAN. You do recommend that it be used under certain circumstances?

Mr. CRINKLEY. Yes; I think we have provisions in law which would enable them to deal with situations that may arise.

The real question, however, seems to me to be how to make conference lines abide by their agreements, especially when the supply of ships exceeds the demand. This will continue to be a pressing problem for the foreseeable future. The only really effective remedy in some trades has seemed to be the creation of revenue or cargo pooling arrangements, although in certain trades even pools would not be effective.

Representative TOLLEFSON. Mr. Chairman, could I inquire before he goes too far?

Senator JORDAN. Certainly.

Representative TOLLEFSON. Do you mean to say that our country cannot regulate rates in foreign trade, but it can regulate practices?

Mr. CRINKLEY. Yes. I mean by that, that since 1960, for instance, we have had legislation that authorizes us to deal with such things as rate discrimination and rebates and those things. We have exercised that continuously. No foreign government has ever really protested it.

Representative TOLLEFSON. So you take the position——

Mr. CRINKLEY. But to regulate rates, to set the level of rates, I say that cannot be done except by agreement with the other countries involved.

Representative TOLLEFSON. Do you think our Maritime Commission, for instance, ought to try to set rates?

Mr. CRINKLEY. No; but I say also that if the rates are exorbitant, I think that is an unfair trade practice and I think they have the authority to deal with that.

Representative TOLLEFSON. I think that has been generally conceded.

Mr. CRINKLEY. It might well be said pools would in general naturally restrict the number of sailings to the flow of cargo, but even so this would basically be better economics than for all the operators in a given trade to provide for more ships than were required, with none able to cover their overall costs.

Now it is rightly said the pool is really ultramonopolistic. Of this there can be no question. However, in this country we allow complete monopolies in the public utilities field as to electricity, gas, water, streetcars, buses, railways, pipelines, telephone, telegraph, and so on. It is true that those utilities are strictly regulated as to the prices they may charge the public, and that such complete regulation of freight rates in international trade is beyond the jurisdiction of any one country.

However, with the power and authority to regulate trade practices, which I believe inherently and necessarily includes the power to regulate unfair rates, high or low, and if the regulatory authority is given adequate and necessary personnel and facilities—which is the responsibility of Congress—then I believe the interests of the American exporter can be reasonably protected. In other words, I firmly believe that a major part of the problem which the investigations of this committee have uncovered lies in making the Federal Maritime Commission an effective regulatory agency. Neither it nor its predecessor agencies has ever been such up to now, but it does appear that there is now a new approach within the agency and a new philosophy toward regulation.

As I have stated, I believe it is absolutely essential that steamship lines, in their own business interests, must take all steps possible to promote our foreign trade. Much progress has been made in this direction in the last few years and I know that more will be. Our company developed the concept of mobile trade fairs—exhibits of goods in exhibition containers, which we had constructed and provided to shippers, and carried to ports around the world and exhibited successfully to and for the benefit of American exporters and ourselves. I expect the American lines generally will pick up this development for use in all foreign markets. I know more and more of the American lines will utilize other means and facilities for developing and promoting foreign trade.

You see, I am developing the theme there of under what conditions a company will develop and abandon certain trade. And now the matter of freight rates. As I have said before, the lines cannot be expected to do the impossible and always establish freight rates which will always guarantee export trade. However, if the steamship conferences, and especially the subsidized American lines, would adopt the policy of keeping fully informed as to freight rates to foreign markets applying from competing countries, and go the practical limit in keeping the American exporter competitive as to freight rates, in my mind that will go far, and it will be as much as I can see at this time that can be done to solve the problems of imbalance in export-import freight rates and freight rates to foreign markets generally.

I feel I must add just a bit as to the operating subsidy paid American lines on essential trade routes of the United States. The justifica-

tion for such subsidies, such as guarantee of service, defense facility, and so on, will presumably be covered by others. I want to say that if a realistic position is taken as to freight rates as I propose, then the American lines must be subsidized, at least until the utopian day when labor in all the world is paid the wages prevailing in the United States, or there is a change in technology whereby the ratio of labor to other expense is reduced.

It is important to consider that a breakthrough on technology, however, might enable the American merchant marine to attain the goal of carrying a substantial portion—long determined to be about 50 percent—of the waterborne export and import foreign commerce of the United States. This in itself would, of course, provide a large measure of control of ocean freight rates by the American lines and would enable American lines to move more efficiently and effectively in protecting the interests of American exporters. This would be most important when you realize that out of about 400 steamship lines operating in and out of American ports, approximately 360 of these liners are foreign-flag carriers. It should be further noted that the increased volume of business which undoubtedly would follow such a breakthrough in technology should take care of any labor displaced by automation, and so on, meaning the number of people employed on the American ships should actually not be reduced by such developments.

It is, of course, essential to appreciate that operating subsidy paid to an American operator by no means guarantees a profitable operation, and if any overprofiting results, our Government can recapture all of the subsidy payments made. Unfortunately, there is little or no recapture under today's condition. However, the point is, if you think that American lines should lead the way in providing competitive freight rates for our products to world markets, then under today's costs and expenses a subsidy is a "must." Without American-flag lines, I believe that our exporters would be in an almost hopeless situation in competing in world commerce.

Representative TOLLEFSON. Mr. Chairman, could I ask a question there?

Senator JORDAN. Yes.

Representative TOLLEFSON. I think you made a significant statement when you say, "Without American-flag lines, I believe that our exporters would be in an almost hopeless situation in competing in world commerce."

Would you enlarge on that a little bit?

Mr. CRINKLEY. What I am getting at is I believe the American lines do—what I have been told and I believe—is that they do exercise a considerable influence in the conference establishment of freight rates. Because, of course, the American subsidized lines have a particular obligation toward the American exporter and importer, incidentally, as far as that is concerned, but if there were no American lines in any of these conferences, it seems to me that it sets up a position there which would be a quite different thing than it is when among these different conference representations there are American lines.

Representative TOLLEFSON. Suppose we did not have any American merchant marine at all? Suppose we did not have any American-

flag ships? Would the American exporter be somewhat at the mercy of the foreign-flag operator?

Mr. CRINKLEY. That was the situation in the First World War. It may be recalled we had practically no merchant marine before the outbreak of World War I. When that occurred, the European countries called their own ships in to supply their own wartime requirements. The few ships that were left, the rates skyrocketed to perfectly enormous heights. As a matter of fact, a good deal of American foreign trade disappeared because there were no ships to carry it.

Representative TOLLEFSON. As a matter of fact, did not the rate jump about 1,100 percent?

Mr. CRINKLEY. In some cases, it did jump that far. What I am saying here is the presence of American lines not only guarantees service, but also guarantees the American exporter that there will be somebody there in the groups which will look after his interests.

Representative TOLLEFSON. All of which points up the value of the American merchant marine, aside from national defense aspects?

Mr. CRINKLEY. Yes; I am just saying if you want the American lines to take the lead in getting freight rates, there must be help in the way of subsidies. If you do not pay the subisdy with these competitive conditions, I do not think the American lines can operate. If they do not operate, then you are in the hands of the foreign lines.

Representative TOLLEFSON. One other question: As I understand your statement with respect to subsidies, subsidies in themselves are no guarantee of profit to the American operator, are they?

Mr. CRINKLEY. They certainly are not.

Representative TOLLEFSON. Isn't the word "cargoes" the key to their profit?

Mr. CRINKLEY. It certainly is.

I should now like to comment on the balance-of-payments problem as it affects every steamship operator, and especially those operating American-flag ships. Obviously, the use of American ships keeps really important numbers of dollars in this country—others have and will comment on this. I want to talk about the balance-of-payments problem as it affects the exports of the United States, out of which activity we steamship people earn our living.

President Kennedy recently pointed out our foreign trade now is about 4 to 4½ percent of our national production, where it was, over a long period of years, about 10 percent. You gentlemen have undoubtedly come up with many answers to this dilemma; but at the risk of duplication I would like to present comment based on our experience.

First of all, it should be borne in mind that in recent years American exporters have been forbidden by our Government to trade with more than half the world. And this applies to ordinary, peaceful, commercial trade in nonstrategic products and materials. We speak of straining to the limt to expand our foreign trade, but more than half the world is closed to us, but not to our competing allies. This is one of the really big problems. Maybe the proposed Russian wheat deal will tend to open the door—maybe not—but you must agree we have almost an insuperable problem in expanding our foreign trade with less than half the world to trade in. As operators of American steamships, we are unavoidably and directly affected, and we live in the hope this problem can be solved to the general public interest of our country, as well as the world.

In addition to having part of the markets of the world closed to our commerce, we are also confronted with the disturbing fact that hundreds of American companies have bought or built factories in other countries in order to manufacture and supply goods to those countries. Many foreign markets previously supplied from the United States, and which constitute an enormous amount of potential export business, have been lost to this country. This development has resulted in the loss of thousands of American jobs for our people. It is a most substantial factor in the balance-of-payments problem. It has meant what appears to be the permanent loss of export business important to all who earn their living on export trade, including the steamship industry.

Next, our exports have been substantially decreased by our aid program which has been directly responsible for providing production facilities in developed as well as underdeveloped countries which have the sure and certain effect of stopping or decreasing the flow of American exports.

A further important factor in our decreased exports and growth of the balance-of-payments problem is the ever-increasing costs American producers are continually facing, and the fact that producers in competing countries are able to profitably underquote substantially on a wide range of products previously moving in large volume in U.S. export trade. I cannot see any ready solution for this particular problem but reduction of costs by automation and research toward new methods, new products, more efficiency, and a harder effort toward economy. It may be said everybody knows these things, but I do not agree. I have seen too much export business lost because the American exporter has not cut his costs to the extent possible. I have seen an exporter lose a foreign market because he did not get competitive freight rates, with never an effort on his part to get the steamship lines to consider an adjustment.

A few years ago I wrote a number of U.S. labor leaders to ask their attention to the effect of ever-increasing labor costs on the competitive price of American goods in foreign markets. I received the reply that the remedy was in foreign labor costs catching up to the United States level, but I cannot figure that out since, meanwhile, the level here is ever advancing. It strikes me the same as the younger brother looking forward to the time he would be as old as his older brother.

I have corresponded with officials of our Government as to the paradox of our decreasing exports in the face of our aid programs providing production facilities for other countries, and governmental encouragement to American producers to put up factories in other countries, all of which compound the problem.

The reply I received was that when these underdeveloped countries are developed, and they are making the goods formerly exported from here, the living standard of the people of those countries will so increase that they will demand and buy an increasing volume of consumer goods produced here. I hope they are right; I don't know.

Certainly, all these matters demand study and a possible reevaluation of past policies and practices. I believe this committee is working toward that end and I shall certainly be tremendously interested in your report on this inquiry.

Now, in conclusion, just a few words on the shipping aspect of the problem.

Any reduction of shipping subsidies under existing conditions, in my opinion, would result in serious damage to the American export trade, with American exporters left in the hands of foreign shipping.

I consider Congress must provide the Federal Maritime Administration and the Federal Maritime Commission with sufficient personnel and facilities to permit the effective administration of our present shipping laws, and which will go far in protecting the interests of the American export trade.

The American steamship lines must take the lead in adopting new policies and attitudes toward American shippers, their freight rate problems, and the overall promotion and expansion of American foreign trade.

Senator JORDAN. Thank you, Mr. Crinkley.

Congressmen, do you have some questions?

Representative TOLLEFSON. I might ask a question with respect to his last statement.

In your next to the last paragraph, you say that Congress must provide the Federal Maritime Administration and the Federal Maritime Commission with sufficient personnel and facilities to permit the effective administration of our present shipping laws.

Is there any danger, Mr. Crinkley, of the Maritime Commission, one, becoming overly bureaucratic and overly regulatory, to the point where the regulations will be so onerous on the foreign operator that he will just pull out of the conference?

Mr. CRINKLEY. I have a rather compound answer to that question.

No. 1: I suppose that if any regulatory body were given unlimited facilities, the tendency would almost humanly be for them to get into this stage where they would want to overregulate. But it is my personal opinion that the maritime authority has never, so far, had sufficient personnel to give reasonable administration to the laws.

Representative TOLLEFSON. Is it not a fact that under our recent dual-rate law, approved by Congress a couple of years ago, there have been and continue to be considerable objections on the part of foreign operators?

Mr. CRINKLEY. Yes; that is the next thing I would like to get to, if I have finished what I have to say. I think the Maritime Commission needs more people to provide reasonable regulation. I do not think they have ever had it, since I have been working in the steamship trade.

Just to show you, it takes too confounded long to get any formal proceeding dealt with. It may get up to years fooling around with trying to get these things through.

Representative TOLLEFSON. You are not going so far as to say the maritime industry should be regulated to the same extent or degree that the railroads or buses or trucks are regulated?

Mr. CRINKLEY. No. I do not think it is possible, because of the international character of the business, but the regulation which is prescribed, that should be administered. I do not think they have enough people to do it.

Representative TOLLEFSON. What do you say to the many objections and protests made by the foreign operator?

Mr. CRINKLEY. I have the answer to that one and I will give it in this way. I think it is perfectly obvious that one of the best shipping markets on earth is in the American trade routes to and from this country. I just do not believe that a good many of these lines that have built ships for this trade, because we say, "You have to toe the line there and do right," if you put it that way, that they are going to leave this market. It just does not lie within reason, to me.

I would say this, that in setting up the regulation to legalize the contract rate system, there were a lot of conditions that really mean a lot of concern to all the steamship lines, whether they are foreign or American. That is the other side of the coin. There is a lot to be done, and some of it so severely restricted freedoms that they have had over the generations that they have done everything in the world there to try to disrupt that, protesting that they cannot live under it and so forth. But my feeling has been right along that first of all, they ought to make a trial of it. If they tried and then could not live under it, then they ought to try to propose some amendments and some changes.

Representative TOLLEFSON. Just to pursue this a little further, do you think the American operator could compete successfully with the foreign operator if it were not for the conference system?

Mr. CRINKLEY. I think the place has got to the same general comparative stage that trucking had gotten in, say, 1935–40. Theoretically, you want to have competition in prices. That is the theory that American industry has been built on. Competitive free enterprise has been the keystone. But, for instance, in the trucking industry, again about in the late nineteens, by the time you got up to 1935 or 1940, there was just a chaotic condition. Everybody that wanted to go into the trucking business and could make a downpayment on a truck, could go into the trucking business. If they did not make it, rates were cut. That kind of thing got to a place where it was just absolutely necessary to put it under regulation.

I think all of us feel that the less regulation, the better. But there are situations that require regulation. I think the shipping industry in foreign trade requires regulation on the practices that occur.

Representative TOLLEFSON. I would agree with you, Mr. Crinkley, that the shipping industry requires some regulation. I would only quarrel with you on the degree or the extent of the regulation.

But my basic last question has to do with the ability of the American operator to compete in international shipping if the conferences were done away with. There have been suggestions that maybe the American operator ought to get out of the conferences and operate independently of them. Do you think that is possible at all?

Mr. CRINKLEY. Well, I have said that myself, that there was a question there, for instance, about the American subsidized lines being in conferences. The choice or the altenate, however, at this time has reached the place there that I think the conferences are really necessary. They were found to be in 1916. We have not fought the conferences as such through the years. We have been a great opponent of the conference contract rate system, but we have said we are not opposed to the conference setup, because this country in its legislative history has found it has the stability that is required.

But the methods used, coming down to this question, there comes a time when some choice must be made between competition and stabil-

ity. I think it is a hard choice to make, but I think when the conference contract system is permitted at all, you have made that choice, in effect. You have decided that stability is the more important thing.

Now, with the amount of tonnage that is floating around the world today, if the American lines are not in the conferences and the conferences broke up, I think we would slaughter the innocent, so to speak. Some very, very serious conditions would come up in the way of rate wars; the strong would survive and the weak would die and eventually it would settle down, I think. But in the meantime, there is no telling what damage might be done.

Representative TOLLEFSON. I agree with you in thinking that conferences are essential. I go further than a lot of people, I think they are absolutely essential so far as American shipping is concerned.

Some people think that because we have operating subsidies, the American operator is on a competitive basis with the foreign operator, and that is not true, is it?

Mr. CRINKLEY. No.

Representative TOLLEFSON. Because all differences between cost are not subsidized. The American shipper's cost is always higher. If he went out of the conference, then he would be at a competitive disadvantage with the foreign operator, because his costs are higher, irrespective of subsidy.

Mr. CRINKLEY. If you take just the one item of overhead, the difference between maintaining a staff in New York and Japan is enormous.

I made a statement about the American subsidized lines being required to join a conference, or being required not to join. But in the same statement, I put the conditions up under which our company felt it would join the conferences on the basis of things that had developed after that stage. At the same time, I made the one statement, I made the other, that we were prepared to join conferences, we were convinced the time had come when the stability factor was overriding the other, provided that the lines involved would give decent attention to the rates required by the American exporters.

Representative TOLLEFSON. I think you have made a contribution, Mr. Crinkley, not only in your appearance here, but in the decision of your company to join the conference. I think you have been the most successful independent American operator in the last half century—maybe not quite that long. But you have finally reached the conclusion that the conferences are a must, is that true?

Mr. CRINKLEY. Yes, I reached the conclusion before that. I found that the stability was worthwhile. The thing about it was that they had set up rather suspicious conditions under which they let them organize and operate. I say the law was never administered fully. I never thought the contract system they were using at the time was legal, and we fought it a long time.

Representative TOLLEFSON. I would say you did fight it very well.

Mr. CRINKLEY. Thank you.

Representative TOLLEFSON. Thank you, Mr. Chairman.

Senator JORDAN. Senator Pell?

Senator PELL. I have no questions.

I regret not being here for your testimony, but I enjoyed reading it.

Senator JORDAN. Mr. Crinkley, I want to question you on one point. You said you have seen an exporter lose a foreign market because he did not have competitive rates, without any effort on his part to get the steamship lines to consider an adjustment.

Earlier in your statement, you made a similar reference and went on to say that the foreign shippers were more aggressive in fighting for lower rates than American exporters. To what extent has this contributed to our loss of foreign markets?

Mr. CRINKLEY. I think it has been a fairly important factor. You see, in England, for instance, being an island, you have read many times that England has to export or die. That is true of many of those other countries—Japan has to export or die. In this country, our domestic market has been so huge that even today there are thousand of firms here that could very well be in export trade that are not bothering with it at all. But those that are in it, I have had people that were shipping things, and we have been after the business. Then they will tell me, "Well, we have gone out of that business." I would say, "Why?" The answer would be, "Well, we cannot compete any more."

I would stir around and find the freight rate was so high that was one of the important factors. But this fellow didn't know anything about it, never turned a hand to do anything about it. The line would not understand what the situation was unless the shipper raises the point. I think the education of shippers there, or any organization of shippers that could keep him informed would be good.

Senator JORDAN. I think that point needed to be emphasized.

Mr. CRINKLEY. I think so.

Senator JORDAN. Mr. Boggs, do you have any questions?

Mr. BOGGS. I would like to ask two, Mr. Chairman.

Mr. Crinkley, I believe you listed the conditions under which you would join conferences. Do you feel those conditions have been satisfied by the present conferences?

Mr. CRINKLEY. Not completely, but I think that progress has been made in those directions.

Let me say this: I spoke, in explaining that further, about the development of promotion of foreign trade. We got into one effective way of promoting foreign trade, but a good many of the other lines had been at that time and are now pursuing still other methods of promoting foreign trade. I think the whole American steamship industry is really alive and alert to the absolute necessity of their undertaking to do what they can in that direction, too. Progress has been made there. I do not think there is any doubt about it.

The first condition, I do not know whether too much progress has been made or not. I know there is a different concept taking place now as to regulation. The conferences are talking about putting up neutral bodies, for instance, to more effectively police their own members. There has been more work done in that general direction than there has been done in my memory otherwise. So I think progress has been made.

On the last point, the very inquiry being carried on by this committee shows that this question is now coming to the front as to competitive freight rates. We have been saying that since 1956 as a condition for joining the conference. We have been working at

it all back through the years. But now here this important committee is actually examining this question and I think the whole consciousness of the steamship industry and the exporters themselves are being aroused that more attention shall be given to this factor.

I think that the lines serving the American commerce are perfectly ready to make reasonable adjustments within the framework of what they can do when they are requested by shippers as a general thing. I do not mean every rate request for adjustment will get it, but so many times where a shipper says we are losing on trade because of competition from another country and the freight rate is thus and so, there is a tendency to give consideration to that type of request. I think progress is being made in that direction. I would like to see more.

Mr. Boggs. Do you think conferences should supply some of the shippers with information about the rates from some of the foreign countries to others? How does an American exporter—particularly a small exporter—really know what the rate is from Europe to South America?

Mr. Crinkley. As a general rule, it may depend on the method he is using. If he has a distributor competing with another distributor using European goods, and the price gets out of line, as a general fact the distributor would know the factors that bear. The easiest place to get freight rates is the point of destination and you can tell where the shoe pinches better there, too. Otherwise, if a man is pricing on exporting—you are doing exporting and you are not competitive all at once and you have reduced your prices as much as you can, the next thing for a competent man to do is examine transportation costs.

It is the same thing in this country. If I am seeking something in a given market, and it looks like I am getting out of step with competition, I am going to reexamine everything that comes into it, transportation costs as well as anything else. That is where a lot of American exporters are not very well educated. They do not seem to realize what the significance of it is.

Mr. Boggs. Just one more question. When Isbrandtsen line operated as a major independent, approximately how much lower were its rates than most conference rates?

Mr. Crinkley. We have had a lot of debate about that. It varied all the way up from 0 to 50 percent, depending on a number of factors.

As to the rates where we made adjustments, where we had direct requests from shippers, where they wanted either to maintain or enter a market, it had no particular relation to a conference rate and a good deal of our business was done on that basis. A good deal of our business otherwise was got in competition with the conference, at the rates of about 10 percent under the conference.

Mr. Boggs. You had similar cost factors on your ships as the conference lines did?

Mr. Crinkley. Yes; and if the freight rates had been based on costs alone, we could not have existed 1 hour. We got no subsidy and the American costs were highest in the world. We could not have lasted 1 hour if the freight rates had been quoted as those in the foreign countries—mainly because it would have been lower than we could possibly have operated.

Mr. Boggs. You could operate below the conference rates?

Mr. CRINKLEY. Because the rates would be what the traffic would bear. If it had been based on actual costs, we could not have lived. We could not have lived at the same rates based on actual cost factors because we were not subsidized.

Mr. BOGGS. What you are saying is that if the conference rates were based on cost, they would be considerably lower?

Mr. CRINKLEY. Considerably lower than an unsubsidized American operator could live with? I do not know if it would be lower than that. In some cases it would be, some cases it would not.

What I am saying is here we have a group of subsidized American lines and foreign lines, with costs far under ours. We are an independent with nonsubsidized, high-cost tonnage. I am saying we could not have existed at the same rates for an hour if all of those rates had been based, for instance, on foreign costs.

Mr. BOGGS. But most of your rates were based on costs?

Mr. CRINKLEY. No; cost plus profit.

Mr. BOGGS. But cost was the basis, not what the traffic would bear?

Mr. CRINKLEY. Yes.

Mr. BOGGS. Under that condition, you had rates which ranged from zero to 50 percent lower than conference rates?

Mr. CRINKLEY. Yes; not too many at the 50-percent range. I do not want to give a distorted view of it there. But when the rate was too much out of line, we could quote profitably a rate. There have been cases there.

Mr. BOGGS. That is all.

Senator JORDAN. Thank you, Mr. Crinkley. We will take a 5-minute recess.

(Short recess.)

Chairman DOUGLAS (presiding). Gentlemen, may we come to order, please?

We are very happy now to welcome representatives of the American Steamship Traffic Executive Committee: Mr. Colker, an economist from Washington; Mr. Wierda, vice president of United States Lines Co.; Mr. A. C. Cocke, vice president of Lykes Bros. Steamship Co., Inc.; H. B. Luckett, vice president of American President Lines, Ltd.

I understand that Mr. Wierda has the main statement for the committee.

Mr. WIERDA. Yes, sir.

Chairman DOUGLAS. We shall be very happy to have you proceed first.

STATEMENT OF D. F. WIERDA, VICE PRESIDENT, UNITED STATES LINES CO.; ACCOMPANIED BY H. BOYCE LUCKETT, VICE PRESIDENT, AMERICAN PRESIDENT LINES; A. C. COCKE, VICE PRESIDENT, LYKES BROS. STEAMPSHIP CO., INC.; AND S. S. COLKER, ECONOMIST, WASHINGTON, D.C.

Mr. WIERDA. My name is Donald F. Wierda, vice president, freight traffic, United States Lines Co., One Broadway, New York City, appearing as chairman of the American Steamship Traffic Executives Committee. This committee is composed of traffic executives of the American-flag liner companies, whether subsidized and unsubsidized listed at the bottom of this page.

I am accompanied here today by Mr. H. Boyce Luckett, vice president, American President Lines, San Francisco, Calif., representing the west coast of the United States, and Mr. A. C. Cocke, vice president, Lykes Bros. Steamship Co., Inc., New Orleans, La., representing the gulf coast of the United States.

In addition, we have available in the room Mr. A. T. deSmedt, vice president, American Export and Isbrandtsen Lines, who has developed information requested by this committee in respect to trade to and from the Mediterranean; by Mr. M. J. Kelly, freight traffic manager, Moore-McCormack Lines, Inc., who developed the information regarding the east coast of South America and Africa trades; and by Mr. E. R. Senn, vice president, Grace Line, Inc., who was responsible for the Latin America and the west coast of South America trades.

The information which this committee requested us to develop has been so broad in scope and in such a large quantity, we divided ourselves into our respective trading areas and there is a representative present to deal with any questions which the committee may have in respect to these major trading areas. In addition, while we have answered all of the questions listed in the chairman's letters of September 3 and 26, 1963, the answers appear in the text of my statement without specific reference to the numbered questions.

THE LEVEL OF OCEAN FREIGHT RATES

The committee has been advised at earlier hearings that historically and at present there is a considerable disparity in the level of outbound and inbound liner rates. That discussion before the committee did not clearly differentiate between two separate problems: first, the average revenue per payable ton on all cargo, inbound versus outbound, and second, the particular rate on the same commodity, inbound versus outbound. In either context, however, the prior testimony is largely inaccurate in actual practice.

AVERAGE REVENUES PER TON, OUTBOUND AND INBOUND

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

As Mr. Nemec has explained, the experience of the entire CASL group of carriers records an apparent difference between the average revenue per payable ton inbound versus outbound of less than 10 percent. This percentage of apparent difference must be further reduced, because the inbound payable ton in some trade is a metric ton of 35.31 feet rather than the cubic ton of 40 cubic feet used in the outbound trades. While we have not been able with precision to fix the magnitude of this factor, we believe it will make a significant reduction in the 10-percent figure. The difference in average revenue lies between an unadjusted high of $3.13 per ton and an adjusted figure as low as $1.69 per ton.

Chairman DOUGLAS. I wonder if you would stop at this point, because this is very important. Do I understand your statement to be that it is true that there is a difference in average revenue per ton between the outbound and inbound rates and that the rates on a so-called unadjusted basis are $3.13 per ton more outbound than inbound and $1.69 more per ton on your adjusted figure?

Mr. WIERDA. Yes, Mr. Chairman.

Chairman DOUGLAS. Now, I have collected some material on specific trade routes. Your figures, as I understand it, are for all trade routes, including routes between the United States and south Africa?

Mr. WIERDA. Yes, sir; these are all of the routes of all the CASL lines.

Chairman DOUGLAS. The west coast of South America and the east coast of South America?

Mr. WIERDA. Yes, sir.

Chairman DOUGLAS. Now, I asked the staff to produce figures, revenue outbound and inbound, on the four major trade routes and to collect them for the second quarter of 1963. These figures are based on data submitted by three American lines. It shows the following: U.S. Atlantic, West Europe, average revenue per payable ton, outbound, $25.41; inbound, $18.45. Now, the payable ton difference is $6.96.

Mr. WIERDA. Pardon me, Mr. Chairman, is that North Atlantic or gulf, did you say?

Chairman DOUGLAS. North Atlantic.

Then U.S. Atlantic and gulf-Far East, average revenue per payable ton, outbound, $43.03; inbound, $29.55; or a difference per payable ton of $13.48. U.S. Pacific-Far East, outbound, $27.31; inbound, $17.31; difference, $10.

Let me also say that, between the U.S. gulf-Mediterranean and Europe, we find the outbound rates to be less than the inbound rates. I want to put those in the record, too, because what we want are the facts. Outbound, $26.32; inbound, $27.80, or in other words, the outbound rates are $1.48 per payable ton less than the inbound rates. I therefore believe that the following statement is a correct summary, that when these major areas are considered, which are the trade areas upon which previous committee data have indicated the discrepancy, the outbound rates average for all exports and imports carried by U.S.-flag lines are substantially higher, with one exception. That is from the gulf to Europe, where the inbound rate is higher; surprisingly enough, the volume of inbound cargo for this route was the smallest of all the routes considered.

Now, there is another factor which was mentioned in the testimony yesterday, but which I would like to refine a little bit; namely, that the value per ton of an export is lower than the value per ton of an import. I gave these figures from the Survey of Current Business for August 1963, page 26. I indicated that the total value and total tonnage was given for liners, and we carried through the process of division. I asked your people to check our figures.

Mr. WIERDA. Yes, sir.

Chairman DOUGLAS. They show an average value for all exports of $339 per ton, and of imports $436 per ton, or $97 a ton greater value imports than exports, or approximately 30 percent. On U.S. ships

only, average value per ton of exports, $417, U.S. ships only on imports, $522; $105 per ton greater value on imports than exports, or approximately 25 percent.

Now, I would like to get those figures in the record to indicate that despite the greater value of the imports as compared to the exports, the revenue per payable ton on the three major routes was appreciably higher outbound than inbound.

I make this statement for two very important reasons. First, you have just said that "any comparison of the general level of rates in opposite directions must be made between average revenue per payable ton," and, second, because you point out that there are more than 3,000 tariffs of freight rates applicable to U.S. foreign trade. Consequently, it is very possible to find a long list of outbound rates which are lower than inbound rates. But it is not possible to conclude that outbound rates are lower than inbound rates on the Atlantic-Far East trade, for example, when the average outbound revenue per payable ton exceeds the inbound by $13.48.

Now, there are some other points that I want to make, but I shall reserve that for a little later. I shall be glad to have you make any reply you wish.

Mr. WIERDA. Thank you, Mr. Chairman.

No. 1, on this value of imports versus value of exports, we quite frankly cannot substantiate that on the basis of our experience. We have also looked at that particular item.

Chairman DOUGLAS. Let me ask you this: Have we made any errors in computation?

Mr. WIERDA. Not that we can discover, Mr. Chairman. However, those figures are based on weight values, and traditionally and actually, most of the cargo being imported on liner-type vessels and American-flag vessels, especially, from our major trading areas, are cubic cargoes.

It would take 4 or 5 or maybe even 10 cubic tons of cargo to make 1 weight ton, depending on the commodity. So we feel there is a basic distortion in this particular comparison of values, imports versus exports, and trying to apply an average freight rate against such figures, because in fact most of the cargo coming into the United States on our type of service vessels is on a measurement basis, and it would take several measurement tons in many cases to make 1 weight ton.

However, we would like to have the opportunity, Mr. Chairman, since our experience is exactly the opposite, and in our investigation of the commodities which you have asked us to investigate, in almost every instance, the inbound value—rather, the export value of the commodity is greater than the import value. The American product is more valuable than the import product. In practically ever case—I think there are only one or two exceptions. In that case, our experience being so much to the contrary, we would like an opportunity to check into this just a little more.

Chairman DOUGLAS. I would welcome that.

Mr. WIERDA. Because it is not right.

Chairman DOUGLAS. Normally, I have thought that the exports from the United States to Europe primarily consisted of raw materials and semiprocessed materials and that the imports into the United States from Europe consisted of goods which were much more processed, much more fabricated, and therefore had a higher

value per ton. So I personally thought that the facts which I produce simply bear out the general commonsense conclusion.

Mr. WIERDA. You will find here in the statement, Mr. Chairman, the major commodities which are moving in each of the individual areas. You will find in very large measure on these liner vessels that these are not crude or raw products at all. They are manufactured products, or at least semimanufactured and have a wider range of value than would ordinary bulk cargoes.

Of course, the picture on the export values is distorted by the amount of coal or grain or other bulk cargoes which move out on liner vessels at a lower value per ton. But primarily, all the experience of these lines and the studies which we have made for this committee in every case, with but very few exceptions, the export value on a tonnage basis or any other commonly used basis, per pound or per unit, whatever it is, is higher than the import.

So we would like an opportunity to investigate that matter more fully. Mr. Chairman, may I go further into the three trade routes which you particularly mentioned, and the figures which you gave us concerning the discrepancies between the outbound and inbound rates?

In Mr. Nemec's statement he has taken those same three trade routes and finds entirely different average freight rate figures inbound versus outbound. The discrepancies which you have mentioned to us this morning—we cannot find them. We cannot find how they were arrived at. Consequently, Mr. Chairman, we would also like an opportunity of asking the people on the financial side if they could get together with your staff and see how this thing was worked out. It is not the same.

Chairman DOUGLAS. I may say that Mr. Boggs informs me that the basic figures which we gave are contained in the memorandum which we prepared as of November 15 and submitted yesterday to you—the pages of the memorandum are numbered. It is the table following page 7 of the memorandum. (See p. 337 of the hearing record.)

Mr. WIERDA. Yes; Mr. Chairman, we have also had an opportunity to look over those figures, and quite frankly, we do not understand those, either.

We do not know where those figures came from. As a matter of fact, just working the figures out, I am advised that they just do not add up.

Chairman DOUGLAS. I am going to ask Mr. Boggs to answer that.

Mr. BOGGS. Mr. Wierda, three lines submitted to the Maritime Administration and the staff the total payable tons carried in the second quarter of 1963 for these particular routes. The reason for selecting the second quarter was that it was the most recent period with available figures. With up-to-date revenue figures we could compare average revenue per payable tons to the actual specific rates currently charged. The average revenue per ton was derived by simple division. The 43,698 payable tons of line A, which is the line operating

from the gulf to Mediterranean Europe, produced a freight revenue of $1,105,000, according to the figures submitted. By division, a figure of $26 a ton is derived.

On the European run, the payable tons carried were 31,000. The total revenue was $789,000 which divides out to $25.41 per payable ton.

Chairman DOUGLAS. And line C?

Mr. BOGGS. Well, line B to the Far East would be 51,000 payable tons outbound, revenue exceeding $2 million, revenue per ton of $43. It is a simple process of division of the figures submitted by the lines.

Chairman DOUGLAS. These are for 20 voyages.

Mr. BOGGS. For the second quarter of 1963.

Mr. WIERDA. But our figures on 20 voyages, I am advised, are entirely different. In 1963, the average of all of them was $34.05 out and $28.09 in, which, while it is a discrepancy, can be explained.

Mr. BOGGS. What is the average for each trade route, Mr. Wierda? In other words, what is it for the U.S. Atlantic to Europe, U.S. Atlantic to Far East—not the aggregate average.

Mr. WIERDA. I am sorry; we do not have that here, apparently.

Mr. BOGGS. Even so, your aggregate average for those voyages shows a considerable discrepancy.

Mr. WIERDA. In 1963; but in 1962——

Mr. BOGGS. The rates used for the study are the current rates; are they not?

Mr. WIERDA. Yes; but in 1962, the difference was a little less on export versus imports, and in 1961, the export average revenue on those selected voyages was $32.63 export and $32.74 import.

Chairman DOUGLAS. Well, may not this be partially caused by the South American trade? Is it not true that on the South American——

Mr. WIERDA. There is no South American trade in these figures, sir.

Chairman DOUGLAS. Are there in your figures?

Mr. WIERDA. No, sir; these are those voyages, Mr. Chairman; those voyages they have asked us for are the same figures.

Chairman DOUGLAS. Well, I hope the two parties will get together some time this afternoon.

Steamship lines reviewed the data referred to above and submitted revisions. The revisions bear out the statement that on three of the four trade routes reviewed, outbound revenues per ton exceed those of inbound revenues per ton. Also submitted was a revision of the profit or loss per ton, outbound and inbound, of cargo carried over these four trade routes. The witnesses revised the Joint Economic Committee's data inserted on page 337. This revision, shown in schedule A below, bears out the committee's contention that for these voyages, outbound cargo returns a profit and inbound cargo results in a loss in all but one case. Finally, the witnesses submitted profit-or-loss statements based on allocation of costs on a per-ton-mile basis instead of a per diem basis as shown in schedule A. But even on the per-ton-mile basis, as schedule B indicates, three of the four trade routes returned a profit on outbound cargoes, and inbound cargoes resulted in a loss.

SCHEDULE A.—*Revision of joint committee data*

	Outbound	Inbound and intermediate
Line A:		
Freight revenue per ton	$26.32	$27.80
Cost per ton	19.70	33.40
Cost per ton including depreciation, overhead, interest, and subsidy	18.25	30.56
Profit or (loss) after subsidy	8.07	(2.76)
Line B:		
European run:		
Freight revenue per ton	25.42	25.25
Cost per ton	18.47	36.23
Cost per ton including depreciation, overhead, and interest	20.68	40.42
Profit or (loss) before subsidy	4.74	(15.17)
Subsidy per ton	4.35	8.31
Profit or (loss) after subsidy	9.09	(6.86)
Far East run:		
Freight revenue per ton	43.03	30.30
Cost per ton	32.82	29.80
Cost per ton including depreciation, overhead, and interest	40.68	36.82
Profit or (loss) before subsidy	2.35	(5.52)
Subsidy per ton	7.58	6.80
Profit or (loss)	9.93	.28
Line C:		
Freight revenue per ton	27.31	17.31
Cost per ton	21.07	21.34
Cost per ton including depreciation, overhead, interest, and subsidy	21.76	22.26
Profit or (loss) after subsidy	5.55	(4.95)

SCHEDULE B.—*Revision of joint committee data to reflect apportionment of operators' expenses on a ton-mile basis, year 1963*

	Outbound	Inbound and intermediate
Line A:		
Freight revenue per ton	$26.32	$27.80
Cost per ton	22.94	20.71
Cost per ton including depreciation, overhead, interest and subsidy	21.11	19.35
Profit or (loss) after subsidy, etc	5.21	8.45
Line B:		
European run:		
Freight revenue per ton	25.41	25.25
Cost per ton	21.98	30.15
Cost per ton including depreciation, overhead, and interest	24.96	33.02
Profit or (loss) before subsidy	.45	(7.77)
Sudbisy per ton	5.86	5.70
Profit or (loss) after subsidy	6.31	(2.07)
Far East run:		
Freight revenue per ton	43.03	30.30
Cost per ton	31.94	30.77
Cost per ton including depreciation, overhead, and interest	39.87	37.72
Profit or (loss) before subsidy	3.16	(7.42)
Subsidy per ton	7.65	6.73
Profit or (loss) after subsidy	10.81	(.69)
Line C:		
Freight revenue per ton	27.31	17.31
Cost per ton	22.30	20.09
Cost per ton including depreciation, overhead, interest, and subsidy	23.17	20.83
Profit or (loss) after subsidy	4.14	(3.52)

Mr. WIERDA. Thank you very much.

I do not know whether you want to break in at this particular point, but I think one of those sets of figures will illustrate indeed how impossible it is, really, to start analyzing or comparing average revenue. You gave some figures for the U.S. Atlantic and gulf, with very large disparity between out an in average revenues. As a matter of fact, the entire trade in that particular area is an entirely different trade outbound versus inbound, carrying entirely different commodities. The type of commodity that moves outbound to those particular areas are the very high-class commodities of frozen goods, and so on, which take

a high rate while inbound from the Far East, we have commodities which take extremely low rates because they are very cheap commodities. Outbound in that particular set of figures you have, the vessel goes to the Philippine Islands, not a very highly industrialized nation and one which imports a great deal of manufactured goods.

Inbound, however, on that particular trade route, we bring back probably four or five major commodity items, which are rubber shoes which you can buy in the dime shore for maybe 25 or 50 cents a pair. You have toys and Christmas tree ornaments, other commodities of that nature, which are very cheap commodities. So that when you compare outbound a very high type of a commodity, highly manufactured, very valuable, which must indeed take a higher freight rate because of the character of that particular commodity, against rubber slippers or toys for children or something like that, you are not comparing the same freight rates. You are averaging out, when indeed averages are meaningless.

Chairman DOUGLAS. Mr. Wierda, you seem to damn us if we do and damn us if we do not.

On the one hand, when we produce rates on a tonnage basis, you say that is not the test, you should have revenue per payable ton.

Mr. WIERDA. Yes, sir.

Chairman DOUGLAS. Then when we do that, you say these are not comparable, the commodities exported and the commodities imported aren't comparable.

Mr. WIERDA. That is right, sir.

Chairman DOUGLAS. So that whatever we do is wrong and whatever set of figures will best establish your point is right.

Mr. WIERDA. Mr. Chairman, we are here, too, to just get at the facts of the case, what is the truth of the matter.

Chairman DOUGLAS. That is right; but I had never thought—and these Commerce figures corroborate me—I had never thought that the value per ton of our exports was greater than the value per ton of our imports. And particularly in the case of Japan.

Mr. WIERDA. Mr. Chairman, if you take figures which are completely on a weight basis, you are going to get a distorted figure, because the type of cargo that is imported which in some respects is not so highly valuable, when it is converted from a measurement into a weight ton of 2,240 pounds, you are naturally going to get a distorted picture of the actual value of the commodity. Especially if you try to relate that toward our freight rates.

Chairman DOUGLAS. Go ahead.

Mr. WIERDA. Thank you.

Giving consideration to the historical fact that U.S. exports have always exceeded imports, with a substantial excess of unused inbound vessel capacity exerting a downward competitive influence on inbound rates, this relatively small difference in average revenues per payable ton plainly indicates that there has not been any deliberate action to discriminate against export rates in favor of import rates. Indeed if one considers, as one should, the relative profitability of the average rate level inbound and outbound, it is plain from Mr. Nemec's analysis that the difference in average profit per revenue ton outbound versus inbound does not exceed 68 cents and probably is less than 50 cents on the adjusted basis.

Chairman DOUGLAS. Now, remember the passage at arms that I had with Mr. Nemec yesterday on his cost figures, in which he divided figures purporting to show costs by a tonnage figure. I pointed out that this meant that the more the tonnage, the greater the cost. I think you get a distorted figure that way.

Mr. WIERDA. Well, Mr. Chairman, that is what Mr. Nemec has worked out. I am sure that he can substantiate it.

Chairman DOUGLAS. I am sure his division is correct. Whether the figures are the ones which should be used is something else again. According to this, if you had no traffic at all inbound, the cost would be infinite, because any figure divided by zero is infinite. It reminds me of a woman in Seattle, once, Congressman Tollefson. It has been many years ago that I lived there for a year and rented the top two stories of a typical Seattle house, which had three stories—one story in back, three stories in front, and the downstairs apartment was supposed to be rented for $60 a month. It did not rent at $60. The next time it went up $70 a month. It was not rented at $70. Then it went up to $80, then to $90, and then to $100. I got very curious and called this landlady up and said, "Why are you raising the rent each month when you are not able to rent it at a lower figure?" "Oh," she said, "I have to get more to compensate for the months in which I have not rented it."

I think your cost figures are of a similar nature.

Go ahead.

Mr. WIERDA. "Level of inbound and outbound rates on similar commodities": This committee has heard the allegation that U.S. freight rates on exports are significantly higher than the rates on comparable commodities from European and Japanese ports to the United States. This allegation is substantially untrue.

Ratemaking is not an exact science. Neither is it a matter of pulling figures out of a hat. Rates are made with relation to a number of factors affecting the carrier and those brought to its attention by the shipper, as I shall later describe in more detail. We do not claim that ever rate which obtains in the foreign commerce of the United States is properly related to every other rate. But many apparent rate inconsistencies are not so in fact, and actual inconsistencies are the exception rather than the rule.

I would first like to deal with the information which has been placed in the record in the earlier hearings in June. This committee was then advised that the commodity designations listed in tables 1–A, 1–B, and 1–C, appearing on pages 56–58 and again on pages 67–69 of the hearings, are specific commodities as listed in conference tariffs. This is not the case; they are not specific commodities, but are instead groupings of commodities. Each of these groupings consists of up to several hundred individual commodities covered by many different freight rates in our tariffs.

For example, there is listed for the commodity grouping of "Tools and basic hardware" a single outbound rate of $36.25. However, this grouping actually covers nine pages of items described in schedule B of the Bureau of Census and on which we have many different rates, some as low as $15 per ton.

On the commodity grouping designated in the above tables as "Iron and steel pipe," the outbound rate of $51 is used, when actually this

statistical grouping covers a number of different kinds of pipe of varying sizes with rates as low as $22.50. With regard to the commodity grouping listed as "Rolled and finished steel" the table implies that this is but one commodity with a single outbound rate of $63 per ton, when actually it covers eight pages of items in schedule B on which we have approximately 30 different rates, some as low as $13.25 per ton; indeed, 28 of the 30 rates are lower than the $63 per ton in the table presented to this committee. Although, in response to a question by the chairman (p. 78), the committee was advised that the Federal Maritime Commission had prepared and verified the rates listed in the above described tables, it is my statement that the rates listed in those tables are not correct because our tariffs have been misinterpreted and presented out of context.

Naturally any conclusions which have been drawn from such a presentation of the tables are erroneous. A more precise analysis of the individual commodities and rates within the groupings will not only show the fallacy of those conclusions, but also demonstrate how steamship conferences meet requirements of the trade by making specific rates to cover specific items to meet specific problems of the exporter.

It would seem on the surface to be perfectly reasonable to have but one rate on, say tools and basic hardware, but there are so many different types and varieties of products covered by this description with different values, weights or cubic measurements, end uses, and so forth, that it would be impossible to meet the requirements of the producers of each of these items by publishing a single freight rate on all tools and basic hardware. Consequently, to establish a rate which will encourage a specific commodity to move, the steamship conferences have named a specific freight rate. This results in several thousand different entries in a tariff within a few broad commodity groups.

Chairman DOUGLAS. Are you maintaining that the Maritime Commission purposely mismatched the inbound-outbound rates?

Mr. WIERDA. No, sir.

Chairman DOUGLAS. Or are you simply saying that under a category, they selected a specific commodity——

Mr. WIERDA. I am not saying there was any deliberate rate misrepresentation, Mr. Chairman. I am saying that our tariffs are such complicated documents that it takes an expert to really know how to interpret them. In this particular area, they have taken a broad, general classification and in many instances, have applied a very high rate which gives the impression that all of the commodities under that classification move at that high rate, when that is not true.

Chairman DOUGLAS. I should like to suggest this thought:

In the testimony which the Maritime Commission gave, figures which they produced were adverse to their own interests. I criticized them very severely in the early hearings for this disparity in rates and criticized the then Chairman, Mr. Stakem, most severely indeed. Now, if they had been trying to cover up in this matter, they could possibly have produced figures showing that the outbound rates were not greater than the inbound rates. They had every incentive to do this because they were under very heavy fire, from me, at least, insofar as I could level fire at them. The fact that they produced these figures that, in the words of the Bible, "They swore to their own hurt

and changed not," is a pretty good indication, I think, that their testimony was honest, and to my mind should carry added weight. Because they had every worldly incentive to produce figures to the contrary.

Mr. WIERDA. Well, Mr. Chairman, we are not making any comment in respect to their honesty. We do, however, make a great deal of comment in respect to their accuracy.

Chairman DOUGLAS. Well, now, did they deal with 26 categories? If these were random errors, not caused by bias, overstatements, or understatements, they would approximately balance on the theory of random sampling.

Mr. WIERDA. No, Mr. Chairman.

Chairman DOUGLAS. I am not an expert on games. I never went to Las Vegas in my life. But we all know that on random sampling, 26 is a sufficient number so that errors balance out unless there is deliberate bias. What I am trying to say is that any tendency toward deliberate bias would be in the opposite direction from the results which they arrived at.

Mr. WIERDA. Mr. Chairman, I have before me the schedule S of the Bureau of the Census, in which these particular items that are in the record were taken as specific commodities. They are not specific commodities. Tools and basic hardware, for example, consist of 79 different entries of 79 different types of specific tools and basic hardware. We have many, many rates to cover those specific 79 entries. They are not all one generic term, as far as we are concerned, in the steamship business.

Chairman DOUGLAS. But they chose the same commodity inbound as outbound.

Mr. WIERDA. No, sir; that is our point.

Chairman DOUGLAS. You mean they chose different commodities inbound?

Mr. WIERDA. Our point is they were comparing something which is not comparable, because tools and basic hardware in the steamship language is a meaningless term, unless you get down to specifics and say what are you talking about, saws, screwdrivers, or electric tools. You can only compare those rates when you talk about the same thing inbound.

Chairman DOUGLAS. This is a very grave charge, if true.

Does the Maritime Commission want to make any comment on this now or would you prefer to wait until later?

STATEMENT OF REAR ADM. JOHN HARLLEE, U.S. NAVY (RETIRED), CHAIRMAN, FEDERAL MARITIME COMMISSION

Admiral HARLLEE. Mr. Chairman, I can make just a very brief comment. I cannot comment in detail on figures which were furnished in June. But I will say that we have not had from this committee any complaint about the accuracy of these figures, to my knowledge, until right now, today. If we had had such a request or complaint, we, of course, would have reexamined them and would have corrected the record for your committee.

I also would like to add that of course, we had underway, as you know, a formal investigation into all of these rates and the matter

will be resolved in these formal proceedings when such matters as Mr. Wierda has brought up can be most properly resolved. Were they to be resolved now the matter of the accuracy of our figures, I feel that we should have been given some forewarning, so we could have been prepared with a better answer than I can make. That is all I can say at this time.

STATEMENT OF D. F. WIERDA—Resumed

Mr. WIERDA. Mr. Chairman, you will recall that we three gentlemen here paid a visit to you in July, July 19, if my memory is correct, when we brought this selfsame matter up with you.

Chairman DOUGLAS. But you did not present a specific memorandum at that point.

Mr. WIERDA. We did not, but we showed you with these selfsame entries from schedule S that there is a tremendous difference in what they are talking about versus what actually happens in the steamship industry and in the tariffs.

This committee's interest in ocean freight rates was generated by the impression that, in the foreign commerce of the United States, export rates are customarily fixed at a level higher than import rates on the same commodities. This impression is incorrect. While there are instances where export rates on commodities which actually move are higher than import rates on similar commodities, we believe that most such instances are justified by the value of the commodity and other valid traffic and ratemaking considerations. And, in any event it is plain that the general pattern of rates on cargo which moves is that export rates in the foreign commerce of the United States are lower than import rates on the same commodities in the same trade.

To establish the facts, I asked the members of American Steamship Traffic Executives Committee in each major trading area to develop the relationship between the level of export rates on the principal export commodities which move in that trading area. The results of this study are set out in a series of tables which I present to the committee.

Now, Mr. Chairman, on this table, I do not intend to read it to you word by word. But fundamentally, in every export trade from the United States, the level of the freight rate is determined by the demand made upon us by shippers of cargo. In almost every instance you will see the breakdown of the number of commodities which are exported from the United States and the applicable inbound rate that would apply on those commodities which are actually exported. I asked the lines when they gathered these figures to give us what constituted about 80 percent of the trade. We have not been successful all down the line. In some areas, because of the very long list of commodities that would have been listed, we have had to go as low as 60 percent. But on the average, these figures and the commodities which are shown in the following table represent about 80 percent of the export general cargo moving on liner vessels.

You will see, Mr. Chairman, that on the total number of commodities which are being exported, the largest volume, et cetera, that 76 percent of them are a lower rate outbound than would be applied on the same commodity inbound. That certainly does not indicate that the

American export rates are always, or even usually higher than comparable inbound rates.

Chairman DOUGLAS. May I ask you a question?

Mr. WIERDA. Yes, sir.

Chairman DOUGLAS. This is also based on the succeeding tables which follow?

Mr. WIERDA. Yes, sir.

Chairman DOUGLAS. Which run four pages?

Mr. WIERDA. No.

The valuation table is a part of the presentation on Italy.

(The tables referred to follow:)

Summary of the comparison of the U.S. export freight rates with the applicable import rates on the major moving export commodities in each trade

Trade	Total number of commodities	Number of such commodities where outbound rate is lower or same as inbound rate
U.S. North Atlantic/Belgium, Holland, and Germany	35	35
U.S. North Atlantic/France	34	20
U.S. North Atlantic/United Kingdom	39	29
U.S. North Atlantic/Italy	31	22
Great Lakes/Italy	11	13
Great Lakes/continent	13	1
U.S. Atlantic and gulf/Brazil	25	17
U.S. Atlantic and gulf/Argentina	28	28
Gulf/France and Benelux	50	40
Gulf/Germany	50	41
Gulf/Italy	29	20
Atlantic and Gulf/Japan	25	15
Pacific/Japan	25	19
Total	395	300
Percentage		76

Outbound Versus Inbound Rates

Rates on major moving commodities from U.S. North Atlantic to ports in Belgium, Holland, and Germany and from same continental port to U.S. North Atlantic on same commodities

Commodity	Eastbound Benelux	Rates, Germany	Westbound rate
Aluminum sheets or strip	$38.00 W	$41.75 W	$24.90 W
Automobiles, used, unpacked, through 8,960 pounds	31.50 W/M	35.00 W/M	$37.38 W/M
Automobile parts	15.00 W/M	16.50 W/M	$21.24 W/M
Blocks foam glass, through 275 cubic feet per ton	76.50 W	79.25 W	$104.22 W/M
Cigarettes	26.50 W/M	29.25 W/M	$41.35 W/M
Clothing, n.o.s	25.25 W/M	27.75 W/M	$41.91 W/M
Copper, basic forms, through 6,720 pounds	16.50 W	16.50 W	$29.25 W
Fiber, acetate, stable or tow	20.75 W	22.75 W	$46.75 W-tow $31.15 W/M-stp
Fibers, polymide, bobbins, tubes, etc	45.00 W	45.00 W	$73.68 W
Film, Kodak, not for Cine-Kodaks	57.25 W/M	63.00 W/M	$55.51 W/M or 1 percent ad valorem
Fruit, citrus, otherwise specified, half box through 1 foot 4 inches (each).	.65	.65	(1)
I & S sheets, trip plates, via	13.25 W	13.25 W	$18.04 W
I & S tinplate	14.50 W	14.50 W	$18.04 W
Jukeboxes, automatic record players	15.00 W/M	16.50 W/M	$21.24 W/M to 66.27 W/M
Latex, packed	23.00 W	23.00 W	$189.74 W/M
L & T logs, heavy, not exceeding 5 tons	23.50 W	13.50 W	$189.74 W/M
Lumber pine, North Carolina	23.50 W	23.50 W	$34.05 W
Machine, metalworking and parts	33.00 W/M	33.00 W/M	$32.57 W/M
Machinery, mill, steel roll, metal, etc	24.00 W/M	24.00 W/M	$32.57 W/M
Machinery, n.o.s	33.00 W/M	36.25 W/M	$32.57 W/M
Machinery, textile, n.o.s	19.75 W/M	21.75 W/M	$32.57 W/M
Machines, air conditioning, HH, etc	20.50 W/M	22.50 W/M	$32.57 W/M
Office appliances, n.o.s	43.50 W/M	47.75 W/M	$189.74 W/M
Oils and bulk liquids, latex, liq. syn	27.50 W	30.25 W	$189.74 W/M
Roadbuilding equipment, packed	15.00 W/M	16.50 W/M	$189.74 W/M
Roadbuilding equipment, unpacked	20.00 W/M	22.00 W/M	$189.74 W/M
Rosin, resin, synthetic, n.o.s., through $1,500 net ton	22.25 W	24.50 W	$41.35 W/M
Scrap, aluminum, n.o.s., through 60 cubic feet LT	19.25 W	19.25 W	$33.54 W
Scrap, aluminum, n.o.s., 60-100 cubic feet LT	22.75 W	22.75 W	$33.54 W
Scrap, rubber, packed, n.o.s	19.00 W	21.00 W	$21.60 W to 23.88 W
Tires and tubes, rubber	35.25 W	38.75 W	$38.52 W/M to 101.63 W
Tobacco, unmanufactured, hogsheads	37.00 W	37.00 W	$134.67 W
Tobacco, unmanufactured, cs./cr	29.75 W	29.75 W	$134.67 W
Typewriters and parts	50.50 W/M	55.50 W/M	$47.01 W/M
Chemicals, n.o.s	34.75 W/M	38.25 W/M	$92.89 W/M to 118.94 W/M

[1] No tariff provision.

Rates on major moving commodities from U.S. Atlantic to France, compared to rates from France to U.S. Atlantic ports on same commodities

Commodity	Outbound	Inbound
Agricultural machinery, implements, and parts	$20.25 W/M	$38.52 W/M
Automobiles, new	21.00 W/M	20.73 W/M
Apparatus, furnaces and ovens	63.75 W/M	69.10 W/M
Automobiles, used	32.00 W/M	37.38 W/M
Auto parts and accessories	18.00 W/M	33.42 W/M
Bulbs, fluorescent and incandescent	21.00 W/M	34.55 W/M
Coffee, instant	25.00 W	33.42 M
Cooperage stock	40.50 W	44.72 W
Fabric, cotton and synthetic	63.75 W/M	[2] 31.36 W/M [3] 51.75 W/M
Fruit, citrus, n.o.s., in regular wooden boxes (each)	.65	[1]
Gas, helium, drums or cylinders	40.50 M	189.74 W/M
Grapefruit in regular cartons or wooden boxes (each)	.65	[1]
Leather, finished, n.o.s. packed	90.50 W/M	94.02 W/M
Machinery, industrial, heavy, power driven	63.75 W/M	48.14 W/M
Machinery, metalworking and parts	50.00 W/M	48.14 W/M
Machinery, air-conditioning, household	34.00 W/M	48.14 W/M
Machinery, air-conditioning, portable or industrial and parts	34.00 W/M	48.14 W/M
Motors, outboard and assembly parts	34.00 W/M	48.14 W/M
Office appliances:		
Typewriters	54.00 W/M	46.89 W/M
Calculating machinery	54.00 W/M	81.36 W/M
Duplicating machinery	54.00 W/M	80.79 W/M
Oils and bulk liquid, synthetic latex	27.50 W	65.55 W
Oranges in regular cartons or wooden boxes (each)	.65	[1]
Paperboard, n.o.s., including coated, glazed or laminated	61.50 W	73.01 W/M
Paper, printing, plain, n.o.s	38.50 W	38.62 W
Plastic sheets and strip, n.o.s	54.00 W/M	94.02 W/M
Rags in bales	24.75 W	27.19 W
Refrigerators and parts	18.00 W/M	
Up to $250 per cubic meter, up to 5X		34.46 W/M
Up to $250 per cubic meter, over 5X		26.83 W/M
In excess of $250 per cubic meter		50.28 W/M
Absorption type, under $200 per cubic meter		17.00 M
Reefer, frozen packinghouse products	53.75 W	73.63 W
Roadbuilding equipment and parts, packed	18.00 W/M	189.74 W/M
Roadbuilding equipment and parts, unpacked	23.00 W/M	189.74 W/M
Rosin or resin, synthetic n.o.s	22.50 W	46.45 W/M
Rubber, synthetic	27.00 W	189.74 W/M
Tires and tubes, rubber, pneumatic or solid	65.00 W	78.06 W

[1] No tariff provision.
[2] Cotton.
[3] Synthetic.

Rates on major moving commodities from U.S.-North Atlantic to United Kingdom, compared to rates from United Kingdom to North Atlantic ports of the United States on same commodities

Commodity	Outbound rate	Inbound rate
Barrels, new or used, according to size	$1.85 to $365 each	$1.10 to $2.46 each.
Books, paperback	$69.00 W	$21.56 W/M to $42.70 W/M.[2]
Books, n.o.s.	$68.25 W/M	$21.56 W/M to $42.70 W/M.[2]
Bulbs or tubing glass, empty	$28.50 M	$23.87 W/M.
Cellulose film, reject material	$34.00 W	$71.90 W.
Chemicals, n.o.s., hazardous	$22.75 W/M	$85.00 W/M.[2]
Citrus fruit in regular boxes	$0.70 each	(1).
Cooperage stock	$27.00 W	$28.85 W.
Copper	$17.00 W	$33.11 W.
Cotton piece goods, packed	$40.00 W/M	$61.00 W/M.
Dowels or stems, heavy	$34.00 W	$59.00 W/M.[2]
Dust rubber buffing, packed	$24.50 W	$35.42 W.
Engines, internal combustion	$45.00 W/M	$40.81 W/M to $52.36 W/M.
Fabrics, manmade synthetics	$68.25 M	$61.00 W/M.
Foam, polyurethane	$28.00 M	$59.00 W/M.[2]
Frames, looms, and parts, textile	$41.75 W/M	$45.00 W/M.[2]
Iron and steel, stainless steel strip	$33.00 W	$44.25 W.[2]
Isocyanates, packed	$29.50 W	$49.56 W.[2]
Lumber, n.o.s., heavy	$24.75 W	$28.85 W.
Machinery, electrical and parts, n.o.s.	$57.25 W/M	$33.11 W/M.[3]
Machinery, industrial, heavy and parts	$57.25 W/M	$33.11 W/M.[3]
Machinery, metalworking	$57.25 W/M	$33.11 W/M.[3]
Machinery, textile and parts	$57.25 W/M	$33.11 W/M.[3]
Machines, dryers, clothes, n.o.s.	$24.25 W/M	$33.11 W/M.[2]
Machines, washing, clothes, household	$24.25 W/M	$33.11 W/M.[2]
Oil, lubricating, mineral, in drums	$32.00 W	$26.57 W.[2]
Paperboard, kraft liner	$25.25 W	$23.80 W/M to $40.74 W/M.
Paperboard, woodpulp, sulfate, bleached	$27.75 W	$28.88 W.
Petrolatum	$32.00 W	$33.11 W.
Phosphorus pentasulfide	$35.00 W	$65.45 W.
Photographic material	$57.25 W/M	$49.67 W/M.[2]
Cameras	$57.25 W/M	$37.24 W/M to $75.74 W/M.[2]
Rags	$30.00 W	$20.02 W/M to $30.80 W/M.[2]
Roadbuilding equipment, packed	$28.00 W/M	$43.12 W/M.
Roadbuilding equipment, unpacked	$33.00 W/M	$43.12 W/M.
Rosin, synthetic	$29.50 W	$21.56 W/M to $54.18 W/M.[2]
Rubber, synthetic, n.o.s.	$25.25 W	$40.04 W.
Tobacco, unmanufactured, in hogsheads	$40.75 W	$34.58 W.
Zinc residue	$23.50 W	$31.57 W.
	$23.50 W	$31.57 W.

[1] No tariff provision.
[2] Ad valorem at 1½ percent of the value, whichever yields the greater revenue.
[3] If parts are shipped separately, they would be rated at $44.54 W/M.

Rates on major moving commodities from U.S. North Atlantic coast ports to Italy compared to rates from Italy to North Atlantic ports on same commodities

Commodity	Eastbound rate	Westbound rate
Additives, petroleum lubricating oils	$42.75 W/M	S/V [1] min. $43.69 W; $48.72 M.
Aluminum, ingots	18.00 W	$22.35 W.
Bricks, fire	33.00 W	$26.67 W.
Clothing, old or used, in bales	45.00 W	S/V min. $133.95 W.
Copper, bars, billets, cakes, cathodes, ingots	18.00 W	$25.91 to $42.61 W.
Flour, cornmeal	30.25 W	$49.78 W.
Flour, wheat	30.25 W	$49.78 W.
Cement, refractory	61.00 W	$20.57 W.
Iron or steel, sheets, or plates, flat, n.o.s	27.50 W	$23.62 W.
Iron or steel, stainless, finished/unfinished sheets	27.50 W	S/V min. $43.69 W.
Lumber, logs, heavy	22.00 W	S/V min. $97.41 W.
Lumber, heavy, n.o.s	29.75 W	S/V min. $97.41 W.
Machinery, air-conditioning refrigerating	46.50 W/M	$48.15 M.
Machinery, engines, diesel, gas or oil:		
Box	46.50 W/M	$48.15 M.
Unbox	54.25 W/M	
Machinery, n.o.s	76.50 W/M	$48.15 M.
Oil, lubricating, mineral, in barrels, cases, drums, etc	38.75 W	$38.10 W.
Oil, lubricating, in bulk	13.00 W	$38.10 W.
Rags, textile, n.o.s., in bales	27.00 W	$24.13 to $33.53 W.
Resin, synthetic, n.o.s.—(not manufacturers of)	30.75 W	Min. $58.05 W.
Roadbuilding equipment, packed	46.50 W/M	S/V min. $48.72 M.
Roadbuilding equipment, unpacked	54.25 W/M	S/V min. $48 72 M.
Rubber, synthetic, not manufacturing materials	26.50 W	S/V min. $60.88 W.
Scrap aluminum (measures up to 100 feet per ton)	27.75 W	S/V min. $48.72 W.
Scrap aluminum foil (over 100 feet per ton)	33.25 W	S/V min. $121.76 M.
Tallow, inedible in bulk	13.00 W	S/V min. $48.72 W.
Tinplate or terne plate	22.00 W	S/V min. $48.72 W.
Wax, mineral (2), paraffin (1), or petroleum (2)	38.75 W	(1) $65.02 W; (2) $96.52 W.
Machinery, etc., glass plants, Italy	30.50 W/M	$48.15 M.
Machinery, etc., power generating plants, Italy	30.50 W/M	$48.15 M.
Machinery, etc., steel mills, Italy	28.00 W/M	$48.15 W/M.

[1] Scale value—see rates on table that follows.

NOTE.—Machinery, n.o.s. not really comparable—the "n.o.s." includes all machinery in WINAC—many specific items have lower rates in westbound tariff.

Where necessary, the inbound rates have been adjusted so that its rate basis will reflect the same rate basis as outbound.

W—per 2,240 pounds.

M—per 40 cubic feet.

Value per F.T.:	*Scale value* *Contract*
Up to $100	$21.00 W/M
Over $100 up to $200	25.50 W/M
Over $200 up to $300	30.00 W/M
Over $300 up to $400	34.50 W/M
Over $400 up to $500	38.50 W/M
Over $500 up to $600	43.00 W/M
Over $600 up to $700	47.50 W/M
Over $700 up to $800	52.00 W/M
Over $800 up to $900	56.50 W/M
Over $900 up to $1,000	60.50 W/M
Over $1,000 up to $1,100	65.00 W/M
Over $1,100 up to $1,200	69.50 W/M
Over $1,200 up to $1,300	74.00 W/M
Over $1,300 up to $1,400	78.50 W/M
Over $1,400 up to $1,500	82.50 W/M
Over $1,500 up to $1,600	87.00 W/M
Over $1,600 up to $1,700	91.50 W/M
Over $1,700 up to $1,800	96.00 W/M
Over $1,800 up to $1,900	100.50 W/M
Over $1,900 up to $2,000	104.50 W/M
Over $2,000 up to $2,100	109.00 W/M
Over $2,100 up to $2,200	113.50 W/M
Over $2,200 up to $2,300	118.00 W/M
Over $2,300 up to $2,400	122.50 W/M
Over $2,400 up to $2,500	126.50 W/M
Over $2,500 up to $2,600	131.00 W/M
Over $2,600 up to $2,700	135.50 W/M
Over $2,700 up to $2,800	140.00 W/M
Over $2,800 up to $2,900	144.50 W/M
Over $2,900 up to $3,000	147.50 W/M
Over $3,000	152.00 W/M

W=per 2,204 pounds.
M=per 35.3146 feet.

Rates on major moving commodities from Great Lakes ports to Italy compared to rates from Italy to Great Lakes ports on same commodities

Commodity	Eastbound rate	Westbound rate
Wheat, flour	$28.50 W	$41.15 W
Machines and machinery	44.25 W/M	53.09 W/$59.20 M
Soyabeans	36.50 W	92.20 W/102.82 M
Animal products	71.75 W	92.20 W/102.82 M
Engines	44.25 W/M	53.09 W/ 59.20 M
Cornmeal	35.00 W	92.20 W/102.82 M
Oats	31.25 W	92.20 W/102.82 M
Chemicals	66.50 W/M	92.20 W/102.82 M
Feeds	34.50 W	46.74 W
Wool and cotton (manufactured and semimanufactured, including rags)	32.00 W	64.77 W
Prepared flour and grains	51.25 W	74.17 W

NOTE.—W=per 2,240 pounds. M=per 40 cubic feet.
Where necessary, the inbound rates have been adjusted so that its rate basis will reflect the same rate basis as outbound.

Rates on major moving commodities from Great Lakes ports to the Continent compared to rates from the Continent to Great Lakes ports on same commodities

Commodity	Eastbound rate	Westbound rate
Barley and rye	$34.00 W	$39.62 W
Feeds	36.00 W	66.79 W
Corn	32.00 W	49.78 W
Soyabeans	23.00 W	42.67 W
Steel mill products	32.00 - $62.00 W	15.24 - $138.18 W
Machinery	57.50 W/M	45.60 M
Engines	60.00 W/M	45.60 M
Hides	64.00 W	26.92 W
Inedible animal products	40.00 W	48.26 W
Vehicles	37.50 W/M	22.66 M
Chemicals	66.00 W/M	39.62 W/$44.19 M
Dried milk	26.00 W	69.60 W
Wheat	28.50 W	48.26 W

Rates on major moving commodities from U.S. Atlantic and gulf ports to Brazil compared to rates from Brazil to Atlantic and Gulf ports of the United States on same commodities

Commodity	Rates	
	Outbound	Inbound
Ferromanganese	$35.00 W/M	$66.00 W/M
Dried milk	56.00 W	66.00 W/M
Wheat flour and semolina	29.50 W	66.00 W/M
Other flour and grain preparation	60.00 W/M	66.00 W/M
Vegetable and preparations	66.00 W/M	66.00 W/M
Rubber and manufactures	43.00 W/72.00 M	66.00 W/M
Naval stores, gums and resins	32.00 W	66.00 W/M
Vegetable products, inedible, n.e.s	48.00 W/M	66.00 W/M
Wood and manufactures, n.e.s	60.00 W/M	45.00 W/M
Wood pulp	26.50 W	22.50 W
Paper and related products	37.00 W	54.00 W/M
Lubricating oils and greases	35.00 W/M	66.00 W/M
Petroleum products	35.00 W/M	66.00 W/M
Glass and glass products	36.00 W	33.00 W
Brick, tile, clay, and products	29.00 W	66.00 W/M
Nonmetallic minerals and manufactures	21.00 W	20.00 W
Iron and steel mill products	24.00 W	22.00 W
Metal manufactures	30.00 W	66.00 W/M
Aluminum in crude forms	25.00 W	66.00 W/M
Copper in crude forms	21.00 W	20.00 W
Construction and conveying machinery and parts	57.00 W/M	66.00 W/M
Other machinery and parts	57.00 W/M	66.00 W/M
Autos, trucks, buses, and parts	27.50 W/M	33.00 W/M
Railway locomotives, cars and parts	43.00 W/M	66.00 W/M
Chemical specialties, n.e.s	(1)	(1)
Other chemicals and related products	(1)	(1)
Fertilizer and fertilizer materials	11.00 W	66.00 W/M

[1] Various.

Note: Outbound tons, 2,240 pounds, or 40 cubic feet; inbound tons, 2,204 pounds, or 40 cubic feet.

Rates on major moving commodities from U.S. Atlantic and gulf ports to Argentina compared to rates from Argentina to Atlantic and gulf ports of the United States on same commodities

Commodity	Rates	
	Outbound	Inbound
Manganese and ferromanganese	$35.00 W/M	$66.00 W/M
Wheat flour and semolina	29.50 W	30.00 W
Other flour and grain preparations	60.00 W/M	66.00 W/M
Vegetables and preparations	66.00 W/M	66.00 W/M
Rubber and manufactures	43.00 W	66.00 W/M
Naval stores, sums, and resins	32.00 W	66.00 W/M
Seeds, except oilseeds	32.00 W	30.00 W
Vegetable products, inedible, n.e.s	48.00 W/M	66.00 W/M
Tobacco manufactured	72.00 W/M	66.00 W/M
Manmade fibers and manufactures	140.00 W	66.00 W/M
Wood and manufactures, n.e.s	60.00 W/M	47.00 W/M
Woodpulp	26.50 W	66.00 W/M
Paper and related products	37.00 W	66.00 W
Lubricating oils and greases	35.00 W/M	66.00 W/M
Petroleum products	35.00 W/M	66.00 W/M
Glass and glass products	36.00 W/M	34.00 W
Brick, tile, clay, and products	39.00 W	66.00 W/M
Sand, gravel, crushed rock	36.00 W/M	66.00 W/M
Nonmetallic, miners and manufacturers	21.00 W	22.00 W
Iron and steel mill products	24.00 W	23.00 W
Metal manufacturers	30.00 W	66.00 W/M
Aluminum in crude forms	25.00 W	66.00 W/M
Copper in crude forms	21.00 W	22.00 W
Construction and conveying machinery and parts	57.00 W/M	53.00 W/M
Other machinery and parts	57.00 W/M	53.00 W/M
Autos, trucks, buses, and parts	27.50 W/M	38.00 W/M
Railway locomotives, cars, and parts	43.00 W/M	66.00 W/M
Chemical specialties, n.e.s	(1)	(1)
Other chemicals and related products	(1)	(1)
Fertilizer and fertilizer materials	11.00 W	66.00 W/M

[1] Various.

NOTE.—Tons of 2,240 pounds, or 40 cubic feet.

Rates on major moving commodities from U.S. gulf ports to continental Europe (Bayonne-Hamburg range) compared to rates from the same range to gulf ports on same commodities. Rates per 100 pounds, 2,240 pounds (tons), and W/M per 40 cubic feet or 2,240 pounds

Commodity	Rate		
	French Atlantic and Benelux	Germany	Rate, all ports
Additives, petroleum oil	$5.05 Each	$5.55 Each	$12.75 Each
Aluminum ingots	18.00 Ton	18.00 Ton	17.79 Ton
Board, container/liner	1.13	1.13	1.06
Board, paper	1.13	1.13	1.06
Board, tab. card stock	1.13	1.13	1.33
Bran, rice	.78	.85	1.06
Buildings, K.D.	42.00 W/M	46.00 W/M	33.73 W/M
Beans, canned	.95	1.05	1.74
Chicken, canned	.95	.95	1.72
Black, carbon	.40 Foot	.40 Foot	.96 Foot
Clay, bentonite	.90	1.00	1.02
Clay, Tripoli	.90	1.00	1.02
Concentrate, fruit, frozen	1.10	1.10	5.35
Cotton	1.30	1.30	2.38
Cotton, linters	.87½	.87½	1.84
Flour, wheat	.80	.92½	1.24
Gilsonite	19.00 Ton	21.00 Ton	33.03 Ton
Glucose, powder	19.00 Ton	21.00 Ton	49.80 Ton
Grapefruit, fresh (reefer)	1.70 Each	1.70 Each	1.34 Each
Grease, lube	26.75 Ton	29.50 Ton	30.74 Ton
Hides, wet salted	1.15	1.15	2.02
Honey	1.70	1.85	3.76
Household goods	1.45 Foot	1.60 Foot	1.32 Foot
Iron, sheets, and plates	16.00 Ton	16.00 Ton	14.23 Ton
Juice, citrus	.80	.80	2.99
Lead	13.25 Ton	13.25 Ton	21.60 Ton
Lumber, pitch pine	34.00 MBF	34.00 MBF	81.56 MBF
Machinery:			
Oil well	33.50 W/M	36.25 W/M	45.31 W/M
Coin operated	.55 Foot	.60 Foot	1.66
Road building	19.00 W/M	21.00 W/M	45.31 W/M
Magnesium, ingots	22.00 Ton	22.00 Ton	129.58 Ton
Meats, frozen	4.20	4.65	2.70 Ton
Oil:			
Lube	5.05 Each	5.55 Each	12.75 Each
Tall	.95	.95	1.91
Phosphorus, yellow	1.80	2.00	4.54
Pigments, paint	22.50 Ton	24.75 Ton	59.46 Ton
Poultry, frozen	2.50	2.75	2.70
Pulp, cotton linter	1.00	1.00	1.68
Resin, synthetic	22.50 W/M	24.75 W/M	49.28 W/M
Rice, brewers	13.50 Ton	13.50 Ton	20.88 Ton
Rice, clean	14.00 Ton	14.00 Ton	33.03 Ton
Rosin, natural	.95	.95	4.54
Rubber, synthetic	23.00 Ton	23.00 Ton	113.28 W/M
Scrap, aluminum	23.50 Ton	23.50 Ton	36.59 Ton
Shells, oyster	.95	1.05	.83
Ties, cross	14.00 Ton	18.00 Ton	36.59 Ton
Tobacco	37.00 Ton	37.00 Ton	144.83 Ton
Wax, mineral, paraffin	20.00 Ton	22.00 Ton	65.04 Ton
Woodpulp	.85	.85	1.17
Zinc	13.25 Ton	13.25 Ton	24.39 Ton

Rates on major moving commodities from U.S. gulf ports to Italy compared to rates from Italy to gulf ports on same commodities—Plus rates per 100 pounds, 2,240 pounds (ton), and W/M per 40 cubic feet or 2,240 pounds

Commodity	Outbound rate		Inbound rate	
Aluminum billets	$26.75	ton	$27.96	ton
Aluminum ingots	19.75	ton	22.37	ton
Board, liner	5.25	W/M	158.58	W/M
Board, tab. card stock	25.25	W/M	158.58	W/M
Brick, fire	33.25	W/M	24.15	ton
Black, carbon	12.00	W/M	158.58	W/M
Corn solubles	40.25	W/M	158.58	W/M
Cotton	29.12	ton	23.38	ton
Flour, wheat	31.25	ton	45.24	ton
Gilsonite	22.00	W/M	158.58	W/M
Honey	51.00	ton	78.28	ton
Household goods	76.50	W/M	60.03	W/M
Iron or steel, sheets and plates	16.50	ton	23.64	ton
Lead	13.25	W/M	158.58	W/M
Lumber, heavy	29.75	W/M	158.58	W/M
Lumber, pitch pine	42.00	MBF	158.58	W/M
Machinery, oil well	54.25	W/M	43.61	W/M
Meal, gluten	16.50	ton	30.50	ton
Milk, powdered	53.75	W/M	158.58	W/M
Mohair	96.00	W/M	158.58	W/M
Oil, lubricating	26.50	ton	38.12	ton
Oil, tall	19.75	ton	65.06	ton
Rubber, synthetic	26.50	W/M	172.17	W/M
Rosin, natural	19.75	W/M	158.58	W/M
Sisal, fiber	53.75	ton	58.96	ton
Tallow, edible	46.50	W/M	158.58	W/M
Waste paper	28.50	ton	65.06	ton
Woodpulp	17.50	W/M	158.58	W/M
Zinc	16.25	ton	16.77	ton

Rates on major moving commodities from U.S. Pacific coast ports to Japan compared to rates from Japan to Pacific coast on same commodities (bulk cargoes excluded)

Commodity	Rates	
	Outbound	Inbound
Aeroplanes, parts	$64.25 W/M	$58.75 W/M.
Aluminum ingots, bars	$21.50 per 2,000 pounds	$17.00 per 2,000 pounds.
Borax, borac acid	$27.00 per 2,000 pounds	$47.60 per 2,000 pounds.
Cargo [1]	$73.50 W/M	$52.75 W/M.
Coffee, roasted	$52.00 W/M	$52.75 W/M.
Coke, petroleum packed	$47.25 per 2,000 pounds	$105.50 per 2,000 pounds.
Copper anodes, bars, etc	$18.00 per 2,000 pounds	$22.25 per 2,000 pounds.
Cotton, raw, high density	$34.25 per 2,000 pounds	$118.75 per 2,000 pounds.
Fruit, dried	$44.00 per 2,000 pounds	$66.00 per 2,000 pounds.
Hides, green	$38.00 per 2,000 pounds	$126.00 per 2,000 pounds.
Household goods	$73.50 W/M	$57.75 W/M.
Infusorial earth	$51.50 per 2,000 pounds	$126.00 per 2,000 pounds.
Junk, flax, tow waste	$66.50 per 2,000 pounds	$118.75 per 2,000 pounds.
Junk, scrap metal (nonferrous)	$24.00 per 2,000 pounds	$20.00 per 2,000 pounds.[2]
Junk, scrap aluminum	$24.00 per 2,000 pounds	$24.00 per 2,000 pounds.
Lead, ingots, pig, slabs	$18.25 per 2,240 pounds	$27.50 per 2,240 pounds.
Lignin, liquor or pitch	$36.50 per 2,000 pounds	$58.00 per 2,000 pounds.
Machinery and parts [1]	$56.75 W/M	$33.00 W/M.
Pencil slats	$54.25 per 2,000 pounds	$132.00 per 2,000 pounds.
Fresh lemons in reefer stow	$3.95 per standard box	$4.33 per standard box.
Resin, synthetic	$47.25 per 2,000 pounds	$59.50 per 2,000 pounds.
Stainless steel scrap	$25.00 per 2,000 pounds	$52.75 per 2,000 pounds.
Wastepaper for pulping	$21.00 per 2,240 pounds	$87.00 per 2,240 pounds.
Flour in bags	$20.00 per 2,000 pounds	$52.75 per 2,000 pounds.
Oil and grease, lubricating	$32.65 per 2,240 pounds	$63.75 per 2,240 pounds.

[1] Not otherwise specified.
[2] Nickel scrap, $34.75 per 2,000 pounds.

Source: Outbound—Pacific Westbound Conference Tariff No. 1X.
Inbound—Transpacific Freight Conference of Japan Tariff No. 32.

NOTES.—Rates indicated above as of Nov. 1, 1963.
W/M=2,000 pounds or 40 cubic feet.
Where necessary, the inbound rate has been adjusted so that its rate basis will reflect the same rate basis as outbound.

Rates on major moving commodities from U.S. Atlantic and gulf ports to Japan compared to rates from Japan to Atlantic and gulf ports of the United States on same commodities (bulk excluded)

Commodity	Rates	
	Outbound	Inbound
Additives, nonhazardous [1]	$48.25 W/M	$62.25 W/M.
Airplanes and parts	$68.00 W/M	$75.75 W/M.
Autos, unboxed	$49.25 W/M	$24.00 W/M.
Carbon black	$22.00 W/M	$44.50 W/M.
		[2]
Cotton, raw, high density	$2.00 per 100 pounds	$5.50 per 100 pounds.
Pipe, conduit bent, iron and steel	$36.00 per 2,240 pounds/40	$24.25 per 2,240 pounds/40.
Pipe, conduit bent, straight iron and steel	$32.75 per 2,240 pounds	$24.25 per 2,240 pounds.
Iron and steel shapes (not fabricated)	$30.50 per 2,240 pounds	$18.50 per 2,240 pounds.
Tinplate, secondary	$32.75 per 2,240 pounds	$53.00 per 2,240 pounds.
Scrap metal, aluminum	$32.00 per 2,000 pounds	$29.00 per 2,000 pounds.
Scrap metal, brass	$26.25 per 2,000 pounds	$22.75 per 2,000 pounds.
Concentrates, packed, copper	$16.50 per 2,240 pounds	$69.72 per 2,240 pounds.
Synthetic resin	$50.00 per 2,000 pounds	$62.30 per 2,000 pounds.
Rosin and sizing [1]	$31.00 per 2,240 pounds	$83.70 per 2,240 pounds.
Synthetic rubber in bags	$45.00 per 2,240 pounds	$104.50 per 2,240 pounds.
Synthetic rubber, not in bags	$45.00 W/M	$62.25 W/M.
Shells, mussel	$28.50 per 2,000 pounds	$35.75 per 2,000 pounds.
Stoves and ranges, oil or coal	$49.00 W/M	$62.25 W/M.
Tetraethyl lead	$65.50 W/M	$62.25 W/M.
Tobacco, unmanufactured	$87.25 per 2,000 pounds	$104.00 per 2,000 pounds.
Flour, wheat, in bags	$22.00 per 2,000 pounds	$81.00 per 2,000 pounds.
Lube oil and grease, packed	$35.00 per 2,240 pounds	$55.75 per 2,240 pounds.
Petroleum solvents	$45.00 W/M	$44.50 W/M.
Cargo [1]	$83.75 W/M	$62.25 W/M.
Machinery [1]	$61.25 W/M	$42.00 W/M.

[1] Not otherwise specified.
[2] As industrial chemicals.

NOTES. Rates indicated above as of Nov. 1, 1963.
W/M=2,000 pounds or 40 cubic feet.
Where necessary, the inbound rate has been adjusted so that its rate basis will reflect the same rate basis as the outbound.

Source: Outbound—Far East Conference Tariff No. 23. Inbound—Japan Atlantic and Gulf Freight Conference Tariff No. 32.

Chairman DOUGLAS. I would like to raise this question: Are you not comparing specific rates with what are known as general cargo rates in many of these tables?

Mr. WIERDA. In some areas, there is no specific rate on the particular export commodity because that foreign country has never exported it. The applicable rate that would apply on this major moving export from the United States would be a general cargo rate, unless application were made to the conference for a specific rate below that figure. And of course, the same thing works in reverse.

You will find, for example, Mr. Chairman, in the South American trades from the United States, practically none of the cargoes exported from this country to South America are imported back into, or are made in those countries or exported from those countries back here.

Chairman DOUGLAS. Now, is it true that there are about 3,000 commodities which have listed rates?

Mr. WIERDA. Yes, sir; just about.

Chairman DOUGLAS. And you say that—incidentally, we get a figure of about 185, not 300, excluding the general cargo rates, that is, where the outbound rate is lower or the same as the inbound rate.

Mr. WIERDA. You get a figure of what, Mr. Chairman?

Chairman DOUGLAS. 185, excluding the comparisons of specific rates against general cargo rates. I again will ask you to check that.

Now, the point I want to make is that with 3,000 separate commodities which have separate rates, it would not surprise me if there were 185 commodities where the inbound rate was higher than the outbound rate. We have never maintained that, in every individual instance, the outbound rate is higher than the inbound rate. All we have concluded from the evidence is that the general tendency is for outbound rates to be higher than inbound rates.

How do you answer this, this 185, or even 300, out of 3,000?

Mr. WIERDA. Mr. Chairman, these are the commodities in these particular trade routes which actually move. This is not a question of looking at one piece of paper versus another. This is a comparison of the cargo which actually moves. This is the majority of the export cargo, by far. This is it.

Chairman DOUGLAS. Is that not only true of outbound?

Mr. WIERDA. No, sir; it is not true of outbound only; exactly the opposite——

Chairman DOUGLAS. Do you not make your comparisons outbound on specific commodities and inbound on general cargo rates?

Mr. WIERDA. I did not understand that question, Mr. Chairman.

Chairman DOUGLAS. What are the rates which you use for outbound commodities?

Mr. WIERDA. The rates that are actually in the tariffs and are applicable for——

Chairman DOUGLAS. For the specific commodities out of the 3,000? Not in groupings?

Mr. WIERDA. No, sir; not in groupings. We have listed the commodities which move in the greatest volume and represent the greatest amount of cargo moving out of the country.

Chairman DOUGLAS. On inbound, what do you use?

Mr. WIERDA. On inbound, exactly the same thing.

Chairman DOUGLAS. Are they exactly the same commodities?

Mr. WIERDA. It would be whatetver the rate would be on that commodity moving inbound.

Chairman DOUGLAS. Well, I notice you use a figure on wheat flour between Italy and the North Atlantic ports showing the inbound rate is $49.75, the outbound $30.25. We do not import wheat from Italy.

Mr. WIERDA. Of course not, Mr. Chairman; that is our point.

Chairman DOUGLAS. Well, it is my point, too. You have said we are comparing horses and apples. I will say you are comparing lemons and bricks.

Mr. WIERDA. Mr. Chairman, the allegation, as I understand it, that has been made before this committee is that the export rates from the United States are usually higher than import rates.

Chairman DOUGLAS. I think that it true. I think that has been the allegation.

Mr. WIERDA. Mr. Chairman, we are stating to you that that is not true, because we are showing you with these tables that of the cargo which actually means something and moves, the export rates, which are usually negotiated with shippers in the first place, are actually lower on the cargo that moves.

Chairman DOUGLAS. But you make the comparison on outbound goods only.

Mr. WIERDA. No, sir; the inbound is here as well.

Chairman DOUGLAS. For the same articles?

Mr. WIERDA. Yes, sir; for the same articles.

Chairman DOUGLAS. I would like you to look at your table, your unnumbered table. It is the one to the United Kingdom.

Mr. WIERDA. Yes, sir; Mr. Chairman.

Chairman DOUGLAS. Take books, both paperback and not otherwise specified, outbound, $68.25, inbound $21.56–$42.70, approximately the same on paperback. We have gone over this. I think these are about the only commodities where there is a two-way movement. Generally in these matters, we export one set of goods and import a different commodity.

Take, for instance, copper. You give a rate of $17 outbound, $33 inbound. But as I understand it, we do not import copper.

Mr. WIERDA. We have.

Chairman DOUGLAS. We export copper.

Mr. WIERDA. We export copper now. We have imported copper in the past. That is why it is in there.

Chairman DOUGLAS. Great Britain is not a copper-producing country, and in the case of tin, it does not produce tin, but it smelts tin. But I think in the case of copper, it does not smelt copper for export.

Mr. WIERDA. It is one of the greatest trading areas on metals and many times we will get parcels of copper coming home from the United Kingdom on a spot basis. It is not a major moving commodity from that area, but it is a major moving commodity from the United States. The fundamental point is that the export rates are not higher than comparable import rates and are not retarding exports.

Chairman DOUGLAS. Well, that has been asserted.

Mr. WIERDA. If there is any other way you would like us to make a study of this nature, we will be glad to undertake that.

Chairman DOUGLAS. What about average rates per ton outbound, average rate per ton inbound?

Mr. WIERDA. That does not compare the same thing, Mr. Chairman. We deal in specific commodities. We deal in cellulose film reject material. We do not deal in films or things of that nature. We deal with specific items.

We have something in the region of, say 10,000 customers who want to ship things abroad. Each one of these people, in fighting for a market abroad, has some special characteristic of his commodity and he wants a special rate to enable him to compete. That is the reason why we have 3,000 entries in the tariff, because at some time or another, we agreed with a shipper, "Yes, we can agree to that specific rate" and we enter this particular description—cellulose film reject material, because that is what he wanted to ship.

Chairman DOUGLAS. In other words, you will alter the classification in order to give a favorable differential rate?

Mr. WIERDA. We will alter the classification to meet the requirements of a shipper of a specific commodity.

Chairman DOUGLAS. And the more he bargains and the greater his strategic position, the more you will change his classification and give him a favorable rate?

Mr. WIERDA. No; I do not agree with that, Mr. Chairman.

Chairman DOUGLAS. I thought you had almost said that.

Mr. WIERDA. No; I have not said that at all. That is your characterization.

Chairman DOUGLAS. I submit that anyone who knows trade language would draw that conclusion.

Mr. WIERDA. Well, that is not the proper conclusion to draw. That is one of the fundamental problems in trying to discuss this particular matter and also the question of the freight rates which are already in the record, because they do not particularize as we must do.

Chairman DOUGLAS. Well, you have a good, interesting statement on page 9. Do you want to read that?

Mr. WIERDA. Page 7, Mr. Chairman.

I submit that the foregoing tables are a complete refutation of any suggestion that the berth steamship lines are conspiring to or in fact do impede American exports so as to promote American imports. The fact is that the liner companies can make a profit only by carrying cargo, not by discouraging its movement. As I shall explain in detail later, our practice is to make rates which will stimulate the movement of cargo, for it is only when cargo can and does have an economic opportunity to move that we can carry it. As a matter of fact, foreign-flag lines naturally have the same interest we do—that of carrying more traffic in both directions at remunerative rates.

I turn now to the specific commodities which the committee has asked us to study. I trust the committee understand that for the most part these are not commodities which actually are moving in great volume but instead are items which the Department of Commerce believes has what it terms "export potential."

The amount of work done as a result of the committee's request was exceedingly large and the resulting study is almost 2 inches thick. I have delivered copies of the study we have made as requested.

Chairman DOUGLAS. Thank you very much. Your study will be placed in the committee files for its use.

Mr. WIERDA. In order to complete the assigned task for submission at this hearing it was necessary that the work be divided among the various coastal districts and assigned to different companies. The work was completed only this past Saturday, with the result we have not had time to put the end product into a common format. However, there are some general observations which should be made.

First, we have no comparative figures on relative costs of production, inland freight rates in the United States and in the country of destination, consumer or industry preferences, tariffs, credit problems, and all the other factors which would influence exportation of these commodities.

Second, so far as we have been able to ascertain, we have not taken any action to discourage or impede exportation of these commodities by applying an unreasonable level of freight rates.

In this connection, there is appended hereto a summary of the rate files of the Far East Conference—United States, Atlantic, and gulf to Japan—showing that, for the period 1958 to the present, no rate adjustment was requested on 33 of the 40 commodities and, of the remaining 7 on which an adjustment was requested, it was granted on 4.

(The appended matter appears at p. 515.)

Chairman DOUGLAS. Was this quiescence on the part of the lines or on the part of the shippers?

Mr. WIERDA. It was quiescence on the part of the shippers, Mr. Chairman.

Chairman DOUGLAS. Are you going to say that it is only when the shippers protest that there is a possible case for readjustment?

Mr. WIERDA. Mr. Chairman, in that particular conference and in many other conferences, there are weekly meetings by rate committees to consider a request on the part of shippers for an adjustment in rates. This is a continually changing business. Whatever happens today does not happen tomorrow. What has not happened today will happen tomorrow, that sort of thing. Every day there are continual changes in market conditions which will require our adjustment to them as well as the shippers.

We have, as I was saying, something in the region of 10,000 customers, dealing in a myriad of commodities and the person who really knows or knows best whether or not an adjustment in freight rate is required—in order for him to compete in a foreign market or to meet changing conditions—is the shipper. I do not see how we as steamship companies can know intimately the competitive factors governing the exportation of any particular commodity, when there may be hundreds of companies dealing in that particular commodity in this country and there may be entirely different conditions which apply to those competitors.

Chairman DOUGLAS. Well, you have had the same problem come up in rates to private utilities. For a long time, the State commissions and to a large degree the Federal commissions would only take matters up if the consumers complained. But the consumers were numerous in number, the interest of any one consumer was relatively insignificant. The cost of fighting the case was high. So in practice, few complaints would be made and the fact of these few complaints was then cited as a reason why the rates were substantially correct.

Now, if there is one thing that rate regulation has taught, it is that you cannot be merely a court which passes merely on things brought to you, in these matters, you must also be prepared to initiate inquiries yourself to determine whether or not this holds.

You may say it is not your function to do that. I think it is the function of the Maritime Commission. I believe we have given authority to the Maritime Commission to do that. So that I would not say that this evidence that not many complaints have been made proves that the rates are necessarily correct.

Mr. WIERDA. We do not intend, Mr. Chairman, to make that particular point.

Chairman DOUGLAS. Good.

Mr. WIERDA. The point we are making in this respect is that apparently the freight rates are not an impediment to exportation of cargoes on these particular items. Otherwise, the people who wanted the freight rate would have come to us.

Chairman DOUGLAS. What I am trying to say is that the absence of complaint is not proof of—I hesitate to use such large terms, but the absence of complaint is not a proof of justice.

Mr. WIERDA. I would not want to leave the impression with you that we do just sit back quietly and wait until people come to us, because that is not true, either. When there is a movement of cargo, of course we are interested in it and if it should fall off or perhaps not

develop the way our intelligence tells us it should move, of course we look into it. We have people on the street doing nothing but that. Many of our companies have their own trade development organizations, which are for the purpose of trying to marry the requirements abroad with the supplier here in this country and we do a great deal of work in trying to develop this type of information.

Chairman DOUGLAS. Mr. Wierda, I regret that I am wearing three or four hats today and have to go to another meeting almost immediately. Would it be convenient if we recessed, to meet again at 2:15?

Mr. WIERDA. Yes, sir.

Chairman DOUGLAS. Thank you very much.

(Whereupon, at 12:35 p.m., the committee recessed, to resume at 2:15 p.m. of the same day.)

AFTERNOON SESSION

Senator PELL (presiding). The meeting of the Joint Economic Committee to hear the varying views on ocean freight rates will be resumed.

STATEMENT OF D. F. WIERDA, VICE PRESIDENT, UNITED STATES LINES CO.—Resumed

Senator PELL. Mr. Wierda was in the middle of his testimony. I hope you will carry on. I apologize for being a bit late, but we were in the midst of a rollcall vote down below.

Mr. WIERDA. Thank you, Mr. Chairman. I believe I was on page 8, about the middle of that paragraph, starting with the word "Similar."

Similar information regarding other trading areas is contained in the study we have submitted, and additional data will be furnished to the committee if requested. No person interested in any of them except fertilizer has appeared at any of these hearings. In contrast, in a recent proceeding before the Federal Maritime Commission involving an unrelated issue in which shippers do have an interest, the following appeared:

Anderson, Clayton & Co.
American Cotton Shippers Association.
Dow Chemical Co.
Dow Chemical International.
Esso International, Inc.
National Industrial Traffic League.
Textile Waste Association.
United States Borax & Chemical Corp.
Armstrong Cork Co.
Brown & Williamson Tobacco Co.
E. I. du Pont de Nemours & Co.
Ford Motor Co.
Sun Oil Co.
Standard Oil of California.
National Association of Alcoholic Beverage Importers.
Automobile Manufacturers Association.
Atlas Chemical Industries.
Hercules Powder Co.

Third, if a true export potential exists on any of these items, and the sole deterrent to the movement is the level of the ocean freight rate, we will be happy, through the medium of our conference machinery, to meet with any interested shipper to negotiate a mutually acceptable rate, so long as that rate covers the out-of-pocket costs of handling the commodity involved and makes a fair contribution to the fixed charges of operating the service. We will meet any businessman halfway if he will give us the opportunity to do so.

Last, I should like to state generally some of the analytical problems we have encountered in making the analysis requested by the committee. These commodity descriptions are likewise broad, general groupings which may be covered by several different entries in the steamship tariffs. Our tariffs are based on a weight or measurement ton. However, the statistical information available from Government sources is reported in individual units or pairs or dozens or gallons or ounces or pounds or milligrams or feet or short tons.

To try to convert these Bureau of Census figures into meaningful statistics for comparison with steamship tariffs for the committee's purposes is an almost impossible task. It should also be noted that the published Bureau of Census figures cover exports from the entire United States to the named foreign country, whereas the freight rates of the individual conferences apply only from the U.S. coastal area covered by such conference.

To illustrate the difficulties in analyzing the rates and the movement of these communities to specific foreign countries I cite the example of iron and steel pipe 6- to 8-inch interior diameter between the United States and Japan. The published statistics of the Bureau of Census includes this particular item with many other commodities and do not give specific export figures in weight and value for the size of iron and steel pipe. Additionally, the Far East conference tariff covering this commodity has 10 different entries depending upon whether it is cast iron, whether it is curved, bent, or straight, whether it is coated or lined with other materials, and whether it is a tube or tubing made of materials such as stainless steel, et cetera.

We are trying to illustrate here, Mr. Chairman, the difficulty of trying to take a general grouping of a commodity and compare it with an entry in a steamship tariff. The steamship tariffs are broken down into many, many individual commodities to meet the requirements of our exporters and therefore the problem becomes too, if not difficult, then impossible.

The reports we have prepared at the committee's request will show that for the most part export rates, even on the unrepresentative commodities selected by the Department of Commerce, are not so much at variance with import rates as is reflected in the actual rate itself, when the rate is considered in the light of all applicable factors. It will be noted that usually the export value of the American product is much higher than the foreign product described by the same name, and that the outbound freight rate apparently does not prevent the export movement.

To view freight rates alone, however, is to ignore a substantial area of other factors which affect and may retard the flow of our export commerce. Many countries levy tariff duties to protect their own local product and to discourage American imports. In some countries major

commodities, such as tobacco, railroad equipment, some foodstuffs, copper, et cetera, are purchased by a Government monopoly and political considerations come into play in determining the source of supply. Discriminatory customs duties and import quotas are applicable in certain foreign countries. For example, American-made automoblies cannot enter Japan except by special permit which is rigidly controlled. American whisky pays a duty of $6.85 per quart in the United Kingdom, while our freight rate is only 13 cents per quart.

All of these factors have a considerable bearing on whether commodities can be exported from the United States, and any survey of export rates must take these other factors into consideration.

We believe this committee is doing a valuable public service by asking whether steamship liner rates on exports are so high as to retard our export program. We likewise consider your inquiries as a valuable service to ourselves because it affords us an opportunity to correct some of the impressions given the committee that, in our opinion, are based on false premises, also because we are proud of the part which the American-flag liner companies play in contributing to our balance of payment on the favorable side. We therefore wish briefly to summarize some basic facts affecting the international movement of commodities:

Commodities move in international trade only when one of two basic requirements is met:

First: The importing country does not have the article in question, or does not have it in sufficient quantity to meet its requirements. Examples: coffee imported into the United States; citrus fruit imported into Northern Europe.

Second: The cost of production in the exporting country is so low that, desipte the extra cost of moving the commodity to seaport, plus ocean freight, plus import duties, plus inland freight in the destination country, plus profit, the product can still sell competitively in the importing country.

The United States cannot export coffee to Brazil and Germany cannot export citrus fruits to the United States, so that a comparison of rates on these commodities which may have similar nomenclature in a tariff is unrealistic. If the American exporter can compete against local production in foreign markets it is because he has either a unique article or a lower cost of production, without regard to ocean freight rates, and can absorb the extra cost of moving his commodity to that market and still be competitive with the local product. It is obvious, then, that truly identical commodities—identical as to quality, use, et cetera, and not merely something that is called by the same name—do not move back and forth across the oceans of the world in the same trade at the same time.

At the termination of World War II the American merchant marine was operated by the War Shipping Administration under WSA-established tariffs. When the merchant marine reverted to private ownership and operation, the companies commenced commercial operation based on the WSA tariffs.

Since that time general or across-the-board increases in the entire tariff have usually been made when rising levels of operating cost—such as stevedoring, seagoing wages, bunkers, et cetera—compelled a general increase to offset higher operating costs. After each general

increase the tariff is eroded by requests for reduction in individual rates.

Rates on individual commodities, especially those which move in substantial volume, are negotiated either with an association, an industry group, or individual shippers, representing the particular commodity, may be departed from if necessary to achieve the establishment of a lower rate which will assist the shipper in selling his commodity in the market he seeks. In these negotiations we exert every effort to meet the requirement of the shipper if that can be done in fairness to ourselves.

Chairman DOUGLAS (presiding). Mr. Wierda, in the light of your general statement, how do you explain this recent action about Manila, where a surcharge for U.S. exporters of $10 a ton was superimposed, but only $2 a ton on Japanese exporters? Now, if the purpose is to or if the results are not to injure American exports, how do you account for that?

Mr. WIERDA. Mr. Luckett will explain that.

Mr. LUCKETT. Mr. Chairman, in the first place, this is not a surcharge in the same sense of a rate increase. The surcharge is imposed not only in these conferences or in these trades but from all other points of origin into the Philippine area because of deplorable working conditions that prevail in the port of Manila due to a customs labor problem. The surcharge's basic function was to endeavor to apply pressure to the authorities in the Philippines to eliminate the problem, this labor problem, that is causing the congestion. The outward conferences from the United States have applied that type of technique on four or five occasions in the past several years and never actually applied the surcharge, because the conditions were either settled or minimized during the interim.

This situation got fairly serious. All the other areas supplying the Philippines, 4 or 5 months before; at least 4 months before the American surcharge went into effect for this same purpose, applied their surcharge with minimum notice, almost no notice. The one from Japan that you are speaking of happens to be the lowest one. It was put in a few months before the American surcharges were adopted. So therefore, the American exporters had approximately 4 months' leadtime over their foreign-flag competitors to meet this market free of any surcharge.

Secondly, the surcharge has some relationship to the bearing of vessel costs. I would say that the majority of the cargo going from Japan to the Philippines, besides having a much lower rate, is carried in vessels that are much smaller vessels. They are coaster-type vessels that have operating expenses considerably less than the long-haul vessels that we operate—not only we, the Americans, but all operators from the United States to the Philippines.

Thirdly, I believe—I do not know definitely the figures on it, but in addition to the cost of the vessel, the amount of cargo you might take in at any one time might have a bearing on this subject. The cost of the cargo to the Philippines, those that carry it from Japan have a greater volume of cargo on the ship for Manila at any one time than do the larger vessels operating individually from the United States to Manila.

They are basically among the reasons that occur to me as to why there could be a difference of that nature.

Chairman DOUGLAS. To the degree that there are deplorable conditions, whatever that term means, it would apply to Japanese freight going to Manila as well as to American freight. Why is it that the charge on American freight is five times as much as for Japanese freight, or an absolute difference of $8 a ton?

Mr. LUCKETT. Among the reasons I am trying to explain to you is that the cost of the vessels supplying the Japan-Philippines trade is not as expensive as those supplying United States-Philippines trade.

Chairman DOUGLAS. Should you not consider the cost of service?

Mr. WIERDA. That is in there, too, Mr. Chairman.

Chairman DOUGLAS. What are these deplorable conditions?

Mr. LUCKETT. It is a strike of labor that does the work of the customs area in the Manila Harbor.

Mr. WIERDA. It has been impossible for many ships to get berthing space in Manila, Mr. Chairman. Many vessels have had to bypass the port completely unless they were able to afford many days' waiting time and get into line and then try to get some kind of barges on which to discharge this cargo. The cost of transshipment of that cargo from some other area to Manila has to be taken into consideration, also.

Mr. LUCKETT. Instead of taking 2 days in the port of Manila, you take 6, 7, or 8 days to discharge the same amount of cargo, and perhaps in some instances a lower amount of cargo. I would say in very large measure the exporters from the United States, because of the very long leadtime they were given by the conferences operating from the United States outbound substantially discounted their export traffic into the Philippines by shipping ahead of the time this surcharge went into effect.

Mr. WIERDA. As a matter of fact, the other conferences from Europe put these surcharges into effect many months ago. These conferences operating out of the United States gave 102 days' notice in advance and did it very reluctantly, because our previous experience has been that when we impose a surcharge, somehow or other the Manila labor situation gets straightened out so there is no necessity to impose it.

Chairman DOUGLAS. Are we not members of that eastbound conference as well as the westbound, our lines?

Mr. LUCKETT. From Japan to the Philippines?

Chairman DOUGLAS. Yes.

Mr. LUCKETT. We are, some of the members are, yes.

Chairman DOUGLAS. Is your line?

Mr. LUCKETT. Yes, sir.

Chairman DOUGLAS. Did you protest putting on the surcharge?

Mr. LUCKETT. No, sir; we did not. We felt they were right. We supported it. Not the amount, necessarily, but putting it in.

Chairman DOUGLAS. Now, do you have ships which will leave San Pedro or Los Angeles or San Francisco, go out to Manila, pay the $10 per ton surcharge for unloading in Manila, go on to Japan, then on the way back to the United States stop off in Manila and pay only $2 a ton?

Mr. LUCKETT. It is possible. As a practical matter, in my own company's case, we do not currently and for the past few years now, handle traffic from Japan to the Philippines. We belong to the conference, but our service is not competitive.

Chairman DOUGLAS. Are there some lines which do?

Mr. LUCKETT. I am sure there are, but they are in the minority as far as the cargo is carried.

Chairman DOUGLAS. To the extent that it exists, you have the almost ludicrously tragic situation of paying $10 a ton for unloading on cargo going from the United States on the same ship, only $2 a ton on cargo coming back from Japan on the same ship.

Mr. LUCKETT. It is possible to do that. The conferences from Europe——

Chairman DOUGLAS. What are the other lines in the Pacific which are members of the Eastbound Pacific Conference?

Mr. LUCKETT. You mean from Japan to Philippines?

Chairman DOUGLAS. Is it separate, Japan to the Philippines as compared to Japan from the Pacific coast?

Mr. LUCKETT. Oh, yes.

Chairman DOUGLAS. There are two eastbound conferences?

Mr. LUCKETT. No; there is eastbound and westbound across the Pacific.

Chairman DOUGLAS. That is right.

Mr. LUCKETT. Then there is what we would call an interport conference from Japan to the Philippines, yes.

Chairman DOUGLAS. I see.

The Japanese lines that are in the Pacific-Manila Conference are also in the Pacific Eastbound Conference and also in the Pacific Westbound Conference; is that true?

Mr. LUCKETT. If you are talking about the Philippines-Japan again, there are some of the same names, but they are basically different services.

Chairman DOUGLAS. But the lines are the same.

Mr. LUCKETT. It is like my company operating from Boston to Florida in one service and having another group operating from Boston and New York to the Philippines.

Chairman DOUGLAS. What are the other American lines which are in the Pacific coast to the Philippines and to Japan? And also in Japan to the Philippines?

Mr. LUCKETT. My membership, I cannot give you the names exactly. I think I know who they would likely be.

Chairman DOUGLAS. We will.

Mr. LUCKETT. American President Lines, my own company; Pacific Far East Lines; States Steamship Co.; American Mail Line; U.S. Lines Co., I believe.

Chairman DOUGLAS. Do you shake your head at that, Mr. Wierda?

Mr. WIERDA. I do not know, Mr. Chairman, we do not trade in that direction from Japan to the Philippines. We go to the Philippines first.

Mr. LUCKETT. I do not know; perhaps States Marine Lines.

Chairman DOUGLAS. Coming back, Mr. Wierda, do you go straight from Japan to the United States, or can you go to the Philippines on the way?

Mr. WIERDA. We do go directly from Japan back to the United States.

Chairman DOUGLAS. And do not stop at the Philippines?

Mr. WIERDA. We stop at the Philippines going out and then go up around and come back.

Chairman DOUGLAS. But not coming back?

Mr. WIERDA. No.

Mr. LUCKETT. We do not in the current period have a truly competitive service or perhaps we will even abandon service in a given trade for a period of time. We will still retain membership in some cases.

Chairman DOUGLAS. You know, this is a very puzzling thing, to have a rate five times higher, a surcharge five times higher on American tonnage going to the Philippines than on Japanese tonnage coming to the Philippines. That is a very puzzling thing.

Mr. LUCKETT. Well, you have to bear in mind the directing of that surcharge so as not to make an increase. We are looking to the application of the surcharge as a pressure tactic to induce the authorities to do what they can to eliminate the condition that creates the need for the surcharge.

Senator PELL. Excuse me; I do not understand one point here. In both cases, the cargo is going to the Philippines, but from two different countries.

Mr. LUCKETT. Going to the port of Manila.

Senator PELL. Why would not the deplorable conditions that apply be equally disadvantageous to shipping from Japan as from the United States?

Mr. LUCKETT. I concede that with few exceptions. But I can say the cost of the type of vessels going there is a great deal less than the cost of the vessels going from the United States. They are smaller vessels. It is a short-haul trade.

Senator PELL. The operating cost of maintaining the vessels is less from Japan?

Mr. LUCKETT. That is right; and they take more cargo per call on that type ship than we did. If you have an operating cost of a thousand dollars a day and take a thousand tons of cargo on it, that is different from a ship that costs you $6,000 a day, taking in 500 tons of cargo on it.

Senator PELL. So probably ship maintenance costs or wages would be one factor in the decision made, because presumably, Japanese ship wages would be less than American?

Mr. LUCKETT. The long-haul trades from other areas, Europe, instance, which is the other major area of supply for the Philippines, adopted a procedure of 25 percent of the rate as their surcharge, which in many commodities would be higher than ours.

Senator PELL. I see. Thank you.

Chairman DOUGLAS. Well, I want to raise a demurrer. The costs will be lower on short hauls than on long hauls because the ratio of number of days at sea in relation to number of days unloading will be less. You do not have the wages of a crew at sea not unloading on the short haul.

Mr. LUCKETT. Mr. Chairman, it is the cost of the vessel per diem, no matter where you are. You have a fixed cost per day. That is your earning power. That is your earning unit.

Chairman DOUGLAS. I would like to have you base costs on per diem. That is what we are trying to do, get costs per day, yes, sir. But the point is that there are fewer days, fewer nonproductive days, so called, on short hauls than on long hauls.

Mr. LUCKETT. Yes, sir; but when you talk about per diem, you are talking about ignoring the competitive factors. If you will also couple with that assurance letting us know what our competition is ahead of time, then you can do things like that. But those two things are not compatible in our international trade.

Mr. WIERDA. Mr. Chairman, just one other point in connection with this Manila surcharge. Do not forget that the American exporter has not had any surcharge whatsoever ever since this thing began, back in April or May, whenever it was, until just recently.

Meanwhile the exporters from Europe and from Japan have been paying this higher surcharge for many months.

Chairman DOUGLAS. Now, the ax is going to fall.

Mr. WIERDA. All we want to do is get the situation straightened out in Manila so we can put our ships in and turn them around. We do not want the money.

Mr. LUCKETT. It is going through the courts. There has been a court decision now—they tell us they do not want to make a decision on awarding this contract; a private contractor taking over the function until after the election situation in Manila settles down.

Mr. COCKE. I can assure you, Mr. Chairman, it will be eliminated as soon as possible and we were very reluctant to put it in. It is something that was necessary to try to speed up the recovery.

Chairman DOUGLAS. In the vote inside the conference, did the American lines vote for this?

Mr. COCKE. I understand they did.

Mr. LUCKETT. We voted for a surcharge. There were differences of opinion on how to apply it.

We never voted for $2 a ton, if that is what you are talking about.

Chairman DOUGLAS. I say $10 a ton.

Mr. LUCKETT. If you would expect us to vote for $2 a ton outbound from the United States for the Philippines just because there is a $2 surcharge applied Japan to Philippines 3 months ago, we did not vote for that and would not do it if I had to vote for it today.

Chairman DOUGLAS. My question was whether you voted for the $10.

Mr. LUCKETT. There was some difference of opinion over the $10 versus using a percentage of the rate.

Chairman DOUGLAS. Did you vote for $2 on the Japanese lines?

Mr. LUCKETT. The people in Japan would have handled it. I would assume we did. I do not know, frankly.

Chairman DOUGLAS. Did the Japanese lines vote as a unit, (*a*) for the $2 on their shipping and (*b*) for the $10 on our shipping?

Mr. LUCKETT. In the conferences in which I have any familarity, outbound from the United States, the vote for a surcharge was unanimous.

Chairman DOUGLAS. The $10 surcharge?

Mr. LUCKETT. The only dispute was over whether it should be $10 or 25 percent of the gross rate, whatever it may be. That was the only difference of viewpoint.

Chairman DOUGLAS. Did the Japanese lines vote as a unit?

Mr. LUCKETT. Every member voted, not only Japanese—American, British, and Dutch.

Chairman DOUGLAS. It was unanimous?

Mr. COCKE. I might say the national-flag lines voted for it.

Mr. LUCKETT. I will take it back. There was a vote against it by one of the Philippine lines.

Mr. COCKE. In the other conference, the Philippine lines voted for it.

Chairman DOUGLAS. Thank you.

Mr. WIERDA. We are at the bottom of page 12, Mr. Chairman.

The steamship conferences have endeavored to be fully responsive to the needs of American exporters for lower rates to enable them to move their cargoes into foreign markets. The following is the record of performance in 1962.

Mr. Chairman, the next table shows disposition of rate adjustment requests before the indicated freight conferences in 1962, the number of applications or requests received from shippers for a lower rate, the number which have been granted, the number which were declined, and the number that were dropped or withdrawn in certain conferences because the shipper either evinced no further interest or did not provide sufficient information.

(The table referred to follows:)

Disposition of rate adjustment requests before listed freight conferences, year 1962

Area covered by freight conference	Requests received	Requests granted	Declined	Dropped or withdrawn
North Atlantic Baltic	159	99	38	22
River Plate and Brazil	283	179	103	1
North Atlantic United Kingdom	265	162	53	50
North Atlantic Continental	266	187	46	33
Gulf French Atlantic Hamburg Range:				
Belgium	110	80	30	----
France	78	59	19	----
Holland	108	79	29	----
Germany	110	78	32	----
Gulf/United Kingdom	104	69	35	----
Gulf South and East Africa	12	7	5	----
Gulf/Scandinavia and Baltic Sea ports	28	16	12	----
Gulf Mediterranean	68	47	21	----
Atlantic and gulf-west coast, South America				
Atlantic and gulf-east coast, Colombia				
Atlantic and gulf-Venezuela and Netherlands Antilles				
Atlantic and gulf-west coast, Central America	518	381	137	----
U.S. Atlantic/gulf:				
Santo Domingo				
Haiti				
Kingston, Jamaica				
North Atlantic/French Atlantic	157	130	13	14
Pacific westbound	364	266	98	----
Total	2,630	1,839	671	120
Percent	----	(70)	(25)	(5)

Chairman DOUGLAS. Are many of these requests for the same commodity?

Mr. WIERDA. I could not answer that question, Mr. Chairman. I do not know. All of these trades are different and all the commodities and the movements are different. It may be that in some trades, there has been a request for the same commodities.

Chairman DOUGLAS. I do not want to interfere with your putting the facts in the record. As I understand it, what you are saying is that 1,839 out of 2,630 requests were granted?

Mr. WIERDA. That is correct; lower rates.

Chairman DOUGLAS. Seventy percent of the total?

Mr. WIERDA. Yes, sir.

Chairman DOUGLAS. 671 were declined, 25 percent of the total, 5 percent were dropped or withdrawn?

Mr. WIERDA. That is correct.

Mr. LUCKETT. Another point is to illustrate that the shippers, when they have a need, are not bashful as some people have tried to indicate.

Mr. WIERDA. I would like also to point out another factor here which is not in the prepared statement, Mr. Chairman. That is the fact that every time a shipper books cargo with any of the lines, it is also a matter of rate negotiation or rate contact with one another. In some of the trades where a contract system is in effect every time we negotiate with a shipper to sign a contract, that is also rate negotiation. So that this is not a question at all of operating a vacuum in any way whatsoever. We have many, many more contacts. We have thousands of contacts with shippers every week, aside from the facts which are given before you of a formal application for a request for a lower rate.

The above tabulation clearly shows that in the vast number of cases, shippers' requests for rate reductions have received favorable action by the conference.

In the establishment of a rate in either direction for a particular commodity, basic information is required by the lines to assist in establishing a fair and reasonable rate, that is, the type, value, and nature of the commodity, its characteristics (any dangerous properties or any other special handling requirements), the ratio of weight to measurement, the extent of the proposed movement, the type of packing used, the end use of the article, et cetera. All of these facts, together with our own knowledge of operating and cargo handling costs, are taken into consideration. Attached hereto are sample forms used by conference to ascertain the relevant facts from a shipper requesting a rate adjustment.

You will note that on one of the forms attached, Mr. Chairman, there is specific reference to the third country competition and also a question as to what that shipper has done other than make a request for a rate reduction to meet that new competition.

Certain minimum costs of the steamship operator must be covered by the rate such as the cost of receiving, stowing, dunnaging, and securing the cargo, and the cost of discharging and delivering that particular commodity to the consignee.

The commodity is compared with other commodities having similar characteristics, and the conference, on the basis of the facts above mentioned and usually in negotiation with the shipper himself, establishes a rate designed to permit the commodity to move and produce a profit for the carrier. The judgment of many people is exercised in this process and it is unfortunately not an exact science.

Moreover, there are times when the shipper needs a rate we cannot afford to quote, or when the shipper wants to become competitive in a foreign market only at our expense; that is, he expects the carrier to take up all the slack in his competitive position in a foreign market without himself contributing by shaving his profit.

As you will hear from Mr. Colker, this ratemaking procedure is not unusual in transportation industries. Even in the regulated and

protected domestic transportation industry, with complete Government control and supervision of rates exercised by the ICC or the CAB, the ratemaking process is an inexact science. Dr. D. Philip Locklin, professor of economics at the University of Illinois, in his book, "The Economics of Transportation," published 1960, says on page 431:

RATEMAKING IS A MATTER OF JUDGMENT

Theoretically the reasonableness of rates should be determined by ascertaining the direct expenses involved in moving a certain commodity. Then after a study of the various demand factors mentioned in preceding pages, the overhead costs should be distributed with careful regard to the principle of what the traffic will bear. But as a matter of fact, the reasonableness of rates is not determined exactly in this way, although the results are often approximately the same. The regulating body, as we have seen, uses the comparative method. Rates on commodities in question are compared with rates on similar commodities. Cost factors and ability-to-pay factors are compared, and the Commission arrives at a conclusion. The weight accorded to the various factors is not usually stated, and the process by which the conclusion was reached is often not revealed. This gives a mysterious appearance to rate decisions. As one writer has put it: "It may appear that the Commission thrusts its hand into the darkness, and a reasonable rate is plucked back like a rabbit from a conjuror's hat." The recognized principles of rate reasonableness, however, are not difficult to understand when isolated and considered separately. The difficulty comes in reaching a conclusion in a particular case, where many factors, often pointing to divergent results, are combined. In the words of a Federal court, "* * * it is beyond the sphere of human ingenuity to establish a rule of mathematical certainty whereby a rate may be ascertained as reasonable or unreasonable."

Someone once said in an ICC hearing in describing the inexact science of ratemaking on railroads that the establishment of a rate was the result of comparison, competition, and compromise. That fairly adequately explains how ratemaking is done in the transportation industry regardless of whether it is protected from competition such as the railroads or airlines—or not protected at all, such as the international shipping industry.

The fundamental underlying principle which guides every steamship line is to establish a rate which will permit the cargo to move in the greatest volume possible. It is in our own selfish interest that we do that since it is our only business and it is the only thing that we are in business to do.

We fully appreciate that when someone compares ocean tariffs, without a full knowledge of the business, he may find it confusing. Some of this is because steamship tariffs frequently use similar or even identical nomenclature for rate entries applying to quite dissimilar commodities. Rubber tires moving to Japan, for example, are huge tires for airplanes and road-building machinery. Rubber tires moving from Japan are basically for bicycles and children's toys. While the uninitiate might call both commodities rubber tires they are actually entirely different commodities and properly take different rates. The outbound item is listed in the tariff as "Tires and tubes, rubber, pneumatic, aircraft" or "Tires and tubes, rubber, pneumatic, not aircraft," while the inbound item is listed as "Bicycle tires and tubes, rim strips."

Senator PELL. May I interpolate for a moment here?

In connection with the item here, "Tires and tubes, rubber, pneumatic, aircraft," would the rate be the same, incoming and outgoing for exactly the same item?

Mr. WIERDA. There is no tariff entry, inbound tariff, from Japan and for this particular item, aircraft rubber tires.

Senator PELL. For some other object for which there would be a comparison, would the rate be exactly the same?

Mr. WIERDA. No.

Senator PELL. Why would there be a difference?

Mr. WIERDA. There would be a difference primarily because the rate is negotiated with the shipper on either end and the rate is reached without regard to what the competitor abroad might need to ship from Japan here. We are talking to an American exporter, "What do you need to ship rubber tires to Japan?" We work out a rate with him that will make that cargo move. We do not take into consideration what the Japanese exporters' problem might be in shipping rubber tires to the United States. That is an entirely different matter. That does not help to solve the American exporter's problem when he needs a certain rate to ship over there.

The suggestion that the rates be identical in both directions, in my opinion, is one which will hinder export commerce from the United States by forcing us to take into consideration irrelevant matters which have absolutely nothing to do with this exporter's problem. We look at his problem, what do you need to get it there? If we can do it, we will do it. We do not take into consideration what his competitor's problem on the other end might be in trying to set a rate for him. I think it would be a very great mistake for the American export movement to force any kind of a consideration of that kind on an American exporter. The man out in Chicago, or someplace, is not interested in what the Japanese manufacturer's problem is. He has his own problem and he wants that problem solved, based upon his facts, not based upon somebody else's facts that are not common to him at all.

Senator PELL. But, in general, for the same item, would it be more or less expensive to ship from Japan to America as opposed to from America to Japan?

Mr. WIERDA. I do not think there can be one answer to that. It depends upon the circumstances, it depends upon if it were an absolutely identical item, it would depend so much upon the conditions in respect to that manufacturer's problems in making the shipment.

Senator PELL. Would you disagree with my assumption that it usually is more expensive to ship the same item out than it is to ship it in?

Mr. WIERDA. I will disagree with that, because I really, honestly, cannot find anything that would lead to that conclusion.

Senator PELL. Thank you.

Mr. WIERDA. When a rate on a commodity is fixed it normally remains at that level, unless there is a need for change as demonstrated by an interested shipper. Steamship companies, like other carriers, do not ordinarily study a particular tariff rate unless something occurs to make the level of that rate important to the conduct of the company's business.

As mentioned earlier, it is characteristic of international commerce that the movement of a specific commodity is predominantly in one direction. When the demands are made by shippers for a reduction

in the rate, it is made in the direction of movement. Consequently a lower rate may be established in the one direction while the rate in the opposite direction stays at a higher level.

As common carriers of commodities generally, the liner operators publish specific rates on virtually every commodity. The usual outbound tariff contains better than 3,000 rates on specifically described commodities. Many of these rates are never used, for no significant quantity of the particular commodity has moved or will move. This is so well recognized that these rates are commonly referred to as "paper rates," which means they exist only on paper and have no practical meaning or effect. Indeed, the ICC, although it has traditionally tested the reasonableness of rate levels by making comparisons, has repeatedly held that it is not proper to compare a rate which moves traffic in significant volume with a paper rate.

"Many of the compared rates are from midcontinent origin groups which no appreciable volume of traffic has been shown to move. We have frequently observed that comparisons with paper rates, rates which move little or no traffic, are of little probative value" (*State Board of Equalization* v. *Abilene & Southern Ry.*, 305 ICC 497, 512 (1959)). (To the same effect, see *Morton Salt Co.* v. *Southern Pacific Co.*, 313 ICC–398–399–400 (1961)).

We do not pretend that all decisions which we make regarding individual rates are perfect. We fully know and appreciate that we have been unable to satisfy every shipper of every commodity to every port in the world. But the real test of the facts is performance, not theory. The recorded performance is that the value of our exports of commercial cargo from the United States has increased our trade balance by some $2.7 billion since 1955. This certainly does not indicate that steamship rates retard our export drive.

The American-flag companies, with but few exceptions, operate within the framework of the conference system. This system was devised nearly a hundred years ago as a means of meeting an essential need for some type of regulation in international trade.

The fierce, unbridled competition then existing threatened to destroy the industry itself. Since it was an international industry, represented by interests of many nationalities, no one nation could impose its will on all the other nations of the world. The industry finally solved its own problem by forming an association of lines whereby they sought to impose some rationalization of competition.

In the last 50 years there have been five major government investigations into the conference system. Each concluded that while there were imperfections, it was nevertheless the best system yet devised to harmonize the divergent interests of so many different nationalities and bring some measure of reason to this international industry.

The conference system gives many advantages to shippers. It assures the shipper of adequate, frequent service to meet his requirements at reasonable rates. It charges the same rate to all shippers similarly situated, large or small, and guarantees that rate for future periods. It gives the shipper an opportunity to negotiate rates with a large number of lines with the full knowledge that his competitor will not obtain an unfair advantage. The shipper can commit himself for future business knowing that the service he needs will be there when he wants it and at a fixed rate.

The conference does not make rates in the classical manner of either a monopoly or a cartel. In most trades and certainly in the American trades, the lines comprising the conference do not offer the sole means of transportation possibilities to the shipper. The other opportunities available vary according to the product involved but can include any or all of the following: nonconference lines, full or partial ship charter spot offering by tramp ships, air transportation, and shipment through alternative gateway ports. When the conference deals with a particular shipper, it must and does take cognizance of all of these pressures of competition. A rate which it establishes for the shipper must be set at such a level as to encourage the shipper to use the conference lines and not resort to any of the other possibilities.

At the present time, with the world supply of ships far exceeding available cargo, the forces of competition are a vital factor which our conferences face every day in their ratemaking decisions. This is not theory but hard fact. The conference operates as much under the pressure of the marketplace in setting its rates as does the American exporter in his endeavor to sell his goods.

Complete and free rate competition in ocean transportation would not benefit our balance-of-payments position. There is just not enough profit in liner ocean freight rates to and from the United States to permit reductions which would have a significant impact on our balance of payments. Even if the rates were reduced to actual costs of operation, I doubt there would be a handful of commodities on which the ocean freight rate would be the determining factor which would create new markets for our exports. Indeed, I believe the uncertainty and instability of freight rates in the absence of conferences would harm our exports more than any benefit which might result.

The American businessman exporting to foreign countries is not concerned with the import freight rates on competitive commodities into the United States. He does not regard and we do not regard the freight rates on imports into the United States as a method of discouraging foreigners from competing with him in the United States. That is the function of the Tariff Act, not of steamship lines or steamship conferences.

If the importation of certain commodities or of the present level of commodities is contrary to the national policy of the United States, there are other proper methods of impeding their flow. We view our function as being the promotion of commerce from and to the United States. We respectfully suggest that despite the present balance-of-payments situation we would be subject to criticism, not only by the American business community, but also by the American Government and the governments of the foreign countries we serve, if we increased rates on imports in order to prevent their movement.

The suggestion has been made to this committee, since conferences are formed of lines representing many nationalities and the American lines are frequently outnumbered, that conferences are controlled by the foreign lines. Conference agreements vary from trade to trade and voting provisions also vary. While most conferences require a unanimous vote for any change in the basic agreement itself, the vote required to act on rate matters ranges from

unanimity to a simple majority. These variations depend largely on the number of lines in the conference.

It is unreasonable, for example, in a conference consisting of 25 lines, that unanimity should be the only basis on which the conference could take rate action. It would be extremely difficult to obtain a unanimous point of view on almost any rate. On the other hand, it is also unreasonable that a small conference of say, three lines, should have rate decisions by a majority vote. Small conferences usually have either unanimous or perhaps unanimous minus one vote, where as larger conferences will vary from a simple majority to either a two-thirds or three-quarter majority for such rate decisions.

It is quite true that in many conferences the American-flag lines as a national entity are fewer in number than the combination of all the other foreign-flag lines. But it is also true that any other national group of lines is outnumbered by the combination of all the others. This is typical of conferences anywhere in the world.

The basic reason why conference rate action functions in practice is that decisions are based on the economic considerations involved in transportation and not on political considerations. The lines act together because of their mutual interest in serving the shipping public, and that interest transcends nationality of flag. Of course in their rate deliberations there may be selfish motives on the part of a particular foreign line and we sometimes have selfish reasons ourselves, but these are economic and not political motivations. To say that foreign lines dominate the conferences with a view to stifling our exports by adverse rate action is completely untrue. Certainly any consistent action on the part of foreign interests to make rates on a politically motivated basis would make it impossible for the American lines to continue in the conferences on that basis and a new basis would have to be found.

It is our firm belief that the foreign lines have not banded together in any conspiracy to consistently outvote the American-flag interests, although in response to the unilateral regulatory actions of this Government in the past few years, there has been evidence of a greater common interest among the foreign lines in setting up organizations to protect themselves. They do not, however, extend to rate matters and their activity is not on a political basis.

These organizations are active, I understand, in representations to the State Department.

The suggestion that the foreigners dominate American conferences is inconsistent with the suggestion that the American export rates are higher than the import rates. If the foreign lines were acting jointly or under the direction of their own governments in the establishment of freight rates, they would deliberately keep the export rates from the United States at a very low level.

This committee understands, of course, that on exports from the United States, it is the foreign importer who pays the ocean freight. The American exporters' price must have added to it all the other charges which will be incurred in the movement of that cargo to destination. Such charges include customs duties, interior transportation, the handling and processing of documents, et cetera, as well as the ocean freight. The interest of that foreign nation would

be to keep the rates of freight at as low a level as possible in order to improve their present adverse balance of trade with the United States. The suggestion made before this committee that there is foreign domination of the conferences to and from the United States is not correct.

Malpractices in the shipping industry have been frequently discussed in recent years. It must be recognized that any deviation from conference agreements or indeed from the regulations of any government, springs basically from the excess of ship capacity compared with cargo available and the resultant fierce competition within the conference. The shipowners are just as concerned about this matter as anyone else, for malpractices tend to destroy the conference system.

Although rebates and malpractices exist, they do not have an adverse effect on the movement of American exports. The purpose of a malpractice is to attract cargo to a particular carrier within the conference which would otherwise be carried by a competitor within the conference. As an example, the issuance of an onboard bill of lading before the cargo actually is onboard is contrary to the conference agreement, but permits a shipper to meet an expiration date in a draft which he might otherwise not meet.

A rebate likewise is designed to divert traffic from one carrier to another within the conference. I have neither experienced nor heard of any situation in which a rebate was being given to a shipper for the purpose of enabling it to penetrate a market it could not otherwise enter. If a shipper needs a lower rate for this purpose he would not suggest an improper arrangement but would seek a lower published freight rate.

We do not condone any form of malpractice and have formulated the idea of the neutral body as an internal means of self-policing. Neutral bodies were authorized by a law passed over 2 years ago. Nearly all conferences have revised their basic agreements to incorporate this or a similar concept. Nevertheless, only one or two agreements have yet received the required approval of the Federal Maritime Commission.

After World War I, when the Government owned and operated the major portion of the vessels under U.S. registry it realized the need for pooling agreements in international shipping competition and negotiated such agreements.

After World War II the Federal Maritime Board ordered an investigation (docket S–27) of how pooling agreements affect competition between the lines. The investigation determined that pooling agreements were not detrimental to the commerce of the United States and did not eliminate competition between the parties to the agreements.

Senator PELL (presiding). Excuse me. Another point I do not understand is, are you opposed, then, or do you support the practice of rebates?

Mr. WIERDA. We are firmly opposed to the practice of rebates, or any malpractice.

Senator PELL. You do consider a rebate a malpractice?

Mr. WIERDA. Very definitely.

As a matter of fact, Mr. Chairman, the industry has done a great deal in trying to find some way and means of eliminating these practices. This neutral body concept was a concept that was devised by the industry. The fact that there is a requirement now in law for such a self-policing system was done at the suggestion of the industry.

Senator PELL. But rebates do exist?

Mr. WIERDA. They do exist; that is correct.

Senator PELL. Are more given on inbound or outbound traffic?

Mr. WIERDA. I would not be able to guess at that one.

In the limited time available in this testimony it is impossible to describe in detail the pools to which U.S. shipping companies are now parties. Generally, they are designed to promote the commerce of the United States and to assure as equitable a participation as possible in the carriage of the available cargoes by the U.S. shipping companies.

Pooling agreements vary depending upon the problems of the U.S. carriers in specific trades. Some pools are designed to assure the U.S. carriers an equitable participation in cargoes either outbound or inbound, which otherwise would move on foreign-flag lines due to national preference.

Others are designed to assure equitable participation by destroying the incentive of some competitors to engage in malpractices. Some recent pooling agreements resulted in an equitable participation of cargoes moving in our foreign commerce where the routing is directed by the laws or decrees of particular countries to the vessels of that country, subject, however, to agreements between the national flag lines of that country and the nonnational competitor.

These latter agreements are quite properly known as free access agreements, due to the fact that they make it possible for each national carrier to participate in the cargoes covered by the directed routing laws or decrees of the other country. In concluding on this subject of pools I wish to emphasize again that the regulation by the Maritime Commission and its predecessors has been vigorous. When a pooling agreement has been signed and filed with the Maritime Commission there is a long procedural process ahead of the parties.

First, notice of the agreement is published in the Federal Register with an invitation for comments to all parties. It is set for hearing before an examiner, there are usually extended hearings, pleadings, and written briefs, and oral arguments. The examiner's report goes to the parties for possible exceptions. Once these are filed with the Commission there is provision for briefs and oral argument. Once the Commission acts, a dissatisfied party can appeal to the Federal courts. This process takes months and in some instances years. By the time the procedural steps are concluded, one can be sure that thorough consideration has been given to the propriety of the pool.

I regret that we have thus far been unable to make any meaningful study of the relative level of rates on commodities moving from the United States and from foreign sources of supply to common markets, particularly South America, South Africa, and India. It was not until last Thursday, only 2 days before this document must be reproduced for delivery to the committee on Monday, that we re-

ceived from the committee's staff the tabulation of items for study. Our superficial analysis discloses the following:

1. In many instances the rates shown from foreign countries to common markets are wrong.

We have some information here on rates to Venezuela, Chile, Panama. In quickly checking some of those rates in the short time available, we understand there is a surcharge on some of these commodities which is not imposed. There is a 10-percent rebate under their contract system which has been deducted, but there is no such contract system in effect. So we do question the rates on some of these that are shown for foreign countries.

We understand that these rates were obtained from some of the U.S.-flag lines, which had obtained them through their foreign offices from foreign carriers. However, the rates were hastily obtained and were furnished with a caveat that they might be incorrect, since reliable tariffs were not available.

Senator PELL. Could you supply for the record some more reliable rates, if they are available, and corrections that you think are needed?

Mr. WIERDA. We would have to check into this entire area here. It is covering sources of supply from Rotterdam, London, Tokyo, or Yokohama, and so on. Many of the items that are mentioned in here are not definitive enough for tariff purposes. For example, drugs, medicines, and pharmaceuticals. We might have 50 rates in our tariffs to cover various drugs and medicines. It might be cough drops at 5 cents a box or medicines that cost $5 a small bottle or vial. We would have to have a definitive list of the commodities you want in order to make any intelligent request for rates.

Mr. LUCKETT. I might mention as hard as it might seem to us in this country, rates are not published in many parts of the world from foreign ports. You can go into a public tariff room for that or get it from a shipper, even. You cannot buy a tariff. Rates are not easy to come by, even for those of us that are in the business, particularly if we are not involved in that particular trade.

Mr. COCKE. We found great difficulty in securing any rates. Some of the conferences from foreign countries discontinued exchanging tariffs with American conferences—said, "No more exchange of tariffs; please return to us those tariffs that you have."

It is most difficult for us and one of the exporters who testified informed your committee that he did not know whether he had the correct rates or not. We did the very best we could.

Mr. LUCKETT. But we can do some correcting to the extent we know it, Mr. Chairman.

Senator PELL. If you would, because there is the problem for the American producer and shipper of trying to make up his mind what the competitive rates are. We would be most appreciative of any corrections you could make. We have done the very best we can.

Mr. WIERDA. I think the American producer or shipper to the Common Market would be in a much better position to know what effect a freight rate does have on his market in this country. He can tell much more about these particular items as to what the freight rate possibilities or differences are than we can. After all, he has an interest; I mean an interest from the standpoint that when he talks to a conference, they understand he has something he wants to ship.

They also understand when we talk to them that we have not a thing that we want to ship.

Senator PELL. I understand; thank you.

Mr. WIERDA. More importantly, the study apparently does not take into account that a measurement rate in trades operated from Europe is 35.3 cubic feet, rather than the 40 cubic feet of our measurement ton. Likewise some of the rates quoted on a weight basis are actually subject to higher rates on an ad valorem basis.

2. Some of the rates from the United States to these common markets are incorrect.

I have been advised, with a very quick glance at these rates, from New York to Venezuela and Chile and Panama, 23 of the rates have been incorrectly applied for this study of the thousand-mile theory.

Senator PELL. I would like to ask Mr. Boggs, who had some responsibility for assembling these figures, to try to clarify these points.

Mr. BOGGS. The first point I would like to make is that we have not claimed, as Mr. Wierda knows; that these are precisely accurate figures, on the contrary we provided that caveat. But in every case where we had a choice between rates we tried to exercise judgment and use the one which favored U.S. exporters. In other words, we tried to weight them in favor of U.S. exporters and not in favor of the foreigners. However; U.S. exporters still appear to be at a serious disadvantage.

The statement about the 35.3 to 40 cubic footage I believe only applies in the case of rates from Rotterdam and does not apply to the rates from London, Tokyo, and the rest. Moreover, the fluctuation between the Rotterdam-London rate is on an average of 1.3 percent, so these rates are very, very close to each other on a per-ton basis. Perhaps the slight difference of 1.3 percent is explained by the 35- to 40-cubic-foot differential.

The point we are making is that we will be very happy to make a strenuous combined effort with members of your committee in coming up with an accurate study, comparing these rates. Because in this study, trying to weight it in favor of the U.S. exporters, the position of the United States looks very bad.

Mr. WIERDA. We will be very pleased to cooperate in every respect.

3. The tabulation has deducted the average of all stevedoring costs in New York Harbor from the freight rates in the various trades instead of applying the particular cost of the company in a trade to the freight rates of that trade. Because of the differences in cargo mix, the costs of handling cargo varies. Moreover, I believe terminal rental and administration, normally an overhead item, and other direct cargo costs not reflected in "loading charges" should be taken into consideration.

4. Despite the apparent disparity in rates, the commodities move in substantial volume from the United States and in limited volume if at all from other countries. Thus, considering the United States and Japan as a source of supply for India and despite the apparent rate advantage of the Japanese producers, we shipped 242 automobiles in 1962 against their 3.

Senator PELL. Excuse me, Mr. Wierda; Mr. Boggs has a question.

Mr. BOGGS. Mr. Wierda, I believe there are a number of commodities on the list which do move in greater volume from foreign ports than from U.S. ports. Drugs, medicines, and pharmaceuticals from Europe to South America are examples. Besides, our selection was based on the belief that commodities moving in large volume received lower rates than commodities that move infrequently. It seems to follow that if most of these commodities move in greater volume from the United States to these areas than from Japan or Europe, the rates on U.S. exports should be lower because of the greater volume.

Mr. WIERDA. We would like to show to you, Mr. Chairman, if we may, a study just completed this morning concerning the amount of dollar imports on the selected commodities of the Joint Economic Committee, the imports by Venezuela, Panama, and Chile from Japan in 1962 and from the United States in 1961.

We understand from the Bureau of Census when we were investigating these matters that the exports from the United States for 1962 would be higher than those shown here.

Particularly you will see that the U.S. exports much more cargo in spite of lower freight rates from foreign countries on many commodities; take autos, buses, and trucks, where there is such a great disparity in the freight rate on a per-mile basis, Japan exported $202,000 worth, while we exported $39 million worth. Insecticides: $17,000 worth came from Japan to Venezuela, we exported $20,581,000 worth. On cotton piece goods: a big Japanese item, $586,000 only, but we shipped $7 million. Refrigerators, they shipped $3 million worth; we shipped nearly $30 million worth.

The same facts as to the amount of exports from the United States to Panama as compared to Japan, to Chile as compared to Japan, show exactly the same thing.

It is not the freight rate that determines whether or not the cargo is going to move in this particular trade. There are other factors that enter into it.

The Japanese publish extremely good information on that.

Mr. BOGGS. The only ones we checked were Europe and not Japan. Automobiles were a very extensive item from Europe.

Mr. WIERDA. That may be true. We have not had an opportunity to check the European record.

Senator PELL. These figures of yours will be made a part of the record.

Mr. WIERDA. Thank you. We would like that.

(The document referred to follows:)

Statement showing dollar imports of Joint Economic Committee selected commodities by Venezuela, Panama, and Chile from Japan in 1962 and the United States in 1961

Commodity	To Venezuela		To Panama		To Chile	
	From Japan	From the United States	From Japan	From the United States	From Japan	From the United States
Autos, Buses, and trucks	$202,732	$39,062,694	$221,106	$5,162,102	$783,248	$31,412,189
Insecticides	17,119	20,581,224	42,397	5,282,373	----------	5,896,747
Fertilizers	----------	962,016	----------	154,292	908	3,278,290
Cotton piece goods	586,606	7,106,345	1,184,994	3,754,267	267,636	2,759,910
Electrical appliances, viz: Toasters, vacuum cleaners, radio, TV receiving sets, and refrigerators, etc	3,223,297	29,633,858	6,413,308	7,774,764	523,861	12,419,177
Drugs and pharmaceuticals	75,314	7,155,993	198,531	61,695,108	10,156	2,918,390
Engines, internal combustion other than aircraft	74,258	9,275,866	6,725	1,203,971	110,944	2,544,930
Iron and steel, viz: Angles, beams, sheets, plates, rods	953,281	9,475,440	456,889	1,547,701	250,128	4,698,478
Pipe	2,743,553	7,955,847	19,561	673,366	226,294	1,777,057
Machinery and generators, construction and mining	366	17,811,982	----------	3,053,976	197,658	19,879,341
Paper and paper products, viz: Bags, towels, napkins, printing, wrapping, etc	278,897	14,838,610	25,211	3,727,573	6,916	699,688
Tractors, other than road	719	7,817,022	----------	1,608,284	----------	7,802,493
Whisky	----------	140,722	1,183	277,623	----------	58,692

Sources: Japan, Ministry of Finance; United States, Bureau of Census.

Mr. WIERDA. We shipped 21,000 tons of insecticide against their 19 tons, et cetera.

5. It is obvious that the 1,000-mile comparison is meaningless, even from Europe and Japan. On most commodities from Rotterdam, London, or Tokyo, the rate of freight per 1,000 miles varies markedly, just as it does from the United States. It is obvious that the rate levels from these foreign countries to these common points are based upon considerations other than distance. Distance, of course, is one factor that must be considered, especially in the turnaround of a vessel, but the other factors which enter into ratemaking, such as competition, the value and characteristics of the commodity, the problem of the European or Japanese exporter in entering the market, play the most important part. The fact that no pattern based on mileage exists even between foreign source of supply again points out the basic elements of ratemaking which must take into consideration so many other important factors.

Based on the limited study we have thus far been able to make, correcting the rates to the extent our information has permitted, materially changes the comparison shown by the study. We suggest that we work with the staff to develop accurate rates and other facts so that the study can proceed at least on agreed data.

I must observe, however, that I cannot agree with any comparison of rates based on a distance formula. This is not the way rates are made or should be made. I think that looking at the study it will be seen that the disparity between the American and foreign rates decreases as the distance involved increases. Since the alleged purpose of the staff's formula is to eliminate the effect of distance on rates, this fact alone proves to me that the entire theory pursued is mistaken.

Senator PELL. We have another question.

Mr. BOGGS. I believe that Mr. Luckett stated that one of the reasons for a lower surcharge from Japan to Manila was the fact that it was a shorter haul.

Mr. LUCKETT. No, sir; I did not say that.

Mr. BOGGS. And that the cost of operating the ships was less?

Mr. LUCKETT. I said the type of vessel used in that short-haul run had a lower earning value and a lower cost per day.

Mr. BOGGS. In most short-haul runs, would we have similar type ships?

Mr. LUCKETT. Similar—no; we do not have any runs like that to speak of.

Senator PELL. Proceed.

Mr. WIERDA. One of the witnesses before this committee stated that the American-flag lines are sailing substantially full outbound and do not have either space or deadweight available to carry additional cargo on our vessels. This is not accurate. The utilization of vessels on any given trade route, both outbound and inbound will vary from year to year depending upon traffic conditions. But, to take 1962 as an example; a year with a high level of cargo movement; the unused outbound capacity of the American-flag lines who are members of ASTEC amounted to 25.2 percent of the total cubic available and 46.4 percent of the total deadweight available. On the inward leg the unused cubic capacity was 49 percent and the unused deadweight was 73 percent. The statistics given above include all cargoes carried and include broken stowage.

The American-flag lines today are replacing their present C–2 type vessels with much larger and speedier vessels. A C–2 has approximately 450,000 cubic feet of space available for cargo, while the replacement vessels will range from 600,000 to 700,000 cubic feet per vessel. The lines are maintaining at least the same number of sailings as in the past, but with their new vessels are putting on the berth more than 50 percent greater cubic capacity than when sailing only C–2's. It is quite apparent then that not only do the American-flag lines have a substantial amount of unused space today, but that they are continuing to increase that amount in replacing the present vessels with larger vessels.

While we do not want to take the time of the committee to answer in detail the testimony of the three gentlemen who appeared as shippers during the October hearings, we likewise do not want the record to be incomplete. Accordingly, I have attached hereto a statement of additional facts which should be read in conjunction with that testimony before conclusions are drawn therefrom.

(The material referred to follows:)

ADDITIONAL MATERIAL SUBMITTED IN CONNECTION WITH SHIPPERS' STATEMENTS

MR. T. A. ARNHOLZ

Brazil does not permit imports of mixed fertilizers. They do permit imports of basic items, and their industry mixes these basic products into compounds as required by their agricultural needs. These are: Single superphosphates, triple superphosphate, ammonium sulfate, potassium muriate, and potassium sulfate.

Another item imported by Brazil as fertilizer material is phosphate rock, generally forwarded to Brazil in shipload lots. The River Plate & Brazil Tariff bears a notation that the rate on phosphate rock is open.

Since 1955, supplying countries listed are United States of America, Germany, France, Japan, Belgium, Italy, Holland, Austria, East Germany, Russia, Spain, and north Africa. All commercial shipments imported by Brazil have been, and are subject to a rigid import license system, and one of the controlling factors for the issuance of an import license is the availability of dollars, marks, lira, etc., in the Bank of Brazil.

We quote from the transcript of the committee hearing dated October 10, page 285:

"Chairman DOUGLAS. These are conference rates?

"Mr. ARNHOLZ. That is right.

"Chairman DOUGLAS. There are 14 active members of the conference?

"Mr. ARNHOLZ. That is right.

"Chairman DOUGLAS. Two were American lines, eight were European, and three were Latin American lines?

"Mr. ARNHOLZ. Yes.

"Chairman DOUGLAS. And seven of the lines had a competitive service from Europe to Brazil and, therefore, had an interest in building up European exports interest and diminishing American exports; is that correct?

"Mr. ARNHOLZ. That is what we assumed, because otherwise it would not have made sense for the freight rates to be increased at that particular time.

"Chairman DOUGLAS. Thank you very much."

Referring to the above seven lines with a "competitive service" from Europe in connection with carriage of fertilizer we can advise the following:

Ninety percent of the fertilizer shipped to Brazil is exported from the U.S. gulf coast.

Two lines, Booth Line, and Lamport & Holt Line, serve the United Kingdom/Brazil trade, not continental Europe. The rate on fertilizers from England is $14.70 per ton 40 cubic feet or 2,240 pounds, ship's option. Since the measurement approximates 60 cubic feet per 2,240 pounds this converts the rate to $22.05 per 2,240 pounds, which is much higher than either the U.S. or the Continent rate.

One line, Holland Pan American Line, by reason of the small size of their vessels, does not have space available for this type cargo. In fact, this line serves neither Brazil nor U.S. gulf ports.

Columbus Line, in the trade between the Continent and Brazil, as well as United States/Brazil, does not serve the U.S. gulf ports.

Both partners of Norton Line have a service from France to Brazil. Norton Line does not serve the U.S. gulf ports.

The two remaining lines are Lloyd Brazileiro (Brazilian flag) and ELMA (Argentine flag). These two lines are owned by their respective Governments and do service the U.S. gulf/Brazil trade.

Three, five, or even seven members out of fourteen cannot dominate the conferences to the extent of dictating rates in the United States/Brazil trade.

Now let's look at present rates. Our present conference rate on the fertilizers that move in this trade is $11 per 2,240 pounds, F. I. O. From Europe the rates range $16 weight and up.

Mr. Arnholz neglected to state that the low level of rates to Colombia from Europe to which he constantly eluded were the result of a rate war in Europe (Hamburg/Le Havre range) which started in 1956 and reached a peak in June 1960, at which time the European conference lines were offering a flat rate of $10 for any cargo moving in volume to the north coast of Colombia. This rate war which lasted through early 1963, was initiated by tramp vessels handling Peruvian ores and fishmeal to Europe seeking return cargoes over

the route to Peru. The Colombian trade was particularly vulnerable to such competition as Colombian import regulations weakened enforcement of the European conference contracts. Chemoleum Corp. was, therefore, in this case the victim of the low rates available from Europe in consequence of exactly the same conditions Mr. Arnholz proposes for our trades. Just how he expects the freight rates available to his European competition to be stabilized while he enjoys so-called freedom from the United States is far from clear. His own experience demonstrates that his ability to compete must be dependent upon stability of rates from all competitive sources of supply as well as from the United States.

To the extent higher costs experience permitted, the American conference carriers reduced upon request from interested shippers, their normal tariff rates for fertilizers, paraffin war, insecticides, caustic soda, synthetic resins, and related crude chemicals to a level where U.S. exporters could maintain themselves against European competition. As a case in point, Chemoleum Corp. was able to book with Gran-Colombiana in June 1960 a parcel of 710 tons caustic soda, Philadelphia/Barranquilla at $12 per 2,000 pounds including surcharge—against a normal conference tariff rate of $15 plus $2.20 surcharge per 2,000 pounds.

Mr. Arnholz' contention that the U.S. exporter has lost considerable ground in Colombia due to unreasonably high conference rates is not borne out by the facts as to the dollar value of the total U.S. exports to Colombia from which it is clearly apparent that Colombian imports from the United States are largely dictated by the availability of foreign exchange and not the level of freight rates. U.S. exports to Colombia did in fact increase steadily from 1958 through 1961 and came close to holding their own in 1962. A study of the figures over the years would readily demonstrate that the variation in American exports to that market results from Colombia's ability to buy and not the freight rates.

Mr. Arnholz' testimony concerning "discriminatory taxes" imposed by Colombia demonstrates a lack of knowledge as to the facts. The regulations to which he eludes concern the rates of exchange applicable to freights collectible in Colombia by the carrier. These regulations whether or not an advantage to the regular or conference carriers left him at absolutely no disadvantage with respect to his European competition as exactly the same regulations were applicable to carriers of Colombian imports from all over the world. As a matter of fact, a U.S. conference carrier was adversely affected since its service was not sufficiently regular to qualify for the more advantageous rate of exchange.

MR. A. B. DODGE, JR.

The Dodge Cork Co. are known to United States Lines Co. as importers of jute backing for cork tiles from the United Kingdom. The district freight manager of United States Lines Co. at Philadelphia, W. P. Searfoorce, calls regularly on the Dodge Cork Co. at their offices in Lancaster, Pa. At no time has Mr. Jeffremov, export sales manager for this company, nor A. B. Dodge, Jr., president, ever advised Mr. Seafoorce during his personal calls, of any problem which he might have in connection with an export freight rate. In addition, the Dodge Cork Co. has confirmed that not only have they not approached the steamship company for any reduction in rate, but they have also not approached the United Kingdom conference of their problem. We regret that in spite of continuous personal contacts with the Dodge Cork Co., the first time we were aware of any rate problem was in testimony before this committee.

In any event, Mr. Dodge was incorrect in describing the import rates. Most United Kingdom rates, including the rate on cork products, is on a weight or measurement basis; frequently also on an ad valorem scale which results in a higher rate.

MR. ROBERT R. CLARK

Following Mr. Clark's testimony before the committee on October 10, we addressed a letter to him under date of November 6, asking for some specific description of the products that he referred to in order for us to more adequately study the problem which he presented to this committee. The lines trading to the areas mentioned by Mr. Clark were unable to analyze the problem because additional facts of the character of the commodity including packing, value and any dangerous or obnoxious properties had to be known. We received a letter from Mr. Clark under date of November 7 which indicated that his company

had not been and is not, in fact, precluded from exporting these commodities by reason of the export rate. The pertinent parts of his reply in this respect are as follows:

"During Department of Commerce trade expansion meetings in Washington seeking to identify nontariff barriers with an invited group from the chemical industry, I cited ocean freight rates as a definite barrier to export sales expansion and as a result was subsequently asked if I could do more than deal in generalities. Thus, I promised to submit it a report on 25 chemicals to 10 third country world ports from Europe and the United States. I did not reckon with the difficulties in obtaining the European rates to these oversea ports, and at the time ended up with the complete picture on only seven chemicals which were used at the Joint Economic Committee hearings before sending them to the Department of Commerce (BDSA), as originally promised.

"My reason for going into this detail with you is that I wish to point out that the selection of these seven chemicals was dictated by rate availability with no idea that we would ship them or planned to ship them, although we might actually be doing so. The purpose of the report was to show the average difference on commodities to 10 world ports as between the United States and Europe and to specifically pinpoint ocean freight rates as a nontariff barrier. I do not have the slightest doubt that I would get a similar approximate average difference with another group of commodities. In short, my presentation had no specific problem, case, conference, line, or product in mind."

Rate résumé to Japan—Far East Conference, 1958 to present

Automobiles:
1958 and 1959: File was dormant.
1960: Heavy lift charges on trucks amended to apply commencing at over 10,000 pounds instead of at over 8,960 pounds as heretofore.
1961: File was dormant.
1962: Rates increased by $2 per ton; namely, boxed from $37.25 to $39.25 WM., and unboxed from $47.25 to $49.25 WM.
1963 to present: File is dormant.

Distilled spirits—liquor: Files are dormant for the entire period involved.

Electrical goods and supplies: Electric toasters, batteries, light bulbs: Files are dormant for the entire period involved.

Electric motors: Files are dormant for the entire period involved.

Electric machinery, high pressure boilers: Files are dormant for the entire period involved.

Electronics—EDP computers; TV broadcast; microwave relay: Files are dormant for the entire period involved.

Fountain pens: Files are dormant for the entire period involved.

Fruits and preparations, canned: Files are dormant for the entire period involved.

Glass, flat, window: Files are dormant for the entire period involved.

Glass, plate: Files are dormant for the entire period involved.

Glassware, table and kitchen, household: Files are dormant for the entire period involved.

Household appliances—refrigerators and parts:
1958 through 1962 files were dormant.
1963: Commercial (store display) refrigerators—request of Taylor Refrigeration International, C. A., Niles, Mich., for reduction of rate from $61.25 to $40.00 WM., which conference declined.

Household refrigerators—request of National Electrical Manufacturers Association, for reduction of rate from $61.25 WM. to equal the normal rate applying on household refrigerators from Japan to U.S. Atlantic and gulf ports; namely, $43.50 WM.

This request is pending before the conference at this time for final action. In the interim the NEMA is to furnish the conference additional information which the conference has requested of them.

Household appliances—vacuum cleaners and parts: Files are dormant for the entire period involved.

Household appliances—gas stoves and parts: Files are dormant for the entire period involved.

Rate résumé to Japan—Far East Conference, 1958 to present—Continued

Household furnaces, heaters, and parts:
1958 and 1959 files were dormant.
1960: Request of Aluminum Co. of America, Pittsburgh, Pa., for reduction of rate to Yokohama from $56 to $40 WM.: also reduction of 50 percent in the heavy lift and long length charges. Both requests declined by the conference.
Iron and steel castings: Files are dormant for the entire period involved.
Iron and steel forgings:
1958 through 1960 files were dormant.
1961: Request of Bethlehem Steel for reduction of the rate from $54.25 to $30 LT/40, in which the conference concurred. (This applied on forgings, not machined).
Iron and steel pipe, 6- to 8-inch inside diameter: Files are dormant for the entire period involved.
Iron and steel pipe, oilwell casings:
1958 through 1962 files were dormant.
1963: At request of Bethlehem Steel, rate for oilwell casings of $49.25 LT/40 deleted, and this description included under the various inside diameter rates applying on steel pipe.
Iron and steelplate:
1958 through 1960 files were dormant.
1961: Rate reduced from $28.00 LT/40 to $26.50 LT/40 at request of U.S. Steel, and announced rate increase to $32.75 LT/40 which was to become effective January 1, 1962, was rescinded.
1962 to date, file is dormant.
Iron and steel rolled and finished steel structurals: Files are dormant for the entire period involved.
Iron and steel, stainless steel bars: Files are dormant for the entire period involved.
Lubricating oils and greases: Files are dormant for the entire period involved.
Oilfield machinery equipment: Files are dormant for the entire period involved.
Pigments: Files are dormant for the entire period involved.
Plywood: Files are dormant for the entire period involved.
Railway cars: Files are dormant for the entire period involved.
Railway locomotives: Files are dormant for the entire period involved.
Rubber tires and inner tubes: Files are dormant for the entire period involved.
Semimanufactures, piece goods: Files are dormant for the entire period involved.
Semimanufactures, sheeting: Files are dormant for the entire period involved.
Sewing machines:
1958 and 1959 file was dormant.
1960: Request of Consolidated Sewing Machine Corp., New York City, for reduction of the rate from $56.00 WM. to $38.25 WM., which the conference declined.
1961 to date the files are dormant.
Soda ash:
1958 through 1961 file was dormant.
1962: Normal rate of $31.25 Wt. reduced to $20.00 Wt., for Dow Chemical, for temporary period.
1963: Normal rate of $31.25 Wt. reduced to $21.25 Wt., for Dow Chemical, for temporary period.
Sodium cyanide: Files are dormant for the entire period involved.
Standard newsprint paper: Files are dormant for the entire period involved.
Woodpulp: Files are dormant for the entire period involved.
Tobacco manufactured: Files are dormant for the entire period involved.
Tobacco unmanufactured: Files are dormant for the entire period involved.
Tools and basic hardware, handtools: Files are dormant for the entire period involved.
General cargo: Difficult to run down in the absence of a given commodity name.

Rate résumé to Japan—Far East Conference, 1958 to present—Continued

Date_____.

Mr. J. A. DENNEAN,
Chairman, Far East Conference
Room 760, 11 Broadway, New York, N.Y.

Please docket for consideration this rate application for readjustment of the ocean freight rate on the undernamed commodity. It is understood that should the rate be reduced as the result of this application, said rate reduction will not apply retroactively but will become effective after it has been filed by this conference with the Federal Maritime Commission.

1. Commodity_____ (Trade name, if any)_____.
2. Present rate $_____. Rate requested $_____.
3. Shipping label required (if hazardous or semihazardous)_____.
4. Name the kind of export packaging and give the measurements, viz:
   (*a*) Outer packing.
   (*b*) Gross weight.
   (*c*) Length_____ × Width_____ × Depth_____.
   (Show feet and inches for all three dimensions)
   (*d*) Number of cubic feet per package_____.
   (*e*) Number of cubic feet occupied per ton of 2,000 lbs._____.
5. Value of commodity, viz: Per pound $_____ or per 2,000 lbs._____.
6. Give uses of commodity:_____
7. Volume in which commodity ordinarily moves, viz:
   ( ) Continuous ( ) Seasonal ( ) Sporadic
8. Reason for requested reduction in the present ocean freight rate applying (if foreign competition is involved, please furnish all particulars including the country of origin, ocean freight, volume being shipped, laid-down cost, if possible, etc.):
9. If commodity is competitive with other commodities list the competing commodities (if possible, give the values of the competing commodities):
10. Where does this cargo originate_____.
11. Give the covering schedule B number (U.S. Department of Commerce statistical classification of commodities)_____.
12. Port or ports of destination_____.

Replies to the following questions are required only if the commodity originates at an inland point in the United States.

13. Rail rate from point of origin (_____) to:
    C/L rate for export per 100 lbs. Minimum C/L weight:
    (*a*) New York_____ _____ lbs.
    (*b*) New Orleans, La._____ _____ lbs.
    (*c*) Pacific Coast_____ _____ lbs.

If the commodity under consideration also originates at other inland points competitive with the above named point of origin, an answer is required to the following:

Point of origin: _____.
Rail rate (C/L for export), to:
New York_____.
New Orleans_____.
Pacific coast_____.
Name of shipper:_____.
Address:_____.
By:_____ Title:_____.
Telephone number:_____.

(NOTE: Any other information which you may wish to submit in support of your request may be included on the reverse side hereof, or in a covering letter.)

APPLICATION FOR MODIFICATION IN RATE

(Date)_____

1. Shipper_____
   (b) New Orleans, La._____
2. Address_____
3. Commodity_____
   _____
4. Rail or uniform classification_____Page_____Item No._____
5. Ports of destination_____
6. Type of package_____
7. Gross weight of package_____
8. Measurement of package_____
9. Value per pound or per package landed_____
10. Current rate_____
11. Rate requested_____
12. Percentage ocean rate is of the goods landed_____
13. Volume of present movement_____
14. Anticipated volume if reduction granted—also on what grounds is estimate based_____
    _____
15. Reasons for modification (if on account of Foreign Competition, state origin and extent steps taken by the shipper to reduce his other costs and how his article compares with the foreign article. Also any other steps taken to meet this competition) :_____
    _____
    _____

Mr. WIERDA. The American Steamship Traffic Executives Committee appreciates very much the opportunity to appear before this committee. We hope that the information we have gathered at the committee's request will prove helpful to it. We stand ready to render any further cooperation the committee desires.

I might say further in that particular respect, Mr. Chairman, that while we have had to do quite a lot of work to gather all this data together and to present the facts on this thing, we feel we are going to benefit very greatly from this inquiry. We have looked into certain areas of our operation and certain areas of our thinking which we haven't looked into before, and I do think that a great deal of benefit will come out of the inquiry that you have entered into, and we believe that we will also stand to benefit from it.

Senator PELL. Thank you, Mr. Wierda.

As you know, this Joint Economic Committee is not a legislative committee.

Mr. WIERDA. We appreciate that.

Senator PELL. One of our main functions is exactly what you say, the ventilation and illumination of problems and situations, at opportune times.

I have one very personal question, way off the subject.

What is the thought within the industry as to when you will have functioning nuclear——

Mr. WIERDA. Neutral bodies?

Senator PELL. Nuclear vessels.

Mr. WIERDA. I think that question would better be directed toward him, Mr. Nemec.

Senator PELL. Would one of you hazard a guess?

Mr. NEMEC. I realize this is a rather public operation. We have made a number of inquiries into it. Capital costs and the operating conditions under which this works are just so prohibitive today that

the advent of nuclear ships, even presupposing changes in international law which permit their operation on a commercial basis, is at least a decade away and probably more. There are no cost economies apparent today in the operation of nuclear ships.

Senator PELL. Are you aware at all of any nation that is looking into the possibility of a nuclear merchant marine vessel?

Mr. NEMEC. Senator, I would like to qualify that remark by saying in the operation of ships of the kind that we do operate, which are liner ships. These are ships which essentially spend somewhere between 40 and 50 percent of their time in port operations, cargo handling, and otherwise.

There are vessels now being designed for the Norwegians, for the Japanese, and for the British, which contemplate the inclusion of nuclear plants. These, however, are quite different ships than ours. They will be rapid turnaround ships, basically bulk carriers or tank ships—ships which would spend a far greater proportion of their time at sea. In the case of tank ships, they will discharge cargo through sea buoys at moorings far out at sea and thus avoid the hazards of contamination in built-up areas. These are very large ships with large carrying capacity where the high horsepower which seems to be requisite in a nuclear plant can be used to advantage.

Senator PELL. And, Mr. Nemec, these vessels are actually being built now with conventional power, but designed so when the time came they can be converted over into nuclear power?

Mr. NEMEC. It appears that the conversion of conventional power ships into nuclear will be far too expensive. Any time you do a conversion job of this magnitude, you double the cost. The ships to which I referred are in the design stage. They are being considered in prototype form and for prototype production in Scandinavia, in the United Kingdom, and in Japan.

Senator PELL. But there are no such plans on the design boards in our country.

Mr. NEMEC. We have had some proposals from a firm of naval architects in New York under a research assignment from the Maritime Administration. These have inclined toward the development of a very extremely large form of liner-cargo carrier. The consensus of the industry is that at the present stage, with present plant, with present costs, that this is a very impractical development. At present we believe money could much better be put into the design of ships which will spend more of their time at sea, that is, the tankers or bulk carriers.

Senator PELL. Thank you very much, Mr. Nemec.

I think Mr. Colker has a statement to make, does he not?

Mr. WIERDA. I am sorry, Mr. Chairman. I overlooked one or two little additional items here relating to the memorandum of November 15 which was placed into the record yesterday. It is an area where there is misunderstanding because of incorrect information. We would like to correct it, if we may.

In the United States North Atlantic United Kingdom freight rates, there is shown here a rate on books inbound, a rate of $28.70 weight or measurement. That, however, is for a value up to $180 per freight ton and over $180 it is $38.84 per freight ton, or 1½ percent ad valorem.

In the question of glassware, there is an outbound rate of $54.25 weight; however, the inbound rate is on a weight or measurement basis, not on a weight basis. Glassware stows between three and four times a ton, so that this rate is incorrect. It should be $21.70 measurement, and to compare the $54.25 outbound rate, you must multiply $21.70 three times in order to get an equivalent weight rate homebound. So that puts the rate up above $60 a ton. But even there it is also on an ad valorem scale. The actual rate of $21.70 measurement applies only up to $280 value per ton, which isn't a very high value. Then from $280 to $620, the rate is $28.70 measurement, and exceeding $620, the rate is $38.14 measurement. And in each instance the American exporter pays a flat $54.25 weight rate, whereas the inbound rate is completely on a measurement basis.

Those figures given in this memorandum cannot be—are not comparable unless that is taken into account.

Now, on page 2 we have the rates, United States North Atlantic to West Germany. We show, for example, fruit juices, canned, $38 weight outbound, and $18.50 weight rate inbound. The fact of the matter is that this is United States-North Atlantic rate, but the fruit juices exported from the United States are basically orange and other citrus fruit juices of that nature, which are exported from the gulf, and their rate is 80 cents a hundred, or something in the region of $16 or $17 a ton outbound.

So that to compare a North Atlantic rate where the cargo doesn't move with an inbound rate is not being realistic about it.

On the next item, meat, canned, the $37.25 weight rate is correct, but the inbound rate is a measurement rate, which is actually $32.29 when converted because the homebound rate is a cubic meter, that must be converted into 40 cubic feet, and the actual rate is $32.29 per 40 cubic feet. But the American outbound rate of $39.25 weight is also incorrect, because this cargo measures 1½ times. So that that $37.25 is actually applicable for 60 cubic feet of cargo, and to convert that down to 40 cubic feet, the outbound rate from the United States would be $25, while the inbound rate would be $32.29.

On radios and parts, the inbound rate is not $18.50, but $27.75 weight or measurement per 40 cubic feet.

On tools and basic hardware, this hand tool item, you have a rate of $36.25 weight or measurement, which is correct for the outbound rate, but that outbound rate includes portable electric tools. The $21 rate shown on homebound is incorrect, because it actually should be $32.75 minimum, and with a higher ad valorem scale applicable if electric portable tools are shipped.

Mr. BOGGS. Could I ask one question? Did the inbound rates change between August 7 and the current date?

Mr. WIERDA. Yes. I think they were—yes. These are all applicable rates today. These are current rates.

Mr. BOGGS. I think the discrepancies are explained by the raising of inbound rates between those two times.

Mr. WIERDA. It also reflects, Mr. Boggs, the fact that there has been no conversion factor.

Mr. BOGGS. That is shown on the bottom.

Mr. WIERDA. I realize that, but glancing at these rates, one would assume that the disparity was as listed when actually on most of these rates, are measurement rates, others have to be converted from a 35-foot ton to a 40, and that is an increase of some 13½ percent.

Mr. BOGGS. Is there any change on the United States Atlantic, Gulf to Japan figures?

Mr. LUCKETT. The rates themselves, Mr. Boggs, we haven't had a chance to check thoroughly, but I assume the rates such as are set forth are in the tariffs. This is a fair assumption, just looking at them. I haven't got a tariff in front of me to check them. The point I want to make in that regard is, I don't see where they have any bearing as a deterrent to U.S. origin traffic.

For instance, on the matter of distilled spirits, liquor, I am reasonably confident the rates are correct in that case. Japan has a very strict duty and quota system involving the import of distilled spirits. That which they import the most of, of course, is Scotch, and it doesn't come from this country. The little bit of bourbon that they permit in moves quite readily and if they would increase the quota, we could move a great deal more.

The rate is not the deterrent, is the point I am trying to make.

And similarly on glassware, Japan is a producing country, self-sufficient country, in glassware. There are certain specialty-type items that they do import. They have glassware also under a rather rigid quota system. And there again I don't think the rate disparity that is shown here is a deterrent in any way to glassware movement from the United States.

Refrigerators, stainless steel bars, and steel plates, are somewhat in a similar category. Also things that are manufactured or built in Japan. But refrigerators that do move into Japan from other areas, United States and elsewhere, of all that area 87 percent of the refrigerators they did import were from the United States. That is a pretty fair record.

Stainless steel bars that we would ship out from here would be a specialty-type item. We did ship some. As a matter of fact, I think we shipped more out than in, but it was rather insignificant in either direction, stainless steel bars.

Our bars had an FAS value, value without regard to ocean freight rate of 91 cents a pound. The bars that they shipped in here, stainless steel bars, had a value without regard to ocean freight rate of 31 cents, somewhat of a different item. In the case of plate, there again there has been specialty-type plate. We did ship some in. Japan did not import a great amount—being a steel-producing country, but from all the points from anywhere in the world, the United States supplied them with almost 90 percent.

I can't see in any of that picture, assuming the rates are correct, and I will check those for the purpose of the record, certainly none of these rates were a deterrent to movement from the United States, as far as I can determine.

(Subsequently, Mr. Luckett submitted the following communication to supplement his statement:)

AMERICAN PRESIDENT LINES,
San Francisco, Calif., December 2, 1963.

Mr. THOMAS BOGGS,
Joint Economic Committee,
Senate Office Building, Washington, D.C.

DEAR MR. BOGGS: At your hearings for November 20, I was asked if rates on the five commodities listed under the U.S. Atlantic and gulf/Japan heading in your memorandum dated November 15 and introduced into the record of the hearings on November 19 are correct. My reply was that I did not know without checking the tariffs but I would do so and report back for the record. I have done so and find that some of the rates are not correctly stated and in some instances, the rate listed is only one out of many in a general commodity classification.

Distilled spirits, liquor.—The rates in this category, both outbound and inbound, are correctly set forth in the memorandum. Attention is called, however, to table and remarks covering this commodity in section A of the exhibit supplied the committee during Mr. Donald Wierda's appearance explaining why the freight rates have little, if any, bearing on the volume moving between the two countries.

Glassware.—The rates shown in your memorandum each apply to only one classification of "Glassware" when there are 18 items in the U.S. Atlantic and gulf/Japan tariff and 20 in the Japan/U.S. Atlantic and gulf tariff covering different kinds of glassware. In the outbound tariff, there are glassware rates ranging from $32.50 W/M to $83.75 W/M covering some 53 entries of different manufactures of glassware so it is misleading to list $43 as the Atlantic and gulf/Japan rate on glassware as it is only one rate in this general designation. Similarly, the rate of $34 W/M given as applying on glassware Japan/Atlantic and gulf is only one of such rates as there are glassware rates in the inbound tariff ranging from $23.50 to $86.75 W/M.

Again, your attention is called to section A of the above-mentioned exhibit that contains a detailed study of glassware shipments and rates. In the case of table kitchen, household, hotel, and restaurant glassware, the CIF value of the U.S. product at Japan port of import was lower than that manufactured in Japan and imported from other countries. Why, in view of this, only 461 metric tons were shipped United States/Japan as against 1,753 metric tons in the other direction? It only proves that there are more factors than ocean freight rates to be considered in investigating the movement of commodities in international trade. In this case, obviously a "quality" or an import duty or quota factor makes the difference.

Refrigerators.—There is no qualification as to whether the rates listed are to cover household or industrial refrigerators, electric, mechanical, other than electric or a plain icebox type. The rate of $53 W/M used in the memorandum applies only on the nonmechanical or icebox type of which the United States shipped none to Japan in 1962 nor can we find any record of this item moving from Japan to the United States during that period. The proper rate for mechanical-type refrigerators U.S. Atlantic and gulf/Japan is $61.25 W/M and shipments in this category did occur with the United States supplying more of Japan import requirements than any other country. The only rate on refrigerators in the Japan/U.S. Atlantic and gulf tariff is under the category "Refrigerators, domestic and parts" and is $38 W/M. (It was reduced from $43.50 as of August 28, 1963.) This rate change in no way affects remarks made in section A of our exhibit that includes reference to household refrigerators and parts between the United States and Japan.

Stainless steel bars.—The rates on this item should be changed from W/M to a LT/M basis (ton of 2,240 pounds or 40 cubic feet, whichever creates the greater revenue). Section A of the exhibit shows that if the U.S. product had been carried to Japan freight free it would still not be competitive pricewise with shipments Japan received from other countries or with Japan's shipments to the United States.

Steel plate.—Rates on this item, both outbound and inbound, also should be changed from W/M to LT/M basis. Here again, section A of our exhibit shows how with no ocean freight whatsoever the U.S. product is not competitive price-wise with the Japanese product.

Believe the foregoing will supply clarifying data for the November 20 record of hearings before the Joint Economic Committee.

Sincerely yours,

H. B. LUCKETT,
Vice President, Freight Traffic.

Mr. WIERDA. Mr. Chairman, on page 2 of the memorandum, the middle paragraph, this deals with the membership of conferences between the United States and South America and from Europe to South America, and while we have in our record, or in our presentation, in attachments, made some reference to that, I understand that allegation was withdrawn this morning by the chairman. So no further comment needs to be taken.

Also, Mr. Chairman, at the bottom of page 3, in the final paragraph of that page is an allegation which states, in effect, that rates are generally lower for big shippers than they are for small shippers. That is not true. The rate is applicable to all shippers under the conference similarly situated, whether he ships 1 ton or 100 tons.

Mr. BOGGS. The statement, I believe, is an example that the shippers of automobiles get a better rate than shippers of railway locomotive cars. That is not to imply that one commodity rate differs between big and small shippers.

Mr. WIERDA. There is an allegation in here that the conference sits by itself and makes rates. The conference is not the only means the shipper can use in order to get his cargo to the other side of the ocean, No. 1, and, No. 2, in by far the greatest majority of the cases, any rate on any commodity moving is a rate negotiated with the shippers. It is an agreed rate. We sit down with them and we work it out together and we would certainly, most especially, do that on railroad cars. It is the occasional railroad car that does move from this country abroad and I can tell you that every time we have to sit down with whomever it is that is supplying these things and work out a rate with them.

Mr. BOGGS. There is no allegation as you so charge. The only statement is that they are set by negotiation or agreement and not by other factors.

Mr. WIERDA. By what?

Mr. BOGGS. By other factors.

Mr. WIERDA. Well, if the man needs a rate in order to compete in a foreign market and he comes to us and says, "I need a $40 rate, or something, in order for me to get this order," and we say, "You have got it, it is now $40——

Mr. BOGGS. That is what I am saying. That is an agreement or negotiated rate, and that is the primary basis for it; is that right?

Mr. WIERDA. What is wrong with that? I don't quite understand.

Mr. BOGGS. No judgment is offered on this method. I am just making the statement that rates are set by agreement not by supply and demand.

Mr. WIERDA. I get the impression from reading this paragraph that there is something radically wrong with charging a man a rate which he says will make him do business.

Mr. BOGGS. That is not the intent of the paragraph.

Mr. WIERDA. Thank you.

Senator PELL. Congressman Tollefson?

Representative TOLLEFSON. Thank you, Mr. Chairman. I have two or three questions I would like to ask, if I may.

You mentioned on page 8 of your statement that you would be happy to meet with any interested shipper to negotiate a mutually acceptable rate, so long as that rate covers the out-of-pocket cost, your out-of-pocket cost. How far can you go in that direction?

Mr. WIERDA. We want actually more than that, of course, Mr. Tollefson. We need not only out-of-pocket cost, but something left to the ship, and we cannot go any further than that. I mean, if we went down to just out-of-pocket cost, we would still be losing money on it.

Representative TOLLEFSON. On how many items could you deal with a shipper in this regard?

Mr. WIERDA. Beg pardon?

Representative TOLLEFSON. I say, how many times could you do that on a cargo or in a cargo?

Mr. WIERDA. We are doing that regularly, almost daily.

Representative TOLLEFSON. Isn't there some point where you have to chop it off?

Mr. WIERDA. Oh, yes. If we can't get together, we just can't do it. If our minimum rate, which would return our out-of-pocket cost, plus make a fair contribution to our fixed cost, still will not enable that man to do business abroad, then there is nothing we can do.

Representative TOLLEFSON. In other words, you can't carry cargo at a loss.

Mr. WIERDA. We can't carry cargo at a loss. We can't subsidize his export market.

Representative TOLLEFSON. Are there many foreign nonconference operators?

Mr. WIERDA. Oh, yes, sir. Yes, sir. In our North Atlantic trade they seem to grow on trees.

Representative TOLLEFSON. So that the conferences that operate across the Atlantic can't operate as cartels or have a monopoly.

Mr. WIERDA. Absolutely not.

Representative TOLLEFSON. Is it necessary to take these people into consideration in fixing your rates?

Mr. WIERDA. We must at all times. That is part of our competition.

Mr. COCKE. The same thing applies to the gulf, Mr. Tollefson.

Representative TOLLEFSON. I just picked the Atlantic, because we were discussing it.

Mr. WIERDA. There is one development, if I may, that is becoming more and more alarming all the time, and that is this question of Communist shipping coming into our American trade as cutrate operators. Their only desire is to get American dollars, foreign exchange, and they come into our trade as cutrate operators.

Take the Polish-American Line, for example. If an American ship went to Poland they would tell us who the agent was, they would run the ship for us. They would tell us what freight rates we could charge, how much we could load, what cargo we would get, and everything else; but they come across the border into the North Atlantic trade and they are as free as birds. They go into a port, they appoint their own agent, they can charge any rate they want to. They can do anything they want to, and the Polish Ocean Line today has become a very formidable factor in the cross trade between the North Atlantic coast of the United States calling in at Belgium and Holland and Germany en route to Poland, and those people have absolutely no interest in the American trade except to get dollars at almost any cost.

Representative TOLLEFSON. One of the Senate committees, and not the Maritime Committee, incidentally, nor the Maritime Committee of the House, called attention to this fact in a special report which I thought was extremely significant, the growing Communist ocean fleet which will pose many problems for us.

Now, coming back to another question I wanted to ask: Take the case of a European shipper shipping to country X a certain product and an American producer wants to ship that same kind of product to country X to compete with the product from Europe.

Now, the American operators would not necessarily have to be a member of the conference operating from Europe to country X, would they?

Mr. WIERDA. No. Probably not.

Representative TOLLEFSON. Now, would that account for some cases of difference in rates between the shipments from Europe to X country and the United States to X country?

Mr. WIERDA. The mere fact that we are not members? I don't see how that would have any bearing on it, Mr. Tollefson.

Representative TOLLEFSON. I don't know if I phrased my question accurately. Conceivably, as I have understood testimony over the years on this general subject, the European shipper could have a rate advantage going to country X which the American producer just couldn't get from an American operator.

Mr. WIERDA. That is possible. That is possible, that the rate would be so low, you mean, from that other country to X that we couldn't meet that rate because of our very high costs in this country of loading the cargo, and so forth.

Representative TOLLEFSON. This goes back to the other question I asked. You can't carry cargoes at a loss.

Mr. WIERDA. No, we can't.

Representative TOLLEFSON. No matter what the foreign operator carries the cargo for from some other point.

Mr. WIERDA. That is right.

Representative TOLLEFSON. There have been a number of indirect suggestions, at least during the past several years, past 3 years, more particularly, that ocean rates ought to be regulated more fully by our Maritime Commission than has been the case. I think generally we have assumed over the years that the Maritime Administration, the predecessor of the Commission, could step into the picture if rates were exorbitantly high or exorbitantly low.

One of my concerns is that under our present law the Maritime Commission might get further into this area of rate regulation. My question is, How far do you think the Maitime Commission could or should go in this area?

Mr. WIERDA. Well, the steamship industry is not an industry that can operate in a vacuum. If you have something that is protected and operates in a vacuum, like the railroads or the trucking lines within the United States, you can regulate that, because you have got control of everything. But the steamship industry, the international industry, cannot operate that way. We fought a war once to establish the right of freedom of the seas, and any vessel of any flag can come into our country and take cargo and go abroad to any other country at whatever rate or under any conditions that he chooses, and it seems to me that it is going to be absolutely impossible, and I think very dangerous to go forward on the basis of unilateral rate regulation.

It simply will not work, in my opinion, because every time you stipulate a rate in this country on this export of ours, you are also stipulating a rate on their import, and it is just as much and maybe even more so their business as it is ours.

Representative TOLLEFSON. You see trouble for the American merchant marine industry in this area if we seek to regulate rates in greater degree than we have been doing?

Mr. WIERDA. I see lots of trouble coming on that, Mr. Tollefson. A lot of trouble.

Representative TOLLEFSON. I have just one more question, Mr. Chairman, if I may ask it.

What has been the attitude of shippers generally toward the conference contract system?

Mr. WIERDA. We have received a lot of support from shippers on the conference contract system and on the conference system as a whole. Under the present law which we find to be eminently unsatisfactory for the purposes for which it was designed, there have been many hearings before the Maritime Commission in respect to contract provisions. Fundamentally, the American shipping public supports the conferences and supports the contract rate system. What we are doing now is arguing about some of the little points in the thing.

Representative TOLLEFSON. Thank you.

Thank you, Mr. Chairman.

Senator PELL. I think that is all—I would not want the record to fail to show that, in answer to Mr. Nemec's point of information, I find myself, speaking as an individual, disappointed to think that there are other nations who are further ahead of us in designing ships for nuclear propulsion in the merchant marine. I would hope that the time would come when we would take the lead in this. Maybe we will not have any for a decade, but I should think before two or three decades we would find that all the building of new long-range vessels would be nuclear powered.

I was wondering if you would hazard a guess, looking even further ahead, when you and I are dead, but before the end of the century.

Mr. NEMEC. It would be incorrect to say we have been the backward Nation in atomic power. We do have the *Savannah*, which has been completed.

Senator PELL. But not a distinguished success.

Mr. NEMEC. For many reasons. She was obsoleted before her building commenced. The plant was too expensive, too large, too heavy, and required too much shielding to afford any kind of economy for commercial operation.

The labor problems which have beset that ship have been a matter of record. They are indicative of some of the problems which the commercial operator might face.

Some of the patterns and the manner in which Government has handled its responsibility in this area have not been of the kind which would deserve commendation, and this is true in the field of design and in the field of labor relations. However, we all make errors in these areas.

I think, however, the biggest single deficiency of the Maritime Administration has been in the direction of its research. It has failed to consult with the private shipping industry as to reasonable objectives. It has sailed a solitary course. It has consulted with us only after the fact. I think that practical shipping people could have given a good deal of sensible advice to people in the Maritime Administration who were charged with the responsibility of developing this kind of program, and perhaps we would have directed this effort into an area that is more fruitful.

Now, as to hazarding a guess, it will depend on the people and upon the amount of money that they are willing to dedicate to it.

I think CASL is fortunate in having as its new executive director Admiral James, who was head of the Bureau of Ships for the Navy for part of his distinguished career. I think you can rest assured that insofar as the commercial shipping industry is concerned, we look with favor upon any technological advance that is commercially feasible.

Now, the payoff period is a very nebulous one at present and I would not think that you would see widespread introduction of nuclear power into liner vessels for at least 15 or 20 years.

Now, this is barring a very rapid breakthrough which would enable the development of economical plants of smaller size, of lesser cost, and of lesser horsepower. If this happens, the numbers change, and your evaluations change.

Senator PELL. I thank you.

In connection with the record, with the point you raised of research, are there any figures available of what percentage of the income of the shipping industry is devoted to research?

Mr. NEMEC. This is an odd area, Mr. Chairman. First of all, I think we ought to make this point. The shipping industry is a user of capital goods. We are in the transportation business. It is not our job, as we see it, or as some of us see it, anyway, I am talking for Lykes in this instance, it is not our job to put together the technical competence to design the various individual components which go into a ship. This would take an array of electronic, engineering, perhaps nuclear abilities, and the specialized skills of many types.

Senator PELL. To interrupt for a moment, one of the criticisms made of the railroad industry is that they have devoted so little to research so that we are running now practically on the same kind of track we ran prior to the Civil War, and there has not been much

improvement. Yet the industries that have engaged in research do seem to have forged ahead.

I wonder why you would exempt transportation industries from this field.

Mr. NEMEC. That was merely a preliminary observation. I merely wanted to establish a frame of reference which is that we are basically not a research industry. Despite that, however, I think in the last 5 years, since the inception of our long-range replacement program, this industry has made tremendous strides in plant improvement.

Now, this covers a wide compass. It covers improvements in cargo handling, the development of specialized cargo handling gear, and specialized facilities onboard ship. We announced yesterday that we had made a significant breakthrough in shipboard mechanization. I think in this one sweep we equaled the advance of any nation in this field. Overnight, if you will, we have jumped a decade forward. In our judgment the advances from this point on, in the sense that technical advantages in plant or otherwise will yield tangible results, are much further away. By that I mean that the additional capital costs we would incur, let us say, in developing either a pushbutton ship, or, if you will, a caretaker ship, the kind that could go from deepwater sounding to deepwater sounding and merely have a custodial crew on board, are far distant, because of the greatly increased amounts of capital that will be required to develop and operate that type of ship.

We have squeezed—and I assure you we have looked at this carefully—we have squeezed most of the economic advantages out of automation at its present level of development. So we would say that we have done much and we could have done it faster and we could have done it better if Government research was directed in a practical sense. The work we have done has been done cooperatively at our expense, at the expense of individual companies, working with component suppliers, and to a lesser degree with American shipyards.

Senator PELL. Would you hazard a guess as to what percentage of your dollar goes into research?

Mr. NEMEC. If you were to combine it and say "research and development," I think I could give you a number.

Senator PELL. Research and development.

Mr. NEMEC. This would involve not only the individual groups in our companies that have to do with planing the design of ships and facilities, but also naval architects that we employ to design and supervise the construction of ships. Last year, this would be in the order of not less than 10 percent of our net profits, and I will put it on net profits, because these are basically capital investments.

Senator PELL. I should know the answer, but I don't. What percentage would that be of the total dollars spent in maintenance and operation? Of your total operating dollar, how much is that?

Mr. NEMEC. This would be in the order of 2 to 2½ percent. Probably 2 percent would be the number.

Senator PELL. I thank you very much, indeed. I realize you are in the unfortunate position of not having a large profit margin. That is why I wanted to look at it from another direction.

Mr. NEMEC. I think, however, this is interesting in one respect. We have done it with minimum expenditure, through cooperative en-

deavor; our industry recognized needs and sought to promote initiative on the part of suppliers, and I think these cent breakthroughs in shipboard mechanization are a fine case history of initiative and cooperative effort. We and a number of other companies kicked off this program about 2½ years ago and working with the principal suppliers in the industry, such as Westinghouse Electric and General Electric, we developed what we felt were thoroughly competent, thoroughly technically qualified shipboard means of control, of simplification, and at the right moment we opened our negotiations with the labor unions and were successful in getting them to agree to reduce mannings.

This telescopes into a matter of a short period of time the difficulties, or the progress, if you will, whichever way you like to look at it, that the railroads have been confronted with for 20 years.

Representative TOLLEFSON. Mr. Chairman, I feel just a little bit distressed with respect to what has been said about the NS *Savannah*. I was one of the cosponsors of the legislation which brought it about and remembering the months of work that our committee and the Senate committee put into that legislation, I would hope the record wouldn't leave the impression that Mr. Nemec feels that we wasted all our time and money. When we approved the legislation, it was with the full knowledge that the ship would not be economically feasible, but that a first ship had to be built sometime, and we felt that that was the time to build it.

Now, would the gentleman say we should not have built it in the first place at all?

Mr. NEMEC. No. If I left any such impression, I am happy to withdraw it. It was a necessary step. It is pioneering in the truest sense. Mistakes were made, of course. They would be made in any venture of this kind.

Among other things, the tangible values it will contribute will be recognition by international governments and by international law that nuclear power is looming on the horizon, and that there are very substantial problems which must be met. These crystallize in shipboard operation and labor and in many other areas. The point, however, I was making was that from the time the vessel was laid down until the present, she has been beset by a series of difficulties which have frustrated her operation on the high seas.

Representative TOLLEFSON. There have been distressing things. Would Mr. Nemec agree with me that no matter when we built the first nuclear-powered commercial vessel, we would have had problems arise and we would have had to learn from those problems just as we are learning from these?

Mr. NEMEC. As a general matter, yes, sir.

Representative TOLLEFSON. I know we discussed this rather thoroughly with some of the Atomic Energy people and there were those who thought we ought to wait 10 or 20 years before we built the ship. Our committee couldn't agree and neither could the Senate committee. We felt there ought to be a first step taken then and we would learn from our experiences, and those lessons would be helpful to us when atomic energy became economically feasible.

Mr. NEMEC. The point I was making is that she is not a commercial prototype. She was meant to be exactly what she is. The first

nuclear nonmilitary ship on the high seas, outside of the Russian icebreaker, the *Lenin*, and she has had many problems. She is not, in any sense of the word, a prototype or forerunner of a commercial ship, and we would not want her to be misunderstood for that. Simply because the *Savannah* will sail, does not mean that the day of nuclear power is at hand or even close at hand insofar as commercial shipping interests are concerned.

Representative TOLLEFSON. Would you guess that maybe even the Navy might learn some lessons from the operation of the NS *Savannah*?

Mr. NEMEC. I wouldn't know.

Representative TOLLEFSON. I won't ask the admiral. I will ask him on the q.t. later.

Thank you, Mr. Chairman.

Senator PELL. I would agree with you that there had to be a first step and I have great admiration for my own senior colleague, Senator Pastore, chairman of the Joint Committee on Atomic Energy, and I think he has done a tremendous job in this field.

There is a gentleman back there who wants to say something.

STATEMENT OF WILFRED J. McNEIL, PRESIDENT, GRACE LINE, INC.

Mr. MCNEIL. I am Wilfred McNeil, president of Grace Line.

I would just like to express two thoughts.

First, I would like to see us support the Navy which has done a pretty good job of atomic power, submarines, and carriers. I think that we probably would get more out of our money if we could support the Navy on atomic power for surface ships, one every 2 years, or some such thing, until the shielding cost, and so forth, got to a point where we could adopt it. Certainly that is what happened in high-pressure steam, back 40 or 50 years ago, and now Consolidated Edison and other power companies in the Nation are getting the benefit of the Navy's work. If we proceed in that manner we would probably make very rapid progress.

Second, if we consider the purchase of the initial hardware and the cost of trying it, I think we can go far beyond Mr. Nemec's estimate. If you go strictly from what we put into research, I think his figure might be quite right. However, speaking of the four new ships Grace Line is having delivered this year, one-third of these ships is absolutely unconventional. They are brand new with new type cranes, cargo-handling equipment, and so forth. I would guess our small company will be spending $12 to $14 million in new types of gear we are trying out this year.

Senator PELL. What percentage of your annual expenditures would that be?

Mr. MCNEIL. Oh, about 20 percent. I think if the Lykes Bros. include the cost of new equipment they are installing in ships, their research expenditures will run higher, and so will the U.S. Lines, and a number of others. If you count hardware, it is even a greater percentage.

Senator PELL. Thank you very much.

Our next statement, I believe, is from Mr. S. S. Colker.

STATEMENT OF S. S. COLKER, REPRESENTING AMERICAN STEAMSHIP TRAFFIC EXECUTIVES COMMITTEE

Mr. COLKER. Mr. Chairman, members of the committee, and members of the staff, you have heard the main feature entitled "76 Percent of All Outbound Rates Are Lower." In fact, you have witnessed a double feature today in the short subject on nuclear ships.

I would like to show you at this time—I will try to be brief——

Senator PELL. Would you like your whole statement put in the record?

Mr. COLKER. I would, sir.

Senator PELL. Fine. It will be put in as written, and if you would summarize it succinctly as you can.

Mr. COLKER. Thank you.

I have addressed myself primarily to tables 1 through 4 that our committee has previously submitted. I am going to ask Mr. Rogers to turn some charts here, so that we can at least cover some of the so-called self-explanatory charts. I always find a little explanation about that type usually helps.

The chart before you now, 1–A [indicating], divides the total exports and total imports of the sample that is shown in the committee's table I, according to the importance of the export freight rate with respect to the import rate. I would like to start by making one observation about the sample itself. I have come neither to bury nor to praise the sample, but there are some characteristics of it I think might be pointed out.

There are the same 26 commodities used throughout the entire study of the 3 trade routes. With respect to trade route No. 7, the sample constitutes 29 percent of the value of the total exports and 17 percent of the total tonnage, which I would personally find acceptable. However, when you come down to trade route 29, the proportion of the total tonnage moving on trade route 29 as represented by the sample in table I is only 4 percent and I would suggest that perhaps the staff might want to reevaluate the extent to which the tables in the earlier hearings were representative of the operations over trade route 29.

I have very little confidence in average figures which are based on tonnage, but I think it would be important to note that with respect to the imports, the sample comes very close to the universe as a whole. That is, the entire trade route 7. But with respect to exports, the sample does not seem to have the same characteristics as the entire trade route does. As a matter of fact, by and large, if you compare the imports in the sample of the tables, that is, the sample commodities within tables I through IV, you find that they bear the characteristics of the entire trade route far more accurately, reflected more accurately, than is true of the exports. And that is something I would urge you to consider when you evaluate such matters as value per ton on the export side.

Now, beginning with chart 1–A, as I started to say, we have divided the total universe which is the 26 commodities in the sample itself in accordance with which you might have some concern about the relationship of export rates to import rates. As you notice, there are seven commodities shown in white which move in only one direc-

tion and they amount to 11.8 percent of the exports, and I assume they would be of no concern to you.

There are seven commodities, amounting to 33 percent of the exports where the import rate is higher than the export, and therefore I assume you would eliminate them from your consideration.

Now, of the remaining 12 of the 26 commodities on this trade route, there are 9 with a value difference due to rate under 10 percent. By value difference due to rate, to refresh your memory, it is the relationship of the difference in the values per ton and the bearing that the difference in rates has to that value per ton. In other words, if the export and the import rates, to use an example, were $3 apart and the difference in the values of the export and the import were $30, then the relationship would be 10 percent.

Now, we arbitrarily used a 10 percent cutoff point here, because we are talking here solely of the relationship of the rate to value, and that is the declared value of the product. When you get down to adding on all the transportation involved, including inland transportation, tariffs, and such, you actually have a relationship that the rate accounts for in this total picture that is considerably less than 10 percent.

Now, those nine commodities that we have shown, amounting to 39.6 percent, I assume would also not be of great concern to the committee, because it would not be for—any changes in those items would not be very influential. So that we are left, then, with three commodities that may be of concern to you that amount to 15.9 percent of the entire sample.

Those three commodities are listed here. It is interesting to note that the fruit juices, canned or frozen, amount to five-hundredths of 1 percent. The rubber tires and tubes are two-tenths of 1 percent. So that both of those items are insignificant.

Therefore, of the 26 items that are involved in this study, I would say that one might be of interest to you.

You have heard a great deal earlier this afternoon about comparisons of apples and oranges or unlike items. In the case of the fruit juices, to cite an example of that, on the outbound side in this particular trade route, 42 percent were orange concentrate, 85 percent were—I should say 42 was frozen orange concentrate. On the inbound side, 85 percent was canned cherry juice.

With respect to the rubber tires and tubes, 95 percent has an export value of $16, and on the import side, 88 percent of them had a value of $1.54 compared to the $16.49. So that you could take the first two items and dismiss them as relatively inconsequential, leaving only one item of any possible concern to you.

If we turn to trade route 1–B—I am sorry, chart 1–B which is trade route 8, and analyze the commodities there, nine commodities amounting to 17 percent move in only one direction, according to your figures, eight accounting for 56 percent have import rates higher than export. In other words, more than half of the exports move here on rates where the import rate is higher than the export, and I assume you have no concern with those.

Again using a 10-percent cutoff for the value difference accounted for or possibly accounted for by rate differences, those six commodities so involved amount to 19 percent. So here again we are

left with three commodities where there is a difference in rate in relation to the difference in value in excess of 10 percent. Those three items amount to 7.7 percent of the total.

Once more, fruit juices is one-tenth of 1 percent. Cotton semi-manufactures is seven-tenths of 1 percent. So those two items could be dismissed as inconsequential and again you are left with a steel item which I assume instituted the entire proceeding.

Turning to 1–C, which deals with trade route 29, and there, as I said, I think your sample—as you will find upon reexamination—is less satisfactory than the others are. You have four commodities that might have any potential concern to you, and once again, rubber tires and tubes amount to eight-tenths of 1 percent of all of the export value.

The second item is two-tenths of 1 percent. The third item is three-tenths. So all those are what you legal fellows call de minimis.

There is really only one that is of any concern and that is the steel item that brought you into the entire study.

Now, turning to chart 2, we have here divided all the commodities into two groups, as you will find from the appendixes which are the predicate for this particular chart. The commodities were divided into two groups: those that have a freight rate to value ratio higher for export and another group that has a ratio of freight rate to value higher for import. The lines in each trade route for export and for import should together total 100 percent. So that in the case of trade route 7, for example, of the total exports, only 19.7 percent involve commodities with a freight rate to value higher for exports than for imports.

On the other hand, there are 80.3 percent of the exports that have a freight rate to value ratio that is higher for imports rather than for exports.

Briefly, as you can plainly see, the same information is furnished for the other trade routes and in all cases it is true that the majority of the exports as well as the imports move at freight rates that have a relationship to the value of the product that is higher for imports rather than for exports.

Turning to chart 3–A, briefly, I don't have very much confidence in averages, but a lot of people can think best in terms of averages, and I must repeat Mr. Wierda's forewarning that it is always treacherous when you are talking about values per ton, because you don't know whether you do have a common denominator or not in your tonnage. But in any event, we have asked ourselves in this case what would be the effect of adjusting the export rates so that they did equal the import rates.

Now, as you will notice on the bottom, the first column is the actual 1961 averages, and those are based on items in the sample that move in both export and import.

The second column represents an adjustment of all 19 items in this case. Regardless of what the relationship was of the export to the import rate, we equated the export rate with the import rate and you will see, if you look at the simple average, that you end up with virtually no change.

In the next case we kept constant those rates that presently are lower for the export side than the import and changed only those

that were higher, so that the export rate for those commodities, 12 in number, were the same on both the export and import side, and that did cause a little change but not an appreciable or marked change.

The total amount in the simple average would be a change from $1,880 to $1,873 and so, in the overall picture, you are still far apart from what might be the import value per ton and the general conclusion would be that you haven't made a great change.

If you look at the derivative table of 4–A upon which—not the derivative, but the table upon which this is based, you will find that the actual individual changes are rather interesting. I think it is more important to look at the individual items than it is in the overall which kind of obscures a great deal, but in this trade route 7, if you made the changes so that all import rates were the equal—I am sorry, all export rates were the equal of the import rates—you would increase six which presently are lower. You would decrease, to the extent of less than 5 percent, 10 of them. There would be no change in 2, and there would be only 1 out of 19 where you would have an effect in excess of 5 percent. So that the net effect again would be fairly small.

In the interests of time I will skip over 3–B and 3–C, which pertain to trade routes 8 and 29, giving the same information, and address myself briefly to 3–D, which isolates from the previous items those items where the changes were made. In other words, those items where the export rate is presently in excess of the import rate, and look at those items alone. You will notice that the freight rates are at the bottom of the chart, the difference being on an unweighted average basis, the difference between $36.29 and $24, and if you equated the rate, the net effect on the average value per ton of the entire group of 12 commodities in the case of trade route 7 would be a pretty inconsequential change.

You have heard a great deal about—may I have chart 4, please—about different items being exported or imported and we tried to illustrate that in chart 4, which deals with some information that was submitted at a previous hearing. And you will note that the items that are the primary export items are not in the case of steel the primary import items. As you can see, the leading exports in 1961 were the three items which in terms of imports amounted to only 15 percent, whereas in the case of exports they tallied 64 percent. And, conversely, the three leading imports amounted to only 11 percent of the exports.

On chart 5 we have accumulated the tonnage figures shown in an earlier hearing in connection with the value per ton of various steel items. In other words, as you go to the right, move to the right, to higher and higher values, then you can by going up the scale cover an increasing percentage of the total steel products. If you take any particular value of steel, for instance, the blue line of $150 per ton, you find that in the case of the exports that only 26 percent of the exports were under that figure.

On the other hand, if you move up on the $150 line to the import line, you find that there are 84 percent of the imports. So that at

least in 1961 the exports and imports seemed to be entirely different types of items and the rates, of course, would have to consider that fact.

Chart 6, which is the last one, is to me extremely significant in that we have tried to develop the total delivered cost of selected items which I believe you can see in the left-hand margin. The dark section, the red section, is the ocean freight cost. Now, you will notice in the case of canned meat, and on the import side, with respect to glass and glass products, on those items the freight cost constituted the largest percentage, but even there on the export side it was less than 6 percent of the entire cost. On the import side they were about 8 percent. So that we are dealing here with consideration of changes in freight rates which in turn amount to a mighty small part of the total cost of a product to the man who is buying it.

That covers the charts, sir, and I would be glad to elaborate on anything, if you like.

Senator PELL. Thank you very much.

Congressman Tollefson, do you have any questions?

Representative TOLLEFSON. Thank you, Mr. Chairman. I have no questions.

Senator PELL. We have been through your testimony which is both complete, comprehensive, and very interesting.

I thank you very much, indeed.

(Mr. Colker's complete statement, containing the charts and tables referred to in his oral testimony, is as follows:)

STATEMENT CONCERNING "DISCRIMINATORY OCEAN FREIGHT RATES" BY S. S. COLKER

The American Steamship Traffic Executives Committee has recently requested that I review from the viewpoint of a transportation economist the testimony pertinent to ocean transportation presented before the Joint Economic Committee during the latter parts of April and June.

The Joint Economic Committee (referred to hereafter as "the committee") has posed the question whether the disparity in freight rates between those applicable to exports and those charged for imports is hampering the further expansion of our export trade. I have therefore first addressed myself to the question of how extensive is this rate problem. Does the disparity between export and import rates present a major problem with respect to all commodities or is the problem an isolated one? The focal points of my investigation have been the data set forth in tables I through IV contained in the hearings of June 20 and 21, 1963, pages 67–77. Unless otherwise indicated, all references are to this set of committee tables. There the committee's staff has presented data concerning selected commodities applicable to three major trade routes—7, 8, and 29—which may briefly be designated as:

Trade Route 7—United States North Atlantic-West Germany.

Trade Route 8—United States North Atlantic-Belgium/Netherlands.

Trade Route 29—United States west coast-Japan.

Tables I–A, B, and C of the hearings dated June 20 and 21, 1963 (pp. 67–69), deal with selected commodities.

Although the basis of the selection is not set forth, they constitute the raw material of our analysis. Further, it must be emphasized that the subsequent analysis assumes that the rates cited in the tables are appropriate for the commodity classifications to which they are attributed.

It is readily apparent that some of the 26 commodities dealt with are not involved in both the export and the import trades. There are others for which the import rate is higher than the export rate. Thus, we are primarily concerned with only a portion of the commodities, namely, those for which the

export rate is higher than the import rate. The relative number of commodities may be summarized as follows:

	Trade route 7	Trade route 8	Trade route 29
Commodities moving in only 1 direction	7	9	9
Commodities with import freight rates higher than export freight rates	7	8	2
Commodities with export rates higher than import rates	12	9	15
Total	26	26	26

Thus, it appears that only some of the commodities in the committee's selected sample present any problem.

Next, let us determine how much of total exports and imports in the committee's tables I through IV are accounted for by each of the above groups of selected commodities. It is clear from table A, below, that 55 to 60 percent of the exports of the selected commodities move at rates which are higher for exports than the comparable rates for imports in the cases of trade routes 7 and 29, but 27 percent in the case of trade route 8.

TABLE A.—*Distribution of commodities set forth in the committee's tables I–A, I–B, and I–C by relationship of export rates to import rates*

	Number of commodities	Percent of total value of 1961 selected commodities	
		Exports	Imports
Trade route 7:			
Commodities moving in 1 direction only	7	11.8	0.4
Commodities with import rate higher than export rate	7	32.7	73.4
Commodities with export rate higher than import rate	12	55.5	26.2
Trade route 8:			
Commodities moving in 1 direction only	9	17.1	.4
Commodities with import rate higher than export rate	8	55.9	41.2
Commodities with export rate higher than import rate	9	27.0	58.4
Trade route 29:			
Commodities moving in 1 direction only	9	36.7	.5
Commodities with import rate higher than export rate	2	3.4	1.0
Commodities with export rate higher than import rate	15	59.9	98.5

Source: Tables I-A through I-C, appended hereto.

Concentrating now on those commodities for which the export rates are higher than the import rates, we may turn to the committee's table IV (pp. 76–77) which inquires into the question of how much of the difference in the value per ton of exports versus imports is accounted for by the freight rate differences. Restricting our examination to only those items where exports bear rates in excess of the imports, we find that the freight rate differences constitute a significant percentage of the value differences in some cases and have only an insignificant relationship in others. For the purposes of this inquiry, we may arbitrarily assume 10 percent to be a significant difference.

The extent to which the commodities involved participate in the total of the selected exports and imports is set forth in table B, below, which breaks down the participation percentage according to the extent to which the value differences per ton is due to the difference in freight rates.

TABLE B.—*Breakdown of exports and imports shown in table A, above, for commodities with higher export rates, according to the relationship of freight rates to values per ton*

	Number of commodities	Percent of total value of 1961 selected commodities	
		Exports	Imports
Trade route 7:			
Commodities with export rate higher than import rate per table A	12	55.5	26.2
Percent of difference in value of exports versus imports due to freight rate, exceeds 10 percent	3	15.9	5.1
Percent of difference in value of exports versus imports due to freight rate, under 10 percent	9	39.6	21.1
Trade route 8:			
Commodities with export rate higher than import rate per table A	9	27.0	58.4
Percent of difference in value of exports versus imports due to freight rate, exceeds 10 percent	3	7.7	45.7
Percent of difference in value of exports versus imports due to freight rate, under 10 percent	6	19.3	12.7
Trade route 29:			
Commodities with export rate higher than import rate per table A	15	59.9	98.5
Percent of difference in value of exports versus imports due to freight rate, exceeds 10 percent	4	6.1	16.0
Percent of difference in value of exports versus imports due to freight, under 10 percent	11	53.8	82.5

Source: Tables I-A through I-C, appended hereto.

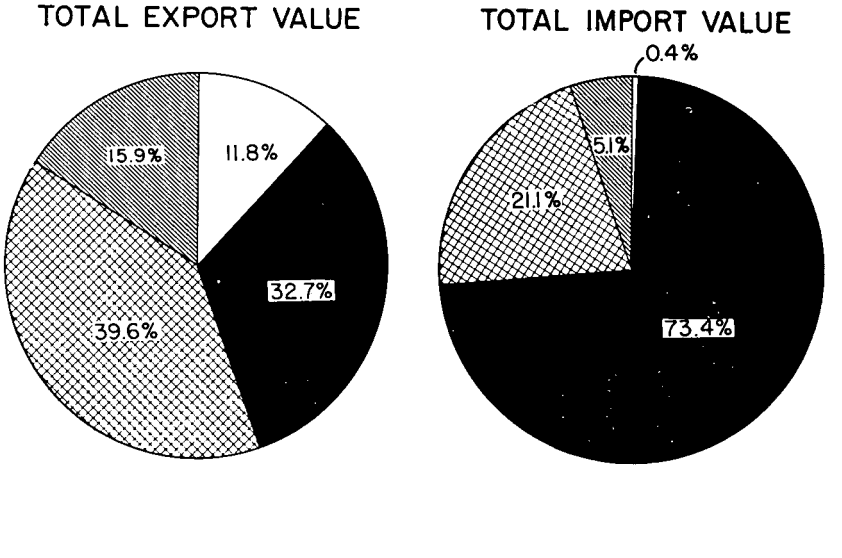
(Note that table B refers to the differences in the value per ton of exports versus imports as explained by the freight rates. This concept assumes that the values per ton include the freight rate, an assumption that necessarily follows from the committee's tables IV–A through IV–C which, by footnote 1, indicate that the value includes the average freight rates. All percentage computations in the committee's tables IV–A, IV–B, and IV–C are based on that assumption. I am inclined, however, to feel that the freight rates referred to as being included in the values per ton are not the ocean freight rates with which the committee is concerned, but, rather, the inland freight required to bring the commodities to the seaport. Such inland freight costs are part of the declared value for export. For purposes of comparability, however, the committee's assumption is embodied in our own analysis herein.)

Centering now on those commodities where the difference in value per ton between exports and imports is said to be accounted for by the differences in freight rates to an extent in excess of the 10 percent of that difference in value per ton, we find that there are three, or at most, four commodities involved. These commodities are listed at the bottom of charts I–A through

CHART 1A

Value of total exports and imports
distributed according to influence of ocean freight rates on price differentials of selected commodities, year 1961

TRADE ROUTE 7



Commodities with export rate higher than import rate:

9 with value difference due to rate, under 10%

3 with value difference due to rate, exceeding 10%

1. Fruit juices, canned or frozen
2. Rubber tires and inner tubes
3. Rolled and finished steel

7 commodities with import rate higher than export rate.

7 commodities moving in one direction only.

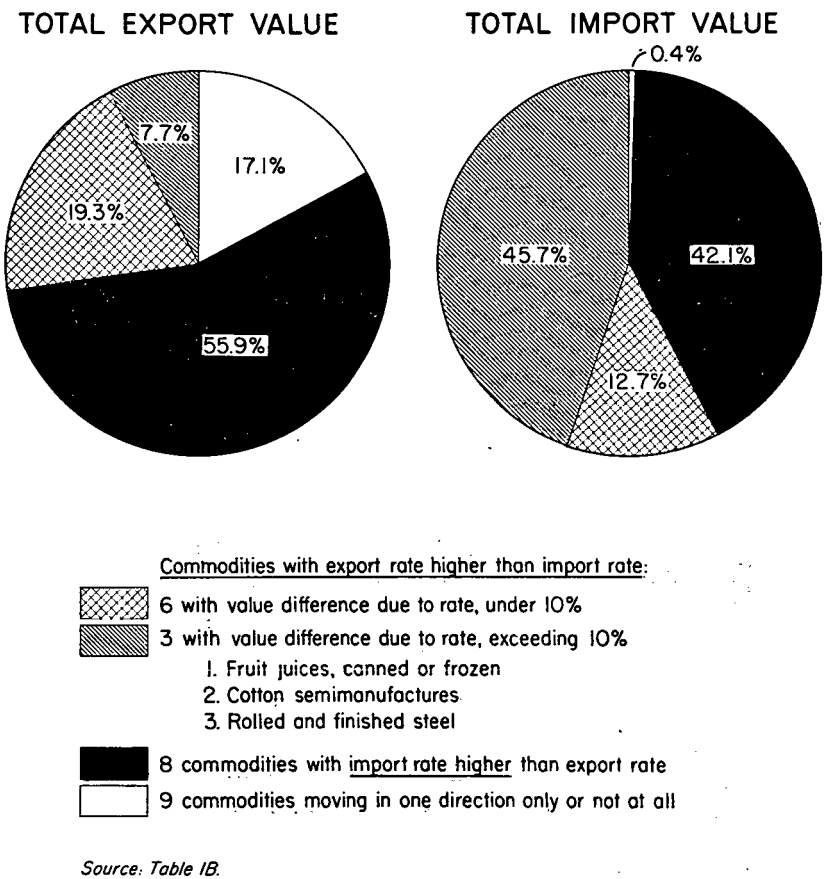
Source: Table 1A.

CHART 1B

Value of total exports and imports

distributed according to influence of ocean freight rates on price differentials of selected commodities, year 1961

TRADE ROUTE 8



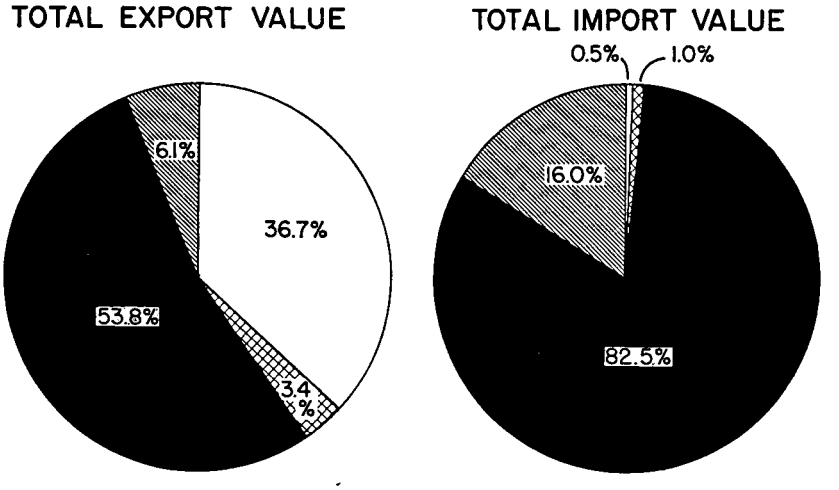
Source: Table IB.

CHART 1C

Value of total exports and imports

distributed according to influence of ocean freight rates on price differentials of selected commodities, year 1961

TRADE ROUTE 29



Commodities with export rate higher than import rate:

- 11 with value difference due to rate, under 10%
- 4 with value difference due to rate, exceeding 10%:
  1. Rubber tires and inner tubes
  2. Cotton semimanufactures
  3. Iron and steel castings and forgings
  4. Rolled and finished steel
- 2 Commodities with import rate higher than export rate.
- 9 Commodities moving in one direction or not at all.

Source, Table 1C.

I–C, which depict graphically the percentage of total exports and imports accounted for by each of the groups of commodities we have dealt with above. It will be seen from these charts that the commodities warranting further investigation boil down to these: fruit juices, canned and frozen on trade routes 7 and 8; rubber tires and inner tubes on trade routes 7 and 29; rolled and finished steel on all three trade routes, plus iron and steel castings and forgings on trade route 29.

Table C, below, probes into these commodities in terms of what their export and import freight rates are individually to their value per ton exported and imported.

TABLE C.—*Freight rates as a percent of value per ton*

	Trade route 7, freight as a percent of value per ton		Trade route 8, freight as a percent of value per ton		Trade route 29, freight as a percent of value per ton	
	Export	Import	Export	Import	Export	Import
Fruit juices, canned or frozen	6	4	7	3	----------	----------
Rubber tires and inner tubes	3	2	----------	----------	8	4
Rolled and finished steel	26	7	16	19	15	14
Cotton semimanufacturing	----------	----------	11	10	25	25
Iron and steel castings and forgings	----------	----------	----------	----------	14	14

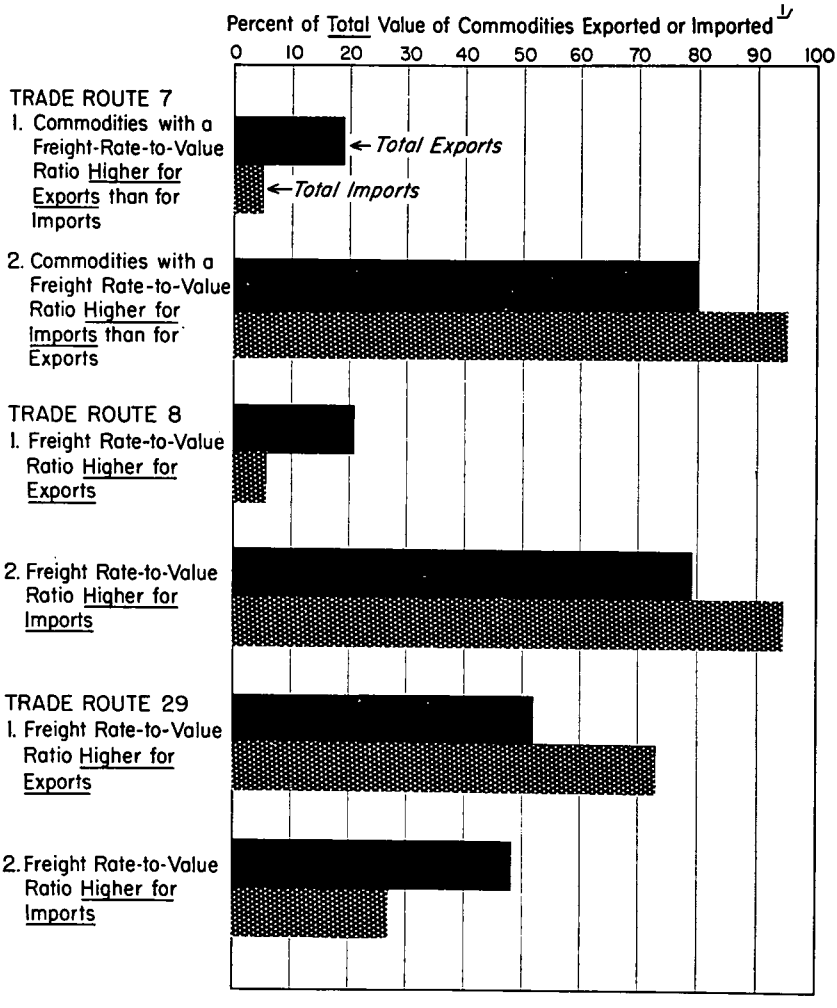
Source: Tables 2-A, 2-B, and 2-C (appendix).

It is noteworthy that some of these commodities do not have excessive freight rates in relation to the individual commodity values. Fruit juices on trade route 7, for example, are shown by the committee's figures to be 6 percent of export value and 4 percent of import value. These figures are, of course, exclusive of other items that enter into costs, as we shall indicate below—tariffs, for example. The case of iron and steel castings and forgings on trade route 29 shows the same percentage of the export and import values to be involved in both the outbound and homebound freight rates, although 15 percent of the value difference is attributed to freight rates. Approximately the same thing is true of cotton semimanufactures.

It would appear that the primary problem among the commodities segregated for special attention thus far is the "rolled and finished steel" and that the magnitude of the problem residing therein is not attained by any of the other items which the committee's staff has pinpointed as impediments to the progress of export expansion.

CHART 2

Relationship of Freight to Value per Ton: Exports vs. Imports



1/ *Commodities indicated in Tables 2a, 2b, and 2c moving in both export and import trade.*

Source: Tables 2a, 2b, and 2c.

There has been considerable discussion about the need for an equality of freight rates as between exports and imports. Let us, therefore, inquire into what an action requiring equality of freight rates would accomplish—beginning with the extreme position that all present export rates must be altered to equal the import rates regardless of whether the export rate is presently above or below the import rate. It will be noted from table D, using trade route 7 as an example, that the average export value presently exceeds the average import value per ton by $775, being 70 percent higher than imports. The

freight rates, on the average, are 25 cents higher for imports than for exports. It follows that if all current import rates were substituted for the present export rates, the overall changes brought about by that alteration would be negligible. The percentage change in the export value per ton is indicated at the bottom of the table on line 13. The effect upon the relationship of export values to import values brought about by the adjustment of the export vaulation is shown on line 12. It may be concluded that on none of the three trade routes would equalizing the freight rates at the import rate level make an appreciable difference in the relationship of export values per ton to import values.

TABLE D.—*Relationship of value per ton, exports versus imports, at present (1961) and after adjustment of all export freight rates to equal import freight rates*

	Unweighted average			Weighted average [1]		
	Trade route 7	Trade route 8	Trade route 29	Trade route 7	Trade route 8	Trade route 29
Number of commodities	19	17	17	19	17	17
Present relationship (1961):						
1. Export value per ton	$1,880	$1,729	$1,506	$2,636	$2,667	$2,125
2. Import value per ton	1,105	1,247	1,155	1,969	1,661	[2] 2,986
3. Export value exceeds import value by	775	482	351	667	1,006	(861)
4. Export value per ton as percent of imports (line 1 ÷ line 2)	170.1	138.7	130.4	133.9	160.6	71.2
5. Exports	$34.51	$30.63	$52.47	$33.54	$28.75	$49.88
6. Imports	$34.76	$29.85	$33.99	$34.78	$34.38	$29.60
7. Export rate exceeds import rate by—						
Dollars	(.25)	.78	18.48	(1.24)	(5.63)	20.28
Percent	(.7)	2.6	54.4	(3.6)	(16.4)	68.5
If all export rates are adjusted to equal import rates:						
8. Value per export ton (line 1 − line 7)	$1,880	$1,728	$1,488	$2,637	$2,673	$2,105
9. Value per import ton (line 2)	1,105	1,247	1,155	1,969	1,661	2,986
10. Export value exceeds import value by (line 8 − line 9)	775	481	333	668	1,012	(881)
11. Export value as a percent of import value-adjustment (line 8 ÷ line 9)	170.1	138.6	128.8	133.9	160.9	70.5
12. Percent change in relationship between export values and import values (line 4 ÷ line 11)	0	.1	1.6	0	(.3)	.7
13. Percentage change in value per export ton (line 8 ÷ line 1)	0	−.1	−1.2	0	+.2	−.9

[1] Weighted by value of exports or imports.
[2] High import value per ton due to electrical machinery which constitutes 52 percent of total import value of all commodities in sample.

Source: Tables 4-A, p. 11; 4-B, p. 1; 4-C, p. 1 (appendix).

Going one step further, and inquiring into what the net effect would be in the average export value per ton, if only those items presently having higher export rates than import freight rates are equated with the import rates (leaving presently lower export rates unaltered), we have set forth the changes on table E. It will here be noted from line 10 of table E that the percentage change in export value per ton after giving effect to the change in freight rates would still be, at most 1½ percent and that the change in the relationship of export versus import value per ton (line 9) would still be negligible. For example, on trade route 7, the average export value is $775 above the average import value. If all higher export rates were lowered to the import level, the difference between the export value and import value would change from $775 to $768. This change of 0.6 percent would barely be a significant generator of increased volumes of exports. In fact, the largest change would be in the case of trade route 29 where the change in the relationship of export values per ton to import values would, nonetheless, be less than 2 percent.

TABLE E.—*Relationship of value per ton, exports versus imports, in sample, at present (1961) and after adjustments lowering export rates to equal import rates only where export rates are currently higher than import rates*

	Unweighted average			Weighted average [1]		
	Trade Route 7	Trade Route 8	Trade Route 29	Trade Route 7	Trade Route 8	Trade Route 29
Number of commodities	19	17	17	19	17	17
Present relationship (1961):						
1. Export value per ton	$1,880	$1,729	$1,506	$2,636	$2,667	$2,125
2. Import value per ton	1,105	1,247	1,155	1,969	1,661	[2] 2,986
3. Export value exceeds import value by	775	482	351	667	1,006	(861)
4. Export value per ton as percent of imports (line 1÷line 2)	170.1	138.7	130.4	133.9	160.6	71.2
If export rates are lowered to equal import rates, adjusted values are—						
5. Export value per ton	$1,873	$1,722	$1,484	$2,625	$2,661	$2,104
6. Import value per ton	1,105	1,247	1,155	1,969	1,661	2,986
7. Export value exceeds import value by	768	475	329	656	1,000	(882)
8. Exports as percent of imports (line 5÷line 6)	169.5	138.1	128.5	133.3	160.2	70.5
9. Percent change in relationship between export values and import values (line 4—line 8)	.6	.6	1.9	.6	.4	.7
10. Percentage change in value per export ton (line 5÷line 1)	—.4	—.4	—1.5	—.4	—.2	—1.0

[1] Weighted by value of exports or imports.
[2] High import value per ton due to electrical machinery which constitutes 52 percent of total import value of all commodities in sample.

Source: Tables 4-A, p. 2; v-B, p. 2; and 4-C, p. 2 (appendix).

If we isloate those commodities that have higher export rates at present and examine the impact of rate equalization on those rates alone, we can see that even upon those commodities the effect of equalization is small. This is indicated by table F. It will be noted from a comparison of line 1 and line 8 that the adjustment in the export value per ton would be approximately $12 ($1,413 to $1,401) in the case of trade route 7, which, as line 7 indicates, is the amount by which the export rate exceeds the import rate. This change is actually less than 1 percent of the difference in the values per ton between the exports and the imports, as line 13 of table F discloses.

TABLE F.—*Relationship of value per ton, exports versus imports, of commodities presently (1961) having higher export freight rates than import freight rates and after equalizing such export rates with the import rates*

	Unweighted average			Weighted average [1]		
	Trade route 7	Trade route 8	Trade route 29	Trade route 7	Trade route 8	Trade route 29
Number of commodities	12	9	15	12	9	15
Present relationship (1961):						
1. Export value per ton	$1,413	$1,186	$1,665	$2,367	$1,556	$2,235
2. Import value per ton	854	808	1,293	1,839	381	[2] 3,015
3. Export value exceeds import value by	559	378	372	528	1,175	(781)
4. Export value per ton as percent of imports (line 1+ line 2)	165.5	146.8	128.8	128.7	408.4	74.1
5. Exports	$36.29	$36.64	$52.80	$39.75	$39.48	$50.51
6. Imports	$24.00	$23.86	$28.12	$21.77	$23.47	$28.83
7. Export rate exceeds import rate by—						
Dollars	12.29	12.78	24.68	17.98	16.01	21.68
Percent	51.2	53.6	87.8	82.6	68.2	76.4
If export rates are lowered to equal import rates:						
8. Value per export ton (line 1 − line 7)	$1,401	$1,173	$1,640	$2,349	$1,540	$2,212
9. Value per import ton (line 2)	854	808	1,293	1,839	381	3,015
10. Export value exceeds import value by (line 8 − line 9)	547	265	347	510	1,159	(803)
11. Export value as percent of import value adjustment (line 8 + line 9)	164.1	145.1	126.8	127.7	404.2	73.4
12. Percent change in relationship between export values and import values (line 4 − line 11)	1.4	1.7	2.0	1.0	4.2	.7
13. Percentage change in value per export ton (line 8+ line 1)	−.8	−1.1	−1.5	−.8	−1.0	−1.0

[1] Weighted by value of exports or imports.
[2] High import value per ton due to electrical machinery which constitutes 52 percent of total import value of all commodities in sample.

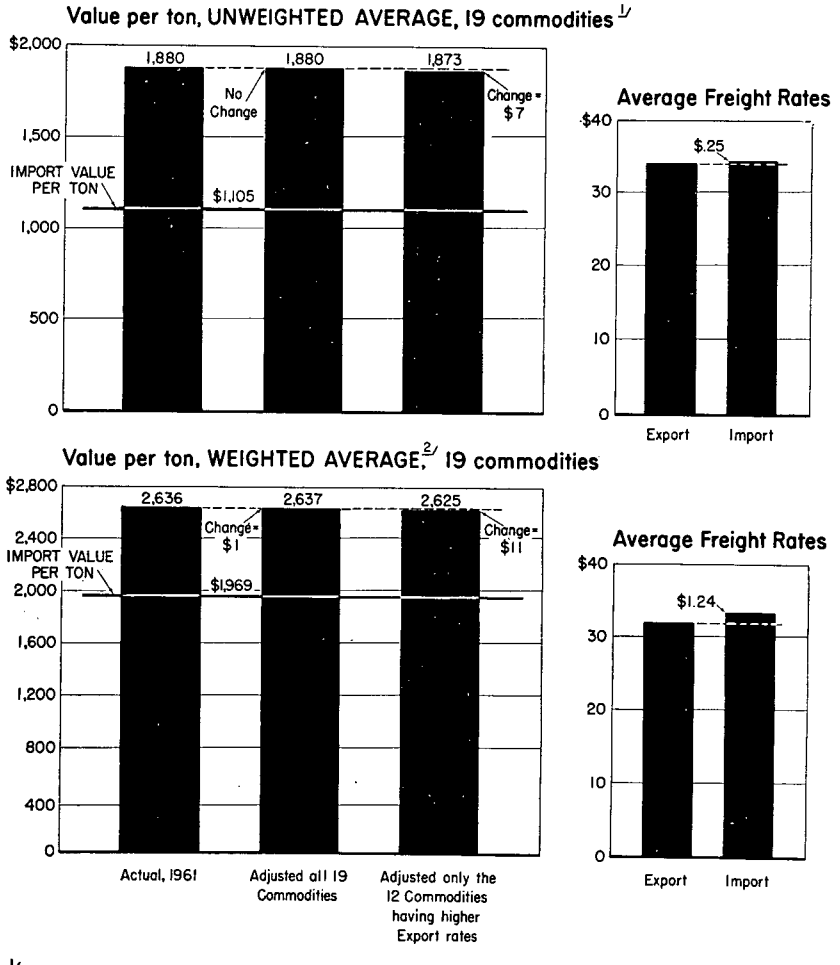
Source: Tables 4-A, p. 2; 4-B, p. 2; and 4-C, p. 2 (appendix).

The effect of rate equalization upon export values per ton, and the relationship of both unadjusted and adjusted export values per ton to import values per ton are graphically portrayed in charts 3-A through 3-D.

CHART 3A

The effect on average value per export ton of adjusting export rates to equal import rates

TRADE ROUTE NO. 7



1/ All commodities shown on Table I moving as both exports and imports.
2/ Weighted by value of exports and imports as shown in Table I.

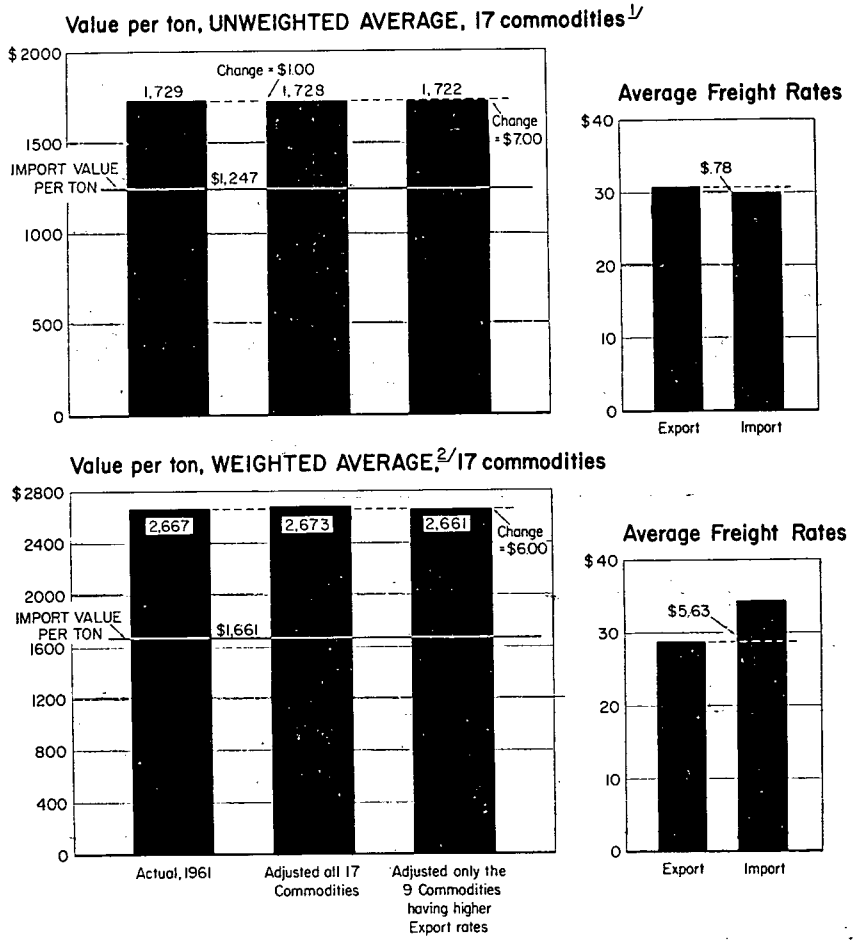
Source: Table 4A

CHART 3B

The effect on average value per export ton

of adjusting export rates to equal import rates

TRADE ROUTE NO. 8



1/ All commodities shown on Table I moving as both exports and imports.

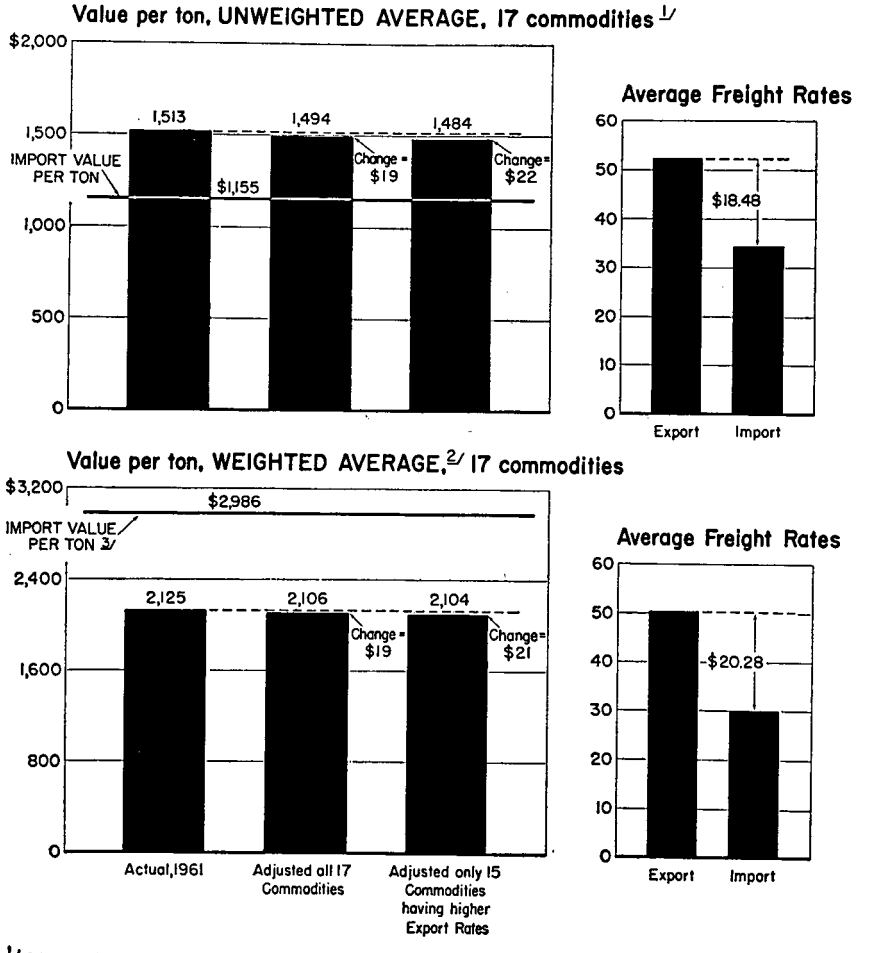
2/ Weighted by value of exports and imports as shown in Table I.

Source: Table 4B.

CHART 3C

The effect on average value per export ton of adjusting export rates to equal import rates

TRADE ROUTE NO. 29



1/ All commodities shown on Table I moving as both exports and imports.

2/ Weighted by value of exports and imports as shown in Table I.

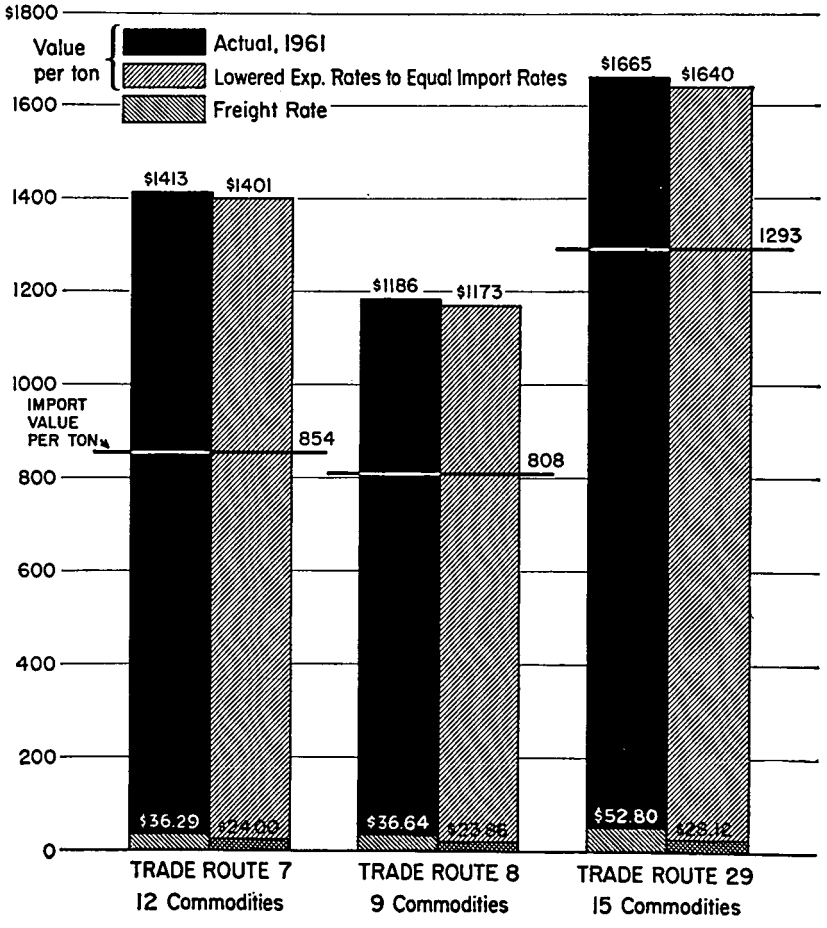
3/ High import value per ton due to electrical machinery which constitutes 52% of total import value of all commodities in sample.

Source: Table 4C.

CHART 3D

Effect on average (unweighted) value per ton

when export rates are lowered to equal import rates on commodities presently having higher export freight rate than import freight rate



Source: Table 4A p.2, 4B p.2, 4C p.2

Among the specific commodities moving over the three trade routes under your review there are only two on trade routes 7 and 8—iron and steel pipe, tube and tubing; rolled and finished steel—for which an equalization of freight rates would effect a change in excess of 5 percent in the relationship of export and import values per ton (tables 4–A and 4–B of appendix). In the case of trade route 29, four additional commodities could supplement the "change over 5 percent" computation.

In short, viewing the import/export rate structure as a whole (as presented in the committee's tables I through IV) equating rates would have almost no effect if all rates had to be changed. And, even if we changed only those commodities which presently had higher export freight rates than import freight rates (without regard for the consequences of this action upon earnings of the carriers), the effect upon them, individually and as a group, would still be small.

In the above analysis we have concerned ourselves with the data incorporated in prior hearings without regard to any infirmities lodging in the data. When one probes, however, into the contents of the commodities set forth in tables I through IV, one finds a myriad of products almost all of which are significant to either exports or imports, but seldom to both. In table V (see appendix) we have set forth the composition of some of the leading commodities employed in tables I through IV of the committee's hearings. There we find, for example, that those canned fruit juices exported to West Germany are preponderantly citrus juices whereas 85 percent of the much smaller volume of imports are cherry juice.

Similarly, the rubber tires and tubes exported to West Germany are primarily of a different ilk than those imported. Although Census Bureau commodity descriptions are sometimes cryptic, creating uncertainty as to the extent of overlapping between exports and of imports, the conclusion that different products prevail in the export and in the import trades seems well founded: Note that 95 percent of the exports have an average value of $16.49 each, whereas 88 percent of the imports average $1.54 each. This broad gap in export versus import values must promote caution in ascribing rates to a broad category such as "rubber tires and rubber tubes," for the large, heavy tires move at "weight" rates while the small light but bulky tires move on "weight or measure" rates, paying the higher of the two. Any averaging of rates for a category such as this, based solely on weight rates, would therefore be at fault for not heeding the influence of volumetric rates.

This divergence of value per ton as between exports and imports is also true of steel. Table 6, which is predicated upon worldwide exports and imports of steel, indicates that for those items for which tonnage is available, the average values per ton of iron and steel exports and imports were as follows:

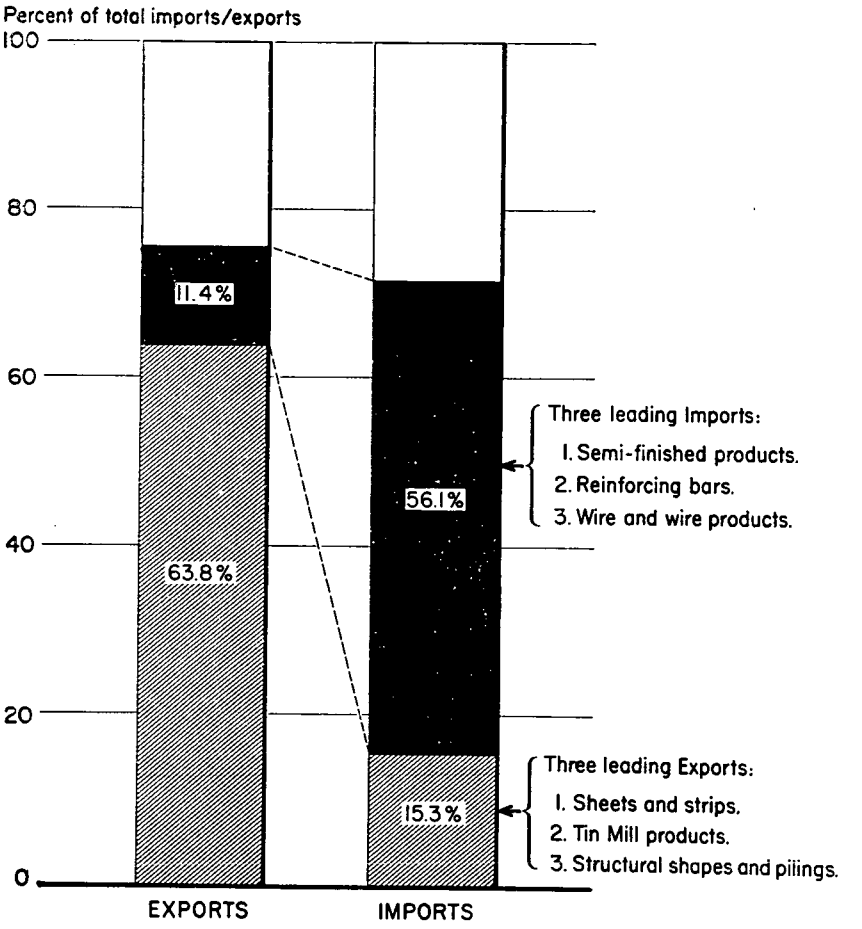
	Value per ton	
	1961	1962
Exports	$242.61	$245.80
Imports	$131.71	$126.13
Percent imports of exports	54.3	51.3

Source: Table 6 (appendix).

Information contained in the April–May hearings points to the conclusion that the products moving in export are essentially different from those dominating the import trades. This is illustrated by table 7 (in the appendix hereto) and chart 4, which indicate that the three leading steel exports make up 64 percent of the exports but only 15 percent of the imports. Conversely, the three leading imports account for 56 percent of the imports but only 11 percent of the exports. Table 8 (in the appendix hereto) and chart 5, dealing with the relationship of volume to prices, are also bottomed upon data submitted in the earlier hearings. It is worthy of comment that while only 12 percent of all steel exports were valued at less than $100 per ton in 1962, almost half (49 percent) of the imports were valued at less than $100 per ton.

CHART 4

The major steel exports were insignificant imports in 1961; the leading steel import products were negligible export items



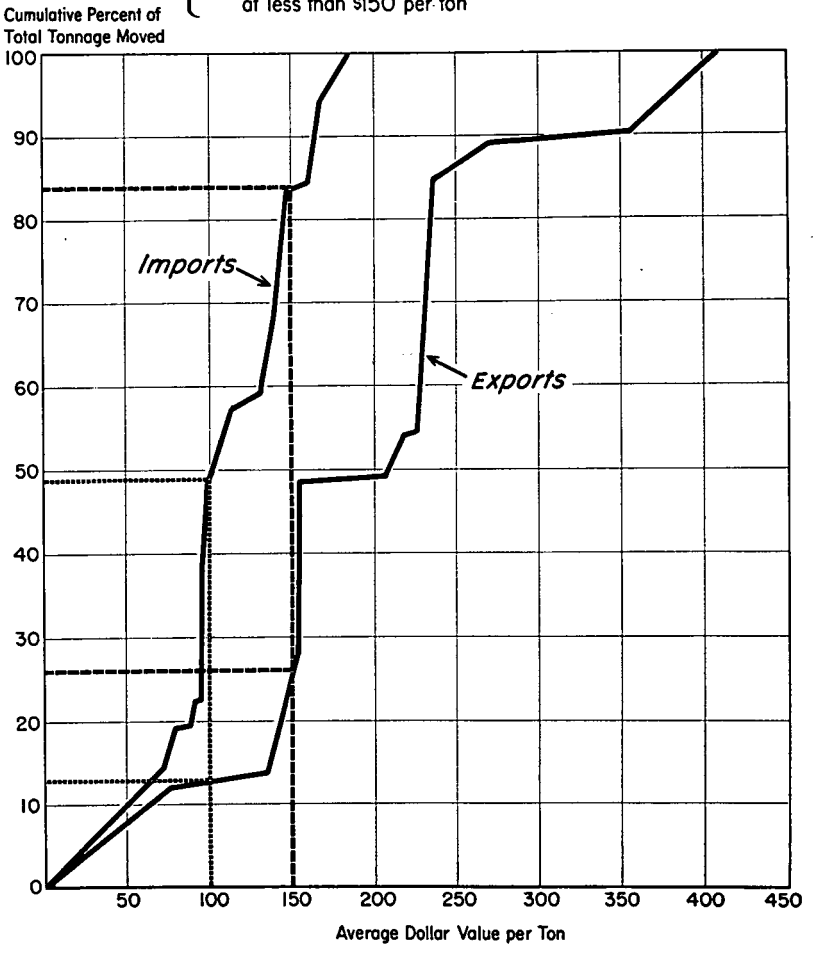
Source: Table 7.

Let us now inquire into the importance of ocean freight rates in the total cost of transportation. If ocean freight costs constitute a significant component of the total cost to the foreign importer of American goods, then, presumably, if demand for the goods were reasonably elastic, a lowering of the ocean freight rate would bring a response of mounting orders from overseas.

CHART 5

Cumulative percentage of steel (in short tons) exported and imported at specified average dollar values, 1962

Indicating { 13% of All Exports, 49% of All Imports are valued at less than $100 per ton
26% of All Exports, 84% of All Imports are valued at less than $150 per ton



Source: Table 8.

We have available to us a study from an independent source. The American Association of Port Authorities has studied transportation costs for the purpose of determining how much of the cost is incurred at sea and how much is incurred either inland or at the port. In so doing, they developed the transportation costs we have employed in table G. We have advanced their analysis a step by adding in the cost of the commodity itself at the factory, plus the import customs and other taxes paid at the importation point. This permits developing for all commodities that they have covered the ocean shipping cost in relation to the total cost of the commodity as delivered.

TABLE G.—*Importance of ocean transportation in the total delivered cost of specified commodities, 6,000-pound shipments*

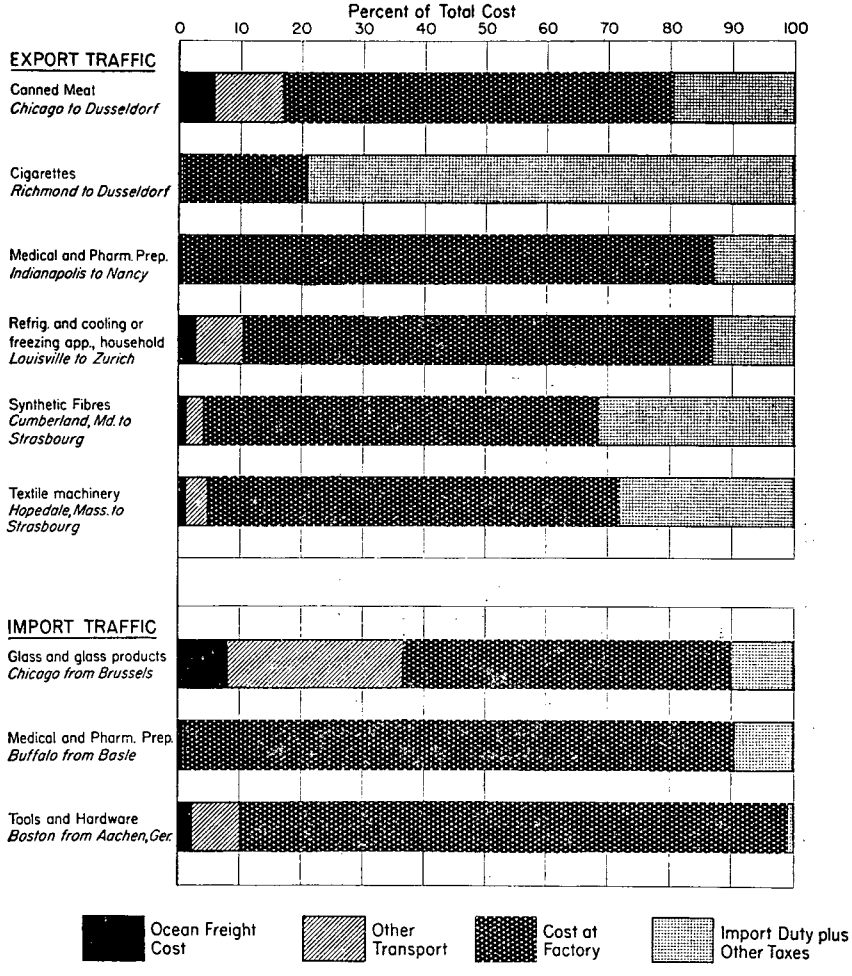
	Commodity cost at factory	Transportation cost [1]				Import duty plus other taxes	Importer's total cost ((1)+(5)+(6))	Ship bill of lading as a percent of total cost ((3)÷(7))
		U.S. inland	Ship bill of lading	European inland	Total ((2)+(3)+(4))			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Export traffic:								
Canned meat, Chicago to Duesseldorf	$1,521	$201	$142	$57	$400	$471	$2,392	5.9
Cigarettes, Richmond to Duesseldorf	8,591	169	141	63	373	33,523	42,487	.3
Medical and pharmaceutical preparations, Indianapolis to Nancy	112,938	222	349	109	680	16,361	129,979	.3
Refrigerators and cooling or freezing apparatus, household type, in boxes, Louisville to Zurich	3,493	227	162	90	479	585	4,557	3.6
Synthetic fibers, Cumberland, Md., to Strasbourg	8,832	168	202	157	527	4,276	13,635	1.5
Textile machinery, Hopedale, Mass., to Strasbourg	5,418	149	116	126	391	2,298	8,107	1.4
Import traffic:								
Glass and glass products, Chicago from Brussels	450	209	70	27	306	84	840	8.3
Medical and pharmaceutical preparations, Buffalo from Basle	39,180	168	380	122	670	4,114	43,964	.9
Tools and hardware, Boston from Aachen, Germany	2,748	166	85	73	324	30	3,102	2.7

[1] Source: Data developed for the Research Committee of the American Association of Port Authorities, submitted as exhibit I in "A Naval Battle Fought Ashore," by John L. Eyre.

NOTE.—Inland costs, United States and European, are based on rail less-than-carload costs.

CHART 6

Percentage of Total Delivered Cost Accounted for by Ocean Freight



Source: Table G.

It is noteworthy that of the five exports covered, the largest percentage of total cost to which shipping can lay claim is in the case of canned meats and, in that instance, it accounts for less than 6 percent of the total cost. In the case of imports, the ocean transportation absorbs a larger share of total costs, at maximum 8.3 percent. But, of the nine items studied, ocean transportation constituted less than 1 percent of the total cost on three items, in fact less than 4 percent in seven cases of the nine.

In short, when one relates ocean transportation to total costs inclusive of inland transportation, customs duties, import taxes, port charges, etc., ocean transportation is not a highly significant factor.

A mandatory requirement that ocean freight rates be equal in both the outbound and the homebound trades for comparable commodities would convert ocean transportation into a unique medium of transportation. Not even those media of transportation that enjoy reasonably balanced directional movements are void of some directional rates.

Table 9 (of the appendix hereto) illustrates differences in directional rates prevailing on the same commodity moving via rail west coast to east coast versus east coast to west coast, plus some examples of northbound versus southbound differences in rates for the same commodity. Table 10 provides similar illustrations for truck movements both east to west and north to south. Here, too, the same commodity may differ directionally in rates applicable to identical volumes. Tables 11–A and 11–B tabulate some of the commodities moving transatlantic via air at different rates eastbound versus westbound. These commodities may bear identical rates in smaller volumes but different rates in larger quantities. This fact attests to the efforts of the carriers to respond to shippers' needs and to their response for rate modifications to promote volume movements.

Directional air rates are less common over the Pacific but there are some exceptions. Yarn, thread, and fibers, for example, move from Tokyo to the west coast of the United States at $2.76 per kilogram for a minimum weight of 45 kilograms, at $1.65 for a minimum weight of 1,000 kilograms. The same commodity moving from the U.S. west coast to Tokyo would command rates of $3.48 per kilogram and $2.20 for commensurate weight minimums. Table 12 is a tabulation of domestic air freight rates of selected commodities reflecting directional differences in rates for identical commodities. This industry is characterized by a sharp predominance of westbound traffic and the regulatory agency has encouraged efforts to stimulate eastbound freight traffic. When commodities show promise of voluminous movements, they are shipped east under specific commodity rates, leaving, as a rule, the general commodity rate to prevail on the relatively smaller quantities of the same product moving westbound.

In brief, there is ample evidence to support the conclusion that directional differences in ocean freight rates are not a unique phenomenon among the various agencies of transportation.

With regard to competition, it is pertinent to stress that the berth operators have both internal and external competition, for there are both conference and nonconference carriers. The extent to which both participate in the outbound movements of trade routes 7 and 8 is set forth in table H.

TABLE H.—*Relative importance of tonnage carried by nonconference and conference carriers on trade routes 7 and 8 outbound, 1962*

	Trade route 7	Trade route 8
Total (tons) [1]	296,159	671,350
Conference (tons)	218,382	428,658
Percent of total	73.7	63.9
Nonconference (tons)	77,777	242,692
Percent of total	26.3	36.1

[1] Weight tons, excluding defense and dry bulk.

Source: North Atlantic Continental Freight Conference.

In short, competition abounds in the major trade areas—within conferences, between conference and nonconference carriers, between berth and tramp operators. It is intensified in the homebound movement where the opportunities to carry revenue cargoes are markedly fewer.

I should like to comment at this point upon Professor Grossman's testimony concerning the added-traffic theory to which he imputes the low inbound rates. As he has stated, a rate is justified under the added-traffic theory when it attracts traffic on a return trip by the use of space that otherwise be

empty, provided the rate is sufficiently high to cover the comparatively small additional cost incurred in the carriage of the added traffic.[1]

Professor Grossman has correctly pointed out that the ICC frowns on rates for backhaul tonnage based on the added-traffic theory, and has found in the *Insulation Material* case that rates which could be regarded as compensatory only on that basis may not be approved. It is certainly true that the ICC does not promote the added-traffic theory inasmuch as it dreads a general rate schedule predicated upon added costs only, for in that case there would be no rates to cover the overhead indigenous to all agencies of transportation. Some rates have to bear this overhead burden or the carrier cannot exist. There is also the generally voiced fear that the low rates justified by the added-traffic theory will bring forth such volume of new traffic that the mere out-of-pocket costs incidental to carrying such traffic will no longer be simply that called for by a return trip of existing operations but, rather, the growth in traffic will require more new trips. The enlarged operation would then mean not only more direct costs but what are actually relatively fixed costs may be brought into play and made variable. Thus, volumewise, the tail may soon wag the dog.

On the other hand, there are instances in which the Commission has recognized that the added-traffic theory will justify a lower rate—either because it is necessary to meet competition, or because it would permit a regulated carrier to divert traffic from an unregulated carrier which itself has, as a practical matter, utilized the added-traffic theory. The essential justification is, of course, that the added-traffic theory is, when properly employed, an added-profit theory.

The ocean carriers frequently have a keener problem of a return voyage than do the carriers under the ICC's jurisdiction. Today's directional imbalance of traffic means that the larger tonnage which was used, say, eastbound across the Atlantic must return home for additional eastbound voyages. In getting back to the United States the carrier has the choice of operating without revenue cargo or taking on sufficient revenue cargo to meet the additional costs incidental to handling such cargo plus some contribution to the voyage home. Because of the vastly greater amount of unoccupied capacity on the westbound leg returning to the United States, the competition is sharper. The vast amount of unoccupied capacity in the homebound leg leaves little room for the possibility that lower homebound rates will stimulate so much traffic that additional capacity will have to be added to accommodate it. Therefore one of the major worries of the ICC and other regulatory bodies concerning directional rates is absent in ocean freight transportation. Added revenue is via added freight, when it exceeded added handling costs, contributes toward the cost of the homebound voyage.

As a matter of fact, the ICC has recognized that ratemaking is not an inflexible procedure and has not ruled that rates can never be set on the added-traffic theory. Two years after the *Insulation Material* case, the Commission handed down the *Coal from Southern Mines to Tampa and Sutton, Florida*, 318 I.C.C. 371 (1962), (Investigation and Suspension Order No. 7179). In that case the Louisville & Nashville, and the Southern Railroad, among others, engaged in the carriage of phosphate from Florida to Alabama and Kentucky and other northern points, asked for authority to establish reduced rates on fine coal in carloads from Alabama, Kentucky, Tennessee, and Virginia to Tampa and Sutton, Fla. As a result of these rates, they acquired substantial traffic moving to power companies in Tampa and Sutton, Fla., which had formerly been carried by unregulated water carriers. During the period of the suspension of the rates it developed that had the reduced rates not been approved, the power companies would have continued to satisfy their fuel requirements with water shipments of both domestic and imported fuels.

The coal traffic handled by Louisville & Nashville was moved in equipment which had carried shipments of phosphate rock to northern points and, before the rate reduction, would return empty. Louisville & Nashville's justification for the reduced rates therefore was predicated upon the assumption that the coal traffic would be handled by existing equipment, and that certain major

[1] As used by the ICC, the term "added traffic" signifies traffic which the carrier considered could be handled by personnel and equipment normally employed or operated at a particular time and which involve only a small increase in relative short-term variable costs in addition to the amount of such cost which would be incurred in any event.

expenses associated with line-haul service could be assigned exclusively to the carrier's existing traffic instead of being apportioned between that traffic and the traffic added. The Commission ruled that "in the light of special circumstances shown by the record in this case we are satisfied that the reduced rates are reasonably compensatory even though they fail to produce the return on investment in road property and equipment normally considered in the computation of out-of-pocket costs." They further held that "operating conditions and a long-established traffic pattern permit the Louisville and Nashville to move a substantial part of the coal traffic without the creation of any significant addition of train-miles. Since * * * [fixed expenses] will continue to be incurred whether the coal traffic moves or not there is a sound basis for concluding that the reasonableness of the rates proposed should not be determined solely by accounting and statistical computations."

The Commission did not retreat from its traditional recognition of the joint-cost nature of line-haul expenses with regard to the round trip. It did make a point, however, of stating that the southbound movement in effect reduced the unit costs of the northbound movements by supplying more loaded movements over which to distribute a smaller amount of out-of-pocket costs for empty movements.

In this hearing the Commission sidestepped the overall question of the validity of the added-traffic basis of ratemaking, but it did hold that the reduced rates could be approved without consideration of the added-traffic theory and that it was "inappropriate for us to speculate concerning the circumstances, if any, which might justify approval of rates constructed on that basis." Then the Commission proceeded to cite several circumstances which could imply justification of approval of rates based on added traffic.

The Commission went on to say that although its support of the added-traffic theory has, in the past, been somewhat limited, "we do not say that rates constructed on that basis may never be approved." The Commission appeared to take a fact-of-life approach to the added-traffic question, recognizing (1) that unregulated competition does employ added-traffic theory in ratemaking and (2) some of the added-traffic rates of authorized carriers have become effective without specific Commission approval.

The Commission further emphasized that rate cases should be decided on merits other than rigid adherence to some accounting formula, pointing out that "we should exercise our discretion in a case such as this in order to arrive at a sound and logical conclusion consistant with the national transportation policy." Although Louisville & Nashville's rates in this instance did fail to meet long-term, out-of-pocket costs, the Commission held that the rates should not be condemned solely on this cause.

The Commission quoted an observation by Mr. Justice Frankfurter in *Kansas City Board of Trade* v. *United States*, 314 U.S. 534, 546:

"The process of ratemaking is essentially empiric. The stuff of the process is fluid and changing—the resultant of factors that must be valued as well as weighed. Congress has therefore delegated the enforcement of transportation policy to a permanent expert body and has charged it with the duty of being responsive to the dynamic character of transportation problems."

The Commission observed that its comments were consistent with a much earlier decision, *Reparation as Relating to Increase of Rates*, 68 I.C.C. 5, 6:

"The words 'just and reasonable' are not fixed unalterable mathematical terms. *Advances in Rates on Coal by the C. & O. Ry. Co.*, 22 I.C.C. 604. Moreover, as has been recognized by the Supreme Court there must exist range for 'the flexible limit of judgment which belongs to the power to fix rates.' *Atlantic Coast Line* v. *N. Car. Corp. Comm.*, 206 U.S. 1, 26. There could be no flexible limit of judgment if all rates were to be measured by their relation to cost or by a predetermined rule."

The case cited by Professor Grossman (*Insulation Material From Manville, N.J., to Virginia*, 309 I.C.C. 580) pertained to the motortruck industry. The leading case in that field and the one wherein the principles reflected in the *Insulation Material* case were enunciated was *Refrigerator Material, Memphis, Tenn., to Dayton, Ohio*, 4 M.C.C. 187, 189 (1938). There the Commission expressed its fears of the "added-traffic theory" by pointing out:

"An unbalanced condition of truck traffic, because of the greater number of operators, is apt to be somewhat of an individual matter. That is to say, the traffic of one truck operator may preponderate in one direction, whereas that of a competing operator may predonderate in the other. As between operators, therefore, the application of the out-of-pocket cost method of making rates might well result in a breakdown of the rates in both directions."

The characteristic that traffic imbalance is apt to be an individual matter with motor carriers stems from the fact that truckers, unlike the railroads, customarily are carriers of only a few or a relatively limited range of commodities. Thus, for example, the preponderant traffic of a motor carrier of rugs and carpets well might be in just the reverse direction of another trucker engaged in carrying a different category of traffic; this was observed by the ICC in *Rates Over Carpet City Trucking*, 4 M.C.C. 589, 592 (Div. 5, 1938). Or one trucker may specialize in seafood from eastern Massachusetts to the Carolinas, while the traffic of another will be predominantly gray goods from the Carolinas to New England. The traffic imbalance of the two, operating in the same geographic area, will be directionally opposite. The railroads. on the other hand, do not similarly limit their business, but accept and transport all commodities tendered to them without any marked limitation. While establishment of rates on the added-traffic theory is appropriate only in special circumstances, the limiting characteristic noted by the ICC in respect of motor transportation—that traffic imbalance is apt to be an individual matter—is not similarly characteristic of rail or other transportation modes.

Even in the trucking industry, however, the ICC has approved back-haul rates. In *Automobiles From Atlanta, Georgia, to Norfolk, Virginia*, docket No. 33588, decided April 9, 1962, the Commission approved a return-haul rate from Atlanta, Ga., to Norfolk, Va., of $206 on freight, passenger, and motor vehicles. This return rate was one-half of the $412 charge applying from Norfolk to Atlanta. In its decision, the Commission pointed to more than 50 instances where rates apply in both directions between two given points and where the rate applying on what would generally be considered the return haul reflects as little as 80 percent of the rate for the principal haul. In this case it approved the rate of 50 percent of the proposed haul because the evidence seemed to be convincing that it would cover fully distributed costs on two routes and cover out-of-pocket costs on a third route. It noted that "the rate is moving traffic that otherwise would not be available to the respondents" and added further, "although a showing of competitive necessity may be a factor in the establishment of return haul rates, the absence of such a showing does not establish unlawfulness under the circumstances present here."

Most relevant of the committee's concern over the disparity between outbound rates in the foreign trade of the United States as compared with those inbound is the proposition that the rate in one direction is not necessarily the proper measure of the rate in the opposite direction.[2] It is true that rates between the same points normally should be the same in both directions;[3] but this is true only where traffic and transportation conditions affecting the movements are the same in both directions. If the circumstances and conditions affecting the one are substantially different from those affecting the rate in the opposite direction, the one rate is not a proper measure of the other.[2]

The U.S. shipping industry, it appears, cannot be unmindful of the need to bolster exports, for it is the means to its own livelihood. In this connection several thoughts may be appropriate:

With respect to the exports and imports of steel, it is highly relevant that this past August the American Iron & Steel Institute submitted a report to the Business and Defense Services Administration of the Department of Commerce giving their view on the forthcoming negotiations on mutual tariff reductions sponsored by the general agreement on tariffs and trade. The booklet response is entitled "World Competition in Steel." The report delves into the change of position of the United States from a substantial world net steel exporter prior to 1957 to a net importer of steel mill products. It pointed out that approximately half of U.S. exports depend upon the constantly changing pattern of the U.S. Government AID program which has caused Canada and Latin America to take a declining percentage of U.S. steel exports and Asia and the Far East an increasing percentage. It then indicates that

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[2] *Liquified Petroleum Gas, Canada to W. T. L. Territory*, 314 I.C.C. 596, 600 (Division 2, 1961); *Feigenbaum & Arons* v. *Missouri–K.–T. R.R.*, 299 I.C.C. 630, 632 (Division 2, 1957); *General Metals Corp.* v. *Atchison T. & S.F. Ry.*, 288 I.C.C. 215, 218 (Division 3, 1953); *Indiana Smelting & Ref. Corp.* v. *New York C. & St. L. R.R.*, 173 I.C.C. 71, 72 (Division 3, 131); *West Virginia Rail Co.* v. *Baltimore & O. R.R.*, 50 I.C.C. 318, 322 (Division 3, 1918); *Weil* v. *Pennsylvania R.R.*, 11 I.C.R. 627, 629–630 (1906); *Duncan* v. *Atchison, T. & S.F. R.R.*, 4 I.C.R. 385, 392 (1893).

[3] *Arkansas Plant Food Co.* v. *St. Louis S.W. Ry.*, 315 I.C.C. 680, 681 (Review Board, 1962); *Fluor Corp.* v. *Chicago & N.W. Ry.*, 298 I.C.C. 212, 213–294 (Division 2, 1956); *O'Keefe & Merritt Co.* v. *Alton & S. R.R.*, 288 I.C.C. 725, 730 (Division 3, 1953); *Pig Iron From Southern Points*, 159 I.C.C. 671, 676–677 (Division 4, 1929); *Portland Traf. & Transp. Assoc.* v. *Oregon–W. R.R. & N. Co.*, 56 I.C.C. 410, 412–13 (Division 3, 1919); *Heider Mfg. Co.* v. *Chicago Great W. R.R.*, 39 I.C.C. 556, 557 (1916).

in each of the four major producing areas—Canada, the European Coal and Steel Community, the United Kingdom, and Japan—capacity has expanded at a greater rate than internal consumption so that capacity in the foreseeable future will be far from fully utilized. After exploring the various problems confronting the industry they conclude as follows:

"The purpose of this report has been to indicate the principal forces which affect the American international trade position in steel products and to emphasize some of the factors which we believe must be taken into consideration in the forthcoming negotiations to assure such equitable treatment for American steel producers. The world supply-demand imbalance will probably continue for some years to come. We believe the United States has suffered from disadvantages with respect to *employment costs, tariff structures, nontariff trade barriers, export subsidies, tax structures, and regulatory policies.* These forces have made competition difficult and will continue to do so." [Emphasis supplied.]

It is to be noted that in their summation of the disadvantages suffered by the industry, water transportation is conspicuously absent.

TABLE 1–A.—*Distribution of total dollar value of exports and of imports according to percent of difference in value per ton that is attributable to freight rates,*[1] *trade route 7 commodities, year 1961*

	Percent of value difference due to rates [1]	Export rate exceeds import rate by—		Percent of total value of 1961 sample commodities	
		Amount	Percent	Exports	Imports
Commodities with export rate higher than import rate:					
Rolled and finished steel	38	$38.75	159.8	15.7	4.4
Rubber tires and inner tubes	12	8.25	27.0	.2	.6
Fruit juices, canned or frozen	11	19.50	105.4	(2)	.1
Cotton, semimanufactures	7	6.50	23.6	1.7	.1
Iron and steel pipe, tube, and tubing	6	32.75	179.5	1.2	.7
Nitrogen fertilizer material excluding ammonium sulfate	4	3.25	15.3	(2)	(2)
Metalworking machinery	2	12.00	57.1	23.3	6.6
Sulfur	1	1.00	3.6	(2)	(2)
Iron and steel castings and forgings	1	7.50	23.1	.2	.1
Lubricating oils and greases	0	2.75	11.1	1.4	(2)
Tools and basic hardware	0	15.25	72.6	1.4	3.8
Textile, sewing and shoe machines	0	.75	3.6	10.4	9.8
Commodities with import rate higher than export rate:					
Standard newsprint paper	165	(33.00)	(56.9)	.1	(2)
Electrical machinery	28	(44.50)	(67.4)	19.5	26.1
Sulfuric acid	9	(32.00)	(33.7)	(2)	(2)
Automobiles, trucks, etc	5	(5.25)	(24.1)	2.9	43.4
Pigments, paints, and varnish	4	(28.50)	(58.8)	.8	.3
Agricultural machinery	2	(4.25)	(20.5)	6.7	.9
Medical and pharmaceutical preparations	0	(4.25)	(6.9)	2.7	2.7

SUMMARY

	Number of commodities	Percent of total value of 1961 sample commodities	
		Exports	Imports
Commodities with export rate higher than import rate:			
Percentage of value difference due to rate, exceeds 10 percent	3	15.9	5.1
Percentage of value difference due to rate, under 10 percent	9	39.6	21.1
Commodities with import rate higher than export rate	7	32.7	73.4
Commodities moving in 1 direction only	7	11.8	0.4
Total in sample	26	100.0	100.0

[1] Per col. 7 of table IV–A of source. This equals the difference between export and import freight rares as a percent of the difference between value per ton of exports and of imports including freight rates.
[2] Less than 0.05 percent.

Source: "Discriminatory Ocean Freight Rates and the Balance of Payments," hearings before the Joint Economic Committee, 88th Cong., table IV–A. p. 76 (cols. 1, 2, and 3) and table I–A, p. 67 (cols. 4 and 5).

TABLE 1–B.—*Distribution of total dollar value of exports and of imports according to percent of difference in value per ton that is attributable to freight rates,*[1] *trade route 8 commodities, year 1961*

	Percent of value difference due to rates [1]	Export rate exceeds import rate by—		Percent of total value of 1961 sample commodities	
		Amount	Percent	Exports	Imports
Commodities with export rate higher than import rate:					
Fruit juices, canned or frozen	20	16.00	86.5	0.1	0.7
Cotton, semimanufactures	20	4.50	16.4	.7	1.3
Rolled and finished pipe	14	33.00	136.1	6.9	43.7
Iron and steel pipe, tube, and tubing	7	28.00	153.4	.4	3.6
Nitrogen fertilizer materials, excluding ammonium sulfide	2	1.10	5.2	[2]	.1
Rubber tires and inner tubes	1	4.75	15.6	1.1	.5
Tools and basic hardware	1	12.00	57.1	2.5	5.0
Metalworking machinery	1	12.00	57.1	15.0	3.5
Iron and steel castings and forgings	0	3.75	11.5	.3	[2]
Commodities with import rate higher than export rate:					
Pigments, paints, and varnish	5	(29.50)	(60.8)	1.1	1.6
Electrical machinery	3	(46.50)	(69.4)	15.7	21.1
Automobiles, trucks, etc	2	(6.75)	(31.0)	12.7	6.5
Lubricating oils and greases	1	(.50)	(2.0)	1.5	.3
Sulfur	1	(1.50)	(5.5)	.1	[2]
Agricultural machinery	1	(5.75)	(27.7)	7.4	.7
Medical and pharmaceutical preparations	1	(10.00)	(16.3)	9.2	4.1
Textile, sewing, and shoe machines	0	(1.25)	(6.0)	8.2	6.9

SUMMARY

	Number of commodities	Percent of total value of 1961 sample commodities	
		Exports	Imports
Commodities with export rate higher than import rate:			
Percentage of value difference due to rate, exceeds 10 percent	3	7.7	45.7
Percentage of value difference due to rate, under 10 percent	6	19.3	12.7
Commodities with import rate higher than export rate	8	55.9	41.2
Commodities moving in 1 direction only or not at all	9	17.1	.4
Total in sample	26	100.0	100.0

[1] Per col. 7 of table IV–B of source. This equals the difference between export and import freight rates as a percent of the difference between value per ton of exports and imports including freight rates.
[2] Less than 0.05 percent.

Source: Discriminatory Ocean Freight Rates and the Balance of Payments, hearings before the Joint Economic Committee, 88th Cong., table IV–B, p. 76 (cols. 1, 2, and 3) and table I–B, p. 68 (cols. 4 and 5).

TABLE 1–C.—*Distribution of total dollar value of exports and of imports according to percent of difference in value per ton that is attributable to freight rates,[1] trade route 29 commodities—Year 1961*

	Percent of value difference due to rates [1]	Export rate exceeds import rate by—		Percent of total value of 1961 sample commodities	
		Amount	Percent	Exports	Imports
Commodities with export rate higher than import rate:					
Rolled and finished pipe	41	$8.60	55.5	4.8	15.8
Cotton, semimanufactures	26	27.50	82.1	.2	[2]
Iron and steel castings and forgings	15	31.50	131.2	.3	.1
Rubber tires and inner tubes	10	86.00	347.5	.8	.1
Medical and pharmaceutical preparations	6	14.00	23.5	1.0	5.3
Nitrogen fertilizer materials	5	3.15	21.7	.1	.4
Agricultural machinery	4	13.25	55.2	9.9	.1
Iron and steel pipe	3	13.25	55.2	.7	7.7
Tools and basic hardware	2	54.00	276.9	1.9	9.5
Automobiles, trucks, etc	2	14.75	64.1	2.6	1.2
Electrical machinery	2	23.75	72.0	18.8	51.7
Metalworking machinery	1	23.75	72.0	9.5	.2
Textile sewing and shoe machines	1	23.75	72.0	1.4	6.3
Pigments, paints, and varnish	1	19.50	51.0	1.8	.1
Lubricating oils and greases	0	3.40	11.6	6.1	[2]
Commodities with import rate higher than export rate:					
Standard newsprint paper	58	(8.75)	(24.5)	2.5	.2
Fruit juices, canned or frozen	13	(47.25)	(39.3)	.9	.8

SUMMARY

	Number of commodities	Percent of total value of 1961 sample commodities	
		Exports	Imports
Commodities with export rates higher than import rates:			
Percentage of value difference due to rate, exceeds 10 percent	4	6.1	16.0
Percentage of value difference due to rate, under 10 percent	11	53.8	82.5
Commodities with import rate higher than export rate	2	3.4	1.0
Commodities moving in 1 direction only or not at all	9	36.7	.5
Total in sample	26	100.0	100.0

[1] Per col. 7 of table IV–C of source. This equals the difference between export and import freight rates as a percent of the difference between value per ton of exports and imports including freight rates.
[2] Less than 0.05 percent.

Source: "Discriminatory Ocean Freight Rates and the Balance of Payments," hearings before the Joint Economic Committee, 88th Cong., table IV–C, p. 77 (cols. 1, 2, 3) and table I–C, p. 69 (cols. 4 and 5).

TABLE 2–A.—*Tonnage and value of exports and imports grouped according to relationship of freight rates to value per ton (U.S. oceanborne trade in selected commodities moving in both directions, North Atlantic-Germany, trade route 7, 1961)*

Commodity	Ratio: Freight to value per ton (percent)		Exports		Imports	
	Export	Import	Long tons	Value	Long tons	Value
1. Freight is higher for exports, in relation to value, than for imports:						
Fruit juices, canned or frozen	6	4	10	$6,726	195	$98,651
Rubber tires and inner tubes	3	2	132	186,114	649	872,491
Lubricating oils and greases	20	3	9,050	1,234,863	(1)	159
Rolled and finished steel	26	7	55,708	13,420,986	18,819	6,457,942
Total, 4 commodities			64,900	14,848,689	19,663	7,429,243
2. Freight is higher for imports, in relation to value than for exports (or equal to exports):						
Cotton, semimanufactures	11	13	4,886	1,462,435	1,017	215,321
Standard newsprint paper	17	36	401	57,462	204	33,231
Iron and steel castings and forgings	3	6	136	174,621	376	195,665
Tools and basic hardware	1	2	304	1,240,552	5,988	5,578,538
Iron and steel pipe	7	9	1,439	1,062,520	4,832	1,029,855
Electrical machinery	1	2	5,688	16,710,889	13,812	38,418,516
Medical and pharmaceutical preparations	1	2	205	2,270,678	996	3,915,660
Sulfuric acid	8	20	(1)	166	7	3,214
Pigments, paints and varnish	2	20	702	670,666	1,937	473,148
Nitrogen fertilizer materials	14	27	170	28,821	94	7,524
Sulfur	9	13	27	8,340	6	1,398
Automobiles, trucks, etc	1	2	1,819	2,446,131	44,060	63,658,795
Metalworking machinery	1	1	6,381	19,972,599	3,990	9,690,012
Agricultural machinery	1	1	3,901	5,742,074	772	1,307,769
Textile sewing and shoe machinery	(1)	1	1,976	8,870,167	5,418	14,423,955
Total 15 commodities			28,035	60,718,121	83,509	138,952,601
(*a*) Commodities total (1), above			64,900	14,848,689	19,663	7,429,243
(*b*) Commodities total (2), above			28,035	60,718,121	83,509	138,952,601
(*c*) Total, all in sample of export-import trade (*a*+*b*)			92,935	75,556,810	103,172	146,381,844
Percent total (1) of all commodities in export-import (*c*)			69.8	19.7	19.1	5.1
Percent, total (2) of all commodities in export-import (*c*)			30.2	80.3	82.9	94.9
(*d*) Commodities moving only as export or import [2]			6,611	9,984,197	11,651	442,208
Grand total (*a*)+(*b*)+(*d*)			99,546	85,551,007	114,823	146,824,052

[1] Less than 1.
[2] Includes shipments of railway locomotive cars and parts, no import freight rate.

Source: Hearings before the Joint Economic Committee, 88th Cong. "Discriminatory Ocean Freight Rates and the Balance of Payments." tables I-A, I-B and I-C.

TABLE 2–B.—*Tonnage and value of exports and imports grouped according to relationship of freight rates to value per ton (U.S. oceanborne trade in selected commodities moving in both directions North Atlantic-Belgium-Netherlands, trade route 8, 1961)*

Commodity	Ratio: Freight to value per ton (percent)		Exports		Imports	
	Export	Import	Long tons	Value	Long tons	Value
1. Freight is higher for exports in relation to value, than for imports:						
Fruit juices, canned or frozen	7	3	270	$137,902	918	$543,772
Cotton, semimanufactures	11	10	5,587	1,642,005	3,492	949,575
Lubricating oils and greases	14	12	20,444	3,463,276	921	186,889
Metalworking machinery	2	1	17,115	34,953,205	666	2,595,635
Total, 4 commodities			43,416	40,196,388	5,997	4,275,871
2. Freight is higher for imports in relation to value, than for exports (or equal to exports):						
Rubber tires and inner tubes	3	3	2,035	2,555,352	420	392,444
Sulphur	7	13	307	116,571	18	3,793
Iron and steel castings and forgings	1	3	205	614,826	26	24,583
Tools and basic hardware	1	8	2,225	5,770,552	14,413	3,696,190
Iron and steel pipe	1	12	1,760	1,000,482	16,700	2,638,115
Rolled and finished steel	16	19	45,211	16,001,580	259,001	32,410,057
Electrical machinery	1	1	11,059	36,613,086	3,326	15,688,992
Textile, sewing and shoe machinery	(1)	1	3,238	19,013,937	2,290	5,127,885
Agricultural machinery	1	3	12,258	17,342,483	666	518,543
Automobiles, trucks	1	1	24,803	29,552,090	3,061	4,859,828
Medical and pharmaceutical	1	2	3,752	21,343,529	756	3,069,766
Pigments, paints and varnish	3	38	3,711	2,571,101	9,219	1,158,144
Nitrogen fertilizer materials excluding ammonium sulfate	16	25	637	86,049	879	73,951
Total 13 commodities			111,201	152,581,638	310,775	69,662,291
(*a*) Commodities total (1), above			43,416	40,196,388	5,997	4,275,871
(*b*) Commodities total (2), above			111,201	152,581,638	310,775	69,662,291
(*c*) Total all commodities in sample of export-import trade (*a*+*b*)			154,617	192,778,026	316,772	73,939,162
Percent total (1) of all commodities in export-import. (*c*)			28.1	20.9	1.9	5.8
Percent total (2) of all commodities in export-import. (*c*)			71.9	79.1	98.1	94.2
(*d*) Commodities moving only in exports or imports[2]			16,136	40,047,823	6,419	269,042
Grand total (*a*)+(*b*)+(*d*)			180,753	232,825,849	323,191	74,207,204

[1] Less than 1.
[2] Includes shipments of railway locomotive cars and parts, import freight rates unknown.

Source: Hearings before Joint Economic Committee, 88th Cong. "Discriminatory Ocean Freight Rates and the Balance of Payments."

TABLE 2-C.—*Tonnage and value of exports and imports grouped according to relationship of freight rates to value per ton (U.S. oceanborne trade in selected commodities moving in both directions, Pacific and Japan, trade route 29, 1961)*

Commodity	Ratio: Freight to value per ton (percent)		Exports		Imports	
	Export	Import	Long tons	Value	Long tons	Value
1. Freight is higher for exports in relation to value, than for imports:						
Rubber tires and inner tubes	8	4	489	$720,770	184.0	$108,960
Lubricating oils, and greases	28	2	48,317	5,538,395	.2	300
Rolled and finished steel	15	11	26,856	4,357,587	127,896.0	18,096,041
Electrical machinery	2	1	4,894	17,136,674	11,993.0	59,195,030
Medical and pharmaceutical preparations	2	1	190	904,978	1,330.0	6,059,897
Pigments, paints, and varnish	10	2	2,798	1,622,075	31.0	66,519
Total, 6 commodities	------	------	83,544	30.280,479	141,434.0	83.526,747
Total, excluding electrical machinery[1]	------	------	78,650	13,143,805	129,441.0	24,331,717
2. Freight is higher for imports, in relation to value, than for exports (or equal to exports):						
Fruit juices, canned or frozen	15	101	1,670	826,164	8,041.0	957,081
Standard newsprint paper	20	29	16,802	2,324,008	1,494.0	183,877
Tools and basic hardware	2	10	596	1,753,545	55,427.0	10,864,619
Iron and steel pipes, tube and tubings	5	10	1,106	638,518	53,594.0	8,868,226
Textile, sewing, and shoe machines	1	2	308	1,249,643	4,173 0	7,253,679
Nitrogen fertilizer material	14	24	492	63,904	8,318.0	509,859
Metalworking machinery	2	2	2,709	8,706,461	134.0	208,631
Agricultural machinery	4	4	7,076	9,064,228	242.0	153,136
Automobiles, trucks, etc	2	2	1,425	2,340,678	1,430 0	1,399,770
Cotton, semimanufactures	25	25	570	138,093	108.0	14,617
Iron and steel castings and forgings	14	14	809	313,366	951.0	167,113
Total, 11 commodities	------	------	33,563	27,418,608	133,912.0	30,580,608
(a) Commodities total (1), above	------	------	83,544	30,280,479	141,434.0	83,526,747
(b) Commodities total (2), above	------	------	33,563	27,418,608	133,912.0	30,580,608
(c) Total all commodities in sample of export and import ((a)+(b))	------	------	117,107	57,699,087	275,346.0	114,107,355
Percent: Total (1) of all commodities in export and import (c)	------	------	(71.3)	(52.5)	(51.4)	(73.2)
Percent: Total (2) of all commodities in export and import (c)	------	------	(28.7)	(47.5)	(48.6)	(26.8)
(d) Commodities moving only export or import	------	------	25,073	33,562,811	1,544.0	371,704
Grand total (((a)+(b)+(d))	------	------	142,180	91,261,898	276,890.0	114,479,059

[1] Excluding electrical machinery; the corresponding figures are 68 percent for exports and 56 percent for imports:

Commodity	Exports		Imports	
	Long tons	Value	Long tons	Value
(a) Total (1) above, excluding electrical machinery	78,650	$13,143,805	129,441	$24,331,717
(b) Total (2) above	33,563	27,418,608	133,912	30,580,608
(c) Total all commodities in sample of export/import excluding electrical machinery (a)+(b)	112,213	40,562,413	263,353	54,912,325
Percent Total (1) above to (c)	70.1	32.4	49.2	44.3
Total (2) above to (c)	29.9	67.6	50.8	55.7

Source: Hearings before Joint Economic Committee, 88th Cong., "Discriminatory Ocean Freight Rates and the Balance of Payments."

TABLE 3–A.—*Net change in dollar value of exports versus imports, 1958–61 (commodities grouped according to relationship of export to import freight rates), trade route 7 commodities, table III–A* [1]

	1958–61 net increase in dollar value		1961 freight rates	
	Exports	Imports	Exports	Imports
I. Commodities with higher export rate than import rate:				
A. Having net increase in exports, 1958–61:				
Cotton, semimanufactures	316,945	----------	34.00	27.50
Lubricating oils and greases	144,079	----------	26.75	24.75
Iron and steel castings and forgings	31,775	----------	40.00	32.50
Tools and basic hardware	2,263,675	----------	36.25	21.00
Iron and steel pipes, tubes and tubings	571,267	----------	51.00	18.25
Rolled and finished steel mill products	1,318,741	----------	63.00	24.25
Metalworking machinery	9,534,462	----------	33.00	21.00
Nitrogen fertilizer material	21,297	----------	24.50	21.25
B. Having net increase in imports, 1958–61:				
Fruit juices, canned or frozen	----------	201,783	38.00	18.50
Rubber tires and inner tubes	----------	234,657	38.75	30.50
Sulfur	----------	88,478	28.50	27.50
Textile sewing and shoe machinery	----------	2,252,768	21.75	21.00
II. Commodities with higher import rate than export rate:				
A. Having net increase in exports, 1958–61:				
Standard newsprint paper	24,231	----------	25.00	58.00
Electrical machinery	4,356,298	----------	22.50	67.00
Agricultural machinery	1,758,062	----------	16.50	20.75
B. Having net increase in imports, 1958–61:				
Automobiles, trucks, etc	----------	16,309,929	16.50	21.75
Medical and pharmaceutical preparations	----------	310,849	56.75	61.50
Sulfuric acid	----------	3,048	63.00	95.00
Pigments, paints, and varnish	----------	26,366	20.00	48.50

[1] Source: "Discriminatory Ocean Freight Rates and the Balance of Payments," hearings before the Joint Economic Committee, 88th Cong., table III–A, p. 73.

TABLE 3–B.—*Net change in dollar value of exports versus imports, 1958–61 (commodities grouped according to relationship of export to import freight rates), trade route 8 commodities, table III–B* [1]

	1958–61 net increase in dollar value		1961 freight rates	
	Exports	Imports	Exports	Imports
I. Commodities with higher export rate than import rate:				
A. Having net increase in exports, 1958–61:				
Rubber tires and inner tubes	1,307,820	----------	35.25	30.50
Cotton, semimanufactures	846,765	----------	32.00	27.50
Iron and steel castings and forgings	446,856	----------	36.25	32.50
Tools and basic hardware	4,799,288	----------	33.00	21.00
Metalworking machinery	21,013,744	----------	33.00	21.00
Nitrogen fertilizer material, excluding ammonium sulfate	12,098	----------	22.25	21.25
Railway locomotives, cars, and parts	462,514	----------	57.25	----------
B. Having net increase in imports, 1958–61:				
Fruit juices, canned or frozen	----------	250,609	34.50	18.50
Iron and steel pipes, tubes, and tubing	----------	1,089,069	46.25	18.25
Rolled and finished steel mill products	----------	19,117,772	57.25	24.25
II. Commodities with higher import rate than export rate.				
A. Having net increase in exports, 1958–61:				
Lubricating oils and greases	745,211	----------	24.25	24.75
Sulfur	94,878	----------	26.00	27.50
Electrical machinery	17,443,400	----------	20.50	67.00
Textile sewing and shoe machinery	10,596,348	----------	19.75	21.00
Agricultural machinery	10,913,470	----------	15.00	20.75
Automobiles, trucks, etc	36,409,513	----------	15.00	21.75
Medical and pharmaceutical preparations	4,199,437	----------	51.50	61.50
B. Having net increase in imports, 1958–61: Pigments, paints, and varnish	----------	1,788,700	19.00	48.50

[1] Source: "Discriminatory Ocean Freight Rates and the Balance of Payments," hearings before the Joint Economic Committee, 88th Cong., table III–B, p. 74.

TABLE 3–C.—*Net change in dollar value of exports versus imports, 1958–61 (commodities grouped according to relationship of export to import freight rates), trade route 29 commodities, table III–C*[1]

	1958–61 net increase in dollar value		1961 freight rates	
	Exports	Imports	Exports	Imports
I. Commodities with higher export rate than import rate:				
A. Having net increase in exports, 1958–61:				
Cotton, semimanufacture	201,837	----------	61.00	33.50
Lubricating oils and greases	1,454,680	----------	32.65	29.25
Metalworking machinery	5,899,305	----------	56.75	33.00
Agricultural machinery	5,370,856	----------	47.25	24.00
Railway locomotives, cars, and parts	2,760,979	----------	46.25	----------
B. Having net increase in imports, 1958–61:				
Rubber tires and inner tubes	----------	261,344	110.75	24.75
Iron and steel castings and forgings	----------	314,890	55.50	24.00
Tools and basic hardware	----------	4,108,345	73.50	19.50
Iron and steel pipes, tube and tubing	----------	8,117,372	30.35	17.00
Rolled and finished steel mill products	----------	11,426,404	24.10	15.50
Electrical machinery	----------	42,118,504	56.75	33.00
Textile sewing and shoe machinery	----------	67,221	56.75	33.00
Automobiles, trucks, etc	----------	87,979	37.75	23.00
Medical and pharmaceutical preparations	----------	8,999,521	73.50	59.50
Sulfuric acid	----------	33,760	93.25	85.75
Pigments, paints, and varnish	----------	345,531	57.75	38.25
Nitrogen fertilizer material, excluding ammonium sulfate	----------	445,955	17.65	14.50
II. Commodities with higher import rate than export rate:				
A. Having net increase in exports, 1958–61:				
Fruit juices, canned or frozen	37,865	----------	73.00	120.25
Standard newsprint paper	2,140,131	----------	27.00	35.75

[1] Source: "Discriminatory Ocean Freight Rates and the Balance of Payments," hearings before the Joint Economic Committee, 88th Cong., table III–C, p. 75.

TABLE 4–A. CHANGE IN VALUE DIFFERENTIAL (VALUE PER TON) OF EXPORTS VERSUS IMPORTS

Assuming all export freight rates were equalized with import freight rates, trade route 7 commodities, 1961, per table IV–A

Commodity [1]	Value per ton			Freight rates			Percent of value difference (export-import) due to difference in freight rates [1] (col. 6÷ col. 3)	Export value (per ton) as a percent of import value (actual) (col. 1÷ col. 2)	If export rates are lowered to equal import rates—			
	Exports	Imports	Exports exceed imports by—	Exports	Imports	Export rate exceeds import rate by (col. 4— col. 5)—			Value per export ton (adjusted) (col. 1— col. 6)	Export value as percent of import value (col. 9÷ col. 2)	Percent change in relationship between export values and import values (col. 8— col. 10)	Percent change in value per export ton (col. 9÷ col. 1— 100)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Fruit juices, canned and frozen	$679	$506	$173	$38.00	$18.50	$19.50	11	134.2	$660	130.4	3.8	−2.8
Rubber tires and inner tubes	1,412	1,345	67	38.75	30.50	8.25	12	105.0	1,404	104.4	.6	−.6
Cotton, semimanufactures	299	212	87	34.00	27.50	6.50	7	141.0	293	138.2	1.8	−2.0
Standard newsprint paper	143	163	(20)	25.00	58.00	(33.00)	165	87.7	176	108.0	[2] (20.3)	+23.1
Lubricating oils and greases	136	795	(659)	26.75	24.75	2.00	0	17.1	134	16.9	.2	−1.5
Sulfur	307	215	92	28.50	27.50	1.00	1	142.8	306	142.3	.5	−.3
Iron and steel castings and forgings	1,281	520	761	40.00	32.50	7.50	1	246.3	1,274	245.0	1.3	−.5
Tools and basic hardware	4,079	932	3,147	36.25	21.00	15.25	0	437.7	4,064	436.0	1.7	−.4
Iron and steel pipe, tube and tubing	738	213	525	51.00	18.25	32.75	6	346.5	705	331.0	15.5	−4.5
Rolled and finished steel	241	343	(102)	63.00	24.25	38.75	38	70.3	202	58.9	11.4	−16.2
Electrical machinery	2,938	2,781	157	22.50	67.00	(44.50)	28	105.6	2,983	107.3	[2] (1.7)	+1.5
Metalworking machinery	3,130	2,429	701	33.00	21.00	12.00	2	128.9	3,118	128.4	.4	−.4
Textile sewing and shoe machinery	4,489	2,662	1,827	21.75	21.00	.75	0	168.6	4,488	168.6	0	0
Agricultural machinery	1,472	1,694	(222)	16.50	20.75	(4.25)	2	86.9	1,476	87.1	[2] (.2)	+.3
Automobiles, trucks, etc	1,345	1,445	(100)	16.50	21.75	(5.25)	5	93.1	1,350	93.4	[2] (.3)	+.4
Medical and phramaceutical preparations	11,082	3,932	7,150	56.75	61.50	(4.75)	0	281.8	11,087	292.0	[2] (.2)	0
Sulfuric acid	830	480	350	63.00	95.00	(32.00)	9	172.9	862	179.6	[2] (6.7)	+3.9
Pigments, paints and varnish	956	244	712	20.00	48.50	(28.50)	4	391.8	984	403.3	[2] (11.5)	+2.9
Nitrogen, fertilizer material	170	80	90	24.50	21.25	3.25	4	212.5	167	208.7	3.8	−1.8
Average, unweighted	1,880	1,105	775	34.51	34.76	(.25)	----------	170.1	1,880	170.1	0	0
Average, weighted (by each commodity's relationship to total for all commodities in sample)	2,636	1,969	667	33.54	34.78	(1.24)	----------	133.9	2,637	133.9	0	0

[1] All commodities shown in source as both exports and imports.

[2] Export values increase as a result of computing on the basis of import freight rates, inasmuch as import freight rates exceed export freight rates.

Source: "Discriminatory Ocean Freight Rates and the Balance of Payments," hearings before the Joint Economic Committee, 88th Cong., table IV–A, p. 76.

Resulting from reduction of export freight rates to equal import freight rates only on commodities having higher export freight rates, trade route 7, commodities, 1961, per table IV–A

Commodity [1]	Value per ton			Freight rates			Percent of value difference (export-import) due to difference in freight rates [1] (col. 6÷ col. 3)	Export value (per ton) as a percent of import value (actual) (col. 1÷ col. 2)	If export rates are lowered to equal import rates—			
	Exports	Imports	Exports exceed imports by—	Exports	Imports	Export rate exceeds import rate by (col. 4— col. 5)—			Value per export ton (adjusted) (col. 1— col. 6)	Export value as percent of import value (col. 9÷ col. 2)	Percent change in relationship between export values and import values (col. 8— col. 10)	Percent change in value per export ton (col. 9÷ col. 1— 100)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
A. Export rates higher then import rates	[2] (63.1)	[2] (26.4)										
Fruit juices, canned and frozen	$679	$506	$173	$38.00	$18.50	$19.50	11	134.2	$660	130.4	3.8	−2.8
Rubber tires and inner tubes	1,412	1,345	67	38.75	30.50	8.25	12	105.0	1,404	104.4	.6	−.6
Cotton, semimanufactures	299	212	87	34.00	27.50	6.50	7	141.0	293	138.2	1.8	−2.0
Lubricating oils and greases	136	795	(659)	26.75	24.75	2.00	0	17.1	134	16.9	.2	−1.5
Sulfur	307	215	92	28.50	27.50	1.00	1	142.8	306	142.3	.5	−.3
Iron and steel castings and forgings	1,281	520	761	40.00	32.50	7.50	1	246.3	1,274	245.0	1.3	−.5
Tools and basic hardware	4,079	932	3,147	36.25	21.00	15.25	0	437.7	4,064	436.0	1.7	−.4
Iron and steel pipe, tube, and tubing	738	213	525	51.00	18.25	32.75	6	346.5	705	331.0	15.5	−4.5
Rolled and finished steel	241	343	(102)	63.00	24.25	38.75	38	70.3	202	58.9	11.4	−16.2
Metalworking machinery	3,130	2,429	701	33.00	21.00	12.00	2	128.9	3,118	128.4	.4	−.4
Textile sewing and shoe machinery	4,489	2,662	1,827	21.75	21.00	.75	0	168.6	4,488	168.6	0	0
Nitrogen fertilizer material	170	80	90	24.50	21.25	3.25	4	212.5	167	208.7	3.8	−1.8
Average, unweighted	1,413	854	559	36.29	24.00	12.29		165.5	1,401	164.1	1.4	−.8
Average, weighted	2,367	1,839	528	39.75	21.77	17.98		128.7	2,349	127.7	1.0	−.8
B. Import rates higher than export rates:	[2] (36.9)	[2] (73.6)										
Standard newsprint paper	$143	$163	(20)	$25.00	$58.00	($33.00)	165	87.7	(No adjustments; export rates are currently below import rates.)			
Electrical machinery	2,938	2,781	157	22.50	67.00	(44.50)	28	105.6				
Agricultural machinery	1,472	1,694	(222)	16.50	20.75	(4.25)	2	86.9				
Automobiles, trucks, etc	1,345	1,445	(100)	16.50	21.75	(5.25)	5	93.1				
Medical and pharmaceutical preparations	11,082	3,932	7,150	56.75	61.50	(4.75)	0	281.8				
Sulfuric acid	830	480	350	63.00	95.00	(32.00)	9	172.9				
Pigments, paints and varnish	956	244	712	20.00	48.50	(28.50)	4	391.8				
Average, unweighted	2,680	1,534	1,146	31.46	60.00	(8.54)		174.7				
Average, weighted	3,106	2,009	1,097	23.47	39.44	(15.97)		154.6				
Grand total (A+B):												
Average, unweighted	1,880	1,105	775	34.51	34.76	(.25)		170.1	[3] 1,873	169.5	.6	−.4
Average, weighted	2,636	1,969	667	33.54	34.78	(1.24)		133.9	2,625	133.3	.6	−.4

[1] All commodities shown in source as both exports and imports.
[2] Percentage of total value of exports or of imports represented by groups A and B. Export and import values are those indicated in table I–A of source.

Source: "Discriminatory Ocean Freight Rates and the Balance of Payments," hearings before the Joint Economic Committee, 88th Cong., table IV–A, p. 76.

TABLE 4–B

CHANGE IN VALUE DIFFERENTIAL (VALUE PER TON) OF EXPORTS VERSUS IMPORTS

Assuming all export freight rates were equalized with import freight rates, trade route 8 commodities, 1961, per table IV–B

Commodity [1]	Value per ton			Freight rates			Percent of value difference (export-import) due to difference in freight rates [1] (col. 6 ÷ col. 3)	Export value (per ton) as a percent of import value (actual) (col. 1 ÷ col. 2)	If export rates are adjusted to equal import rates—			
	Exports	Imports	Exports exceed imports by—	Exports	Imports	Export rate exceeds import rate by (col. 4— col. 5)—			Value per export ton (adjusted) (col. 1— col. 6)	Export value as percent of import value (col. 9 ÷ col. 2)	Percent change in relationship between export values and import values (col. 8— col. 10)	Percent change in value per export ton (col. 9 ÷ col. 1— 100)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Fruit juices, canned or frozen	$510	$592	($82)	$34.50	$18.50	$16.00	20	86.1	$494	83.4	2.7	−3.1
Rubber tires and inner tubes	1,256	934	322	35.25	30.50	4.75	1	134.5	1,251	133.9	.6	−.4
Cotton, semimanufactures	294	272	22	32.00	27.50	4.50	20	108.1	290	106.6	1.5	−1.4
Lubricating oils and greases	169	203	(34)	24.25	24.75	(.50)	1	83.3	170	83.7	[2] (.4)	+.6
Sulfur	380	214	166	26.00	27.50	(1.50)	1	177.6	381	178.0	[2] (.4)	+.3
Iron and steel castings and forgings	3,006	957	2,049	36.25	32.50	3.75	0	314.1	3,002	313.7	.4	−.1
Tools and basic hardware	2,504	256	2,248	33.00	21.00	12.00	1	978.1	2,492	973.4	4.7	−.5
Iron and steel pipe, tube, tubing	569	158	411	46.25	18.25	28.00	7	360.1	541	342.4	17.7	−4.9
Rolled and finished steel	354	125	229	57.25	24.25	33.00	14	283.2	321	256.8	26.4	−9.3
Electrical machinery	3,311	4,717	(1,406)	20.50	67.00	(46.50)	3	70.2	3,357	71.2	[2] (1.0)	+1.4
Metalworking machinery	2,042	3,898	(1,856)	33.00	21.00	12.00	1	52.4	2,030	52.1	.7	−.6
Textile sewing and shoe machinery	5,871	2,240	3,631	19.75	21.00	(1.25)	0	262.1	5,872	262.1	0	0
Agricultural machinery	1,415	779	636	15.00	20.75	(5.76)	1	181.6	1,421	182.4	[2] (.8)	+.4
Automobiles, trucks, etc	1,191	1,588	(397)	15.00	21.75	(6.75)	2	75.0	1,197	75.4	[2] (.4)	+.5
Medical and pharmaceutical preparations	5,688	4,061	1,627	51.50	61.50	(10.00)	1	140.1	5,698	140.3	[2] (.2)	+.2
Pigments, paints and varnish	693	126	567	19.00	48.50	(29.50)	5	550.0	722	573.0	[2] (23.0)	+4.2
Nitrogen fertilizer materials	135	84	51	22.25	22.25	1.00	2	160.7	134	159.5	1.2	−.7
Average above (unweighted)	1,729	1,247	482	30.63	29.85	.78	----------	138.7	1,728	138.6	.1	−.1
Average, weighted (by each commodity's relationship to total for all commodities in sample)	2,667	1,661	1,006	28.75	34.38	(5.63)	----------	160.6	2,673	160.9	[2] (.3)	+.2

[1] All commodities shown in source as both exports and imports.

[2] Export values increase as a result of computing on the basis of import freight rates, inasmuch as import freight rates exceed export freight rates.

Source: "Discriminatory Ocean Freight Rates and the Balance of Payments," hearing before the Joint Economic Committee, 88th Cong., table IV–B, p. 76.

Resulting from reduction of export freight rates to equal import freight rates only on commodities having higher export freight rates, trade route 8 commodities, 1961, per table IV–B

Commodity [1]	Value per ton			Freight rates			Percent of value difference (export-import) due to difference in freight rates (col. 6÷ col. 3)	Export value (per ton) as a percent of import value (actual) (col. 1÷ col. 2)	If export rates are lowered to equal import rates—			
	Exports	Imports	Exports exceed imports by—	Exports	Imports	Export rate exceeds import rate by (col. 4— col. 5)—			Value per export ton (adjusted) (col. 1— col. 6)	Export value as percent of import value (col. 9÷ col. 2)	Percent change in relationship between export values and import values (col. 8— col. 10)	Percent change in value per export ton (col. 9÷ col. 1— 100)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
A. Export rates higher than import rates	[2] (32.6)	[2] (58.6)										
Fruit juices, canned and frozen	$510	$592	($82)	$34.50	$18.50	$16.00	20	86.1	$494	83.4	2.7	−3.1
Rubber tires and inner tubes	1,256	934	322	35.25	30.50	4.75	1	134.5	1,251	133.9	.6	−.4
Cotton, semimaufactures	294	272	22	32.00	27.50	4.50	20	108.1	290	106.6	1.5	−1.4
Iron and steel castings and forgings	3,006	957	2,049	36.25	32.50	3.75	0	314.1	3,002	313.7	.4	−.1
Tools and basic hardware	2,504	256	2,248	33.00	21.00	12.00	1	978.1	2,492	973.4	4.7	−.5
Iron and steel pipe, tube, tubing	569	155	411	46.25	18.25	28.00	7	360.1	541	342.4	17.7	−4.9
Rolled and finished steel	354	125	229	57.25	24.25	33.00	14	283.2	321	256.8	26.4	−93
Metalworking machinery	2,042	3,898	(1,856)	33.00	21.00	12.00	1	52.4	2,030	52.1	.7	−.6
Nitrogen fertilizer material	135	84	51	22.25	21.25	1.00	2	160.7	134	159.5	1.2	−.7
Average, unweighted	1,186	808	378	36.64	23.86	12.78		146.8	1,173	145.1	1.7	−1.1
Average, weighted	1,556	381	1,175	39.48	23.47	16.01		408.4	1,540	404.2	4.2	−1.0
B. Import rates higher than export rates	[2] (67.4)	[2] (41.4)										
Lubricating oils and greases	169	203	(34)	24.25	24.75	(.50)	1	83.3	(No adjustments—Export rates are currently above import rates)			
Sulfur	380	214	166	26.00	27.50	(1.50)	1	177.6				
Electrical machinery	3,311	4,717	(1,406)	20.50	67.00	(46.50)	3	70.2				
Textile sewing and shoe machinery	5,871	2,240	3,631	19.75	21.00	(1.25)	0	262.1				
Agricultural machinery	1,415	779	636	15.00	20.75	(5.75)	1	181.6				
Automobiles, trucks, etc	1,191	1,588	(397)	15.00	21.75	(6.75)	2	75.0				
Medical and pharmaceutical preparations	5,688	4,061	1,627	51.50	61.50	(10.00)	1	140.1				
Pigments, paints and varnish	693	126	567	19.00	48.50	(29.50)	5	550.0				
Average, unweighted	2,340	1,741	599	25.12	36.59	(11.47)						
Average, weighted	3,203	3,471	(268)	23.57	49.81	(26.24)						
Grand total (A+B):												
Average, unweighted	1,729	1,247	482	30.63	29.85	.78		138.7	1,722	138.1	.6	−.4
Average, weighted	2,667	1,661	1,006	28.75	34.38	(5.63)		160.6	2,661	160.2	.4	−.2

[1] All commodities shown in source as both imports and exports.
[2] Percentage of total value of exports or of imports represented by groups A and B. Export and import values are those indicated in table IV–B of source.

Source: "Discriminatory Ocean Freight Rates and the Balance of Payments," hearings before the Joint Economic Committee, 88th Cong., table IV–B, p. 76.

TABLE 4–C

CHANGE IN VALUE DIFFERENTIAL (VALUE PER TON) OF EXPORTS VERSUS IMPORTS

Assuming all export freight rates were equalized with import freight rates, trade route 29 commodities, 1961, per table IV–C

Commodity [1]	Value per ton			Freight rates			Percent of value difference (export-import) due to difference in freight rates [1] (col. 6 ÷ col. 3)	Export value (per ton) as a percent of import value (actual) (col. 1 ÷ col. 2)	If export rates are adjusted to equal import rates—			
	Exports	Imports	Exports exceed imports by—	Exports	Imports	Export rate exceeds import rate by (col. 4— col. 5)—			Value per export ton (adjusted) (col. 1— col. 6)	Export value as percent of import value (col. 9 ÷ col. 2)	Percent change in relationship between export values and import values (col. 8— col. 10)	Percent change in value per export ton (col. 9 ÷ col. 1— 100)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Fruit juices, canned or frozen	$495	$119	$376	$73.00	$120.25	$(47.25)	13	416.0	$542	455.5	[2] (39.5)	+9.5
Rubber tires and inner tubes	1,473	592	881	110.75	24.75	86.00	10	248.8	1,387	234.3	14.5	−5.8
Cotton, semimanufactures	242	136	106	61.00	33.50	27.50	26	177.9	214	157.4	20.5	−21.6
Standard newsprint paper	138	123	15	27.00	35.75	(8.75)	58	112.2	147	119.5	(7.3)	+6.5
Lubricating oils and greases	115	1,500	(1,385)	32.65	29.25	3.40	0	7.7	112	7.5	.2	−2.6
Iron and steel castings and forgings	387	176	211	55.50	24.00	31.50	15	219.9	356	202.3	17.6	−8.0
Tools and basic hardware	2,942	196	2,746	73.50	19.50	54.00	2	1,501.0	2,888	1,473.5	27.5	−1.8
Iron and steel pipe, tube, tubing	577	165	412	30.35	17.00	13.35	3	349.7	564	341.8	7.9	−2.3
Rolled and finished steel	162	141	21	24.10	15.50	8.60	41	114.9	153	108.5	6.4	−5.6
Electrical machinery	3,502	4,936	(1,434)	56.75	33.00	23.75	2	70.9	3,478	70.5	.4	−.7
Metalworking machinery	3,213	1,559	1,654	56.75	33.00	23.75	1	206.1	3,189	204.6	1.5	−.7
Textile sewing and shoe machinery	4,059	1,738	2,321	56.75	33.00	23.75	1	233.5	4,035	232.2	1.3	−.6
Agricultural machinery	1,281	633	648	47.25	24.00	23.25	4	202.4	1,258	198.7	3.7	−1.8
Automobiles, trucks, etc	1,642	979	663	37.75	23.00	14.75	2	167.7	1,627	166.2	1.5	−.9
Medical and pharmaceutical preparations	4,776	4,556	220	73.50	59.50	14.00	6	104.8	4,762	104.5	.3	−.3
Pigments, paints and varnish	580	2,132	(1,552)	57.75	38.25	19.50	1	27.2	561	26.3	.9	−3.3
Nitrogen fertilizer material	130	61	69	17.65	14.50	3.15	5	213.1	127	208.2	4.9	−2.3
Average above, unweighted	1,513	1,161	351	52.47	33.99	18.48	----------	130.4	1,498	128.7	1.7	−1.3
Average, weighted (by each commodity's relationship to total for all commodities in sample)	2,125	[3] 2,986	(861)	49.88	29.60	20.28	----------	71.2	2,106	70.5	.7	−.9

[1] All commodities shown in source as both exports and imports.
[2] Export values increase as a result of computing on the basis of import freight rates inasmuch as import freight rates exceeds export freight rates.
[3] High import value per ton due to electrical machinery which constitutes 52 percent of total import value of all commodities in sample.

Source: "Discriminatory Ocean Freight Rates and the Balance of Payments," hearings before the Joint Economic Committee, 88th Cong., table IV–C, p. 77.

Resulting from reduction of export freight rates to equal import freight rates only on commodities having higher export freight rates, trade route 29 commodities, 1961, per table IV–C

Commodity [1]	Value per ton			Freight rates			Percent of value difference (export-import) due to difference in freight rates (col. 6÷ col. 3)	Export value (per ton) as a percent of import value (actual) (col. 1÷ col. 2)	If export rates are lowered to equal import rates—			
	Exports	Imports	Exports exceed imports by—	Exports	Imports	Export rate exceeds import rate by (col. 4— col. 5)—			Value per export ton (adjusted) (col. 1— col. 6)	Export value as percent of import value (col. 9÷ col. 2)	Percent change in relationship between export values and import values (col. 8— col. 10)	Percent change in value per export ton (col. 9÷ col. 1–100)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
A. Export rates are higher than import rates [2]	$94.5	$99.0										
Rubber tires and inner tubes	$1,473	$592	$881	$110.75	$24.75	$86.00	10	248.8	$1,387	234.3	14.5	−5.8
Cotton, semimanufactures	242	136	106	61.00	33.50	27.50	26	177.9	214	157.4	20.5	−21.6
Lubricating oils and greases	115	1,500	(1,385)	32.65	29.25	3.40	0	7.7	112	7.5	.2	−2.6
Iron and steel castings, forgings	387	176	211	55.50	24.00	31.50	15	219.9	356	202.3	17.6	−8.0
Tools and basic hardware	2,942	196	2,746	73.50	19.50	54.00	2	1,501.0	2,888	1,473.5	27.5	−1.8
Iron and steel pipe, tube, tubing	577	165	412	30.35	17.00	13.35	3	349.7	564	341.8	7.9	−2.3
Rolled and finished steel	162	141	21	24.10	15.50	8.60	41	114.9	153	108.5	6.4	−5.6
Electrical machinery	3,502	4,936	(1,434)	56.75	33.00	23.75	2	70.9	3,478	70.5	.4	−.7
Metalworking machinery	3,213	1,559	1,654	56.75	33.00	23.75	1	206.1	3,189	204.6	1.5	−.7
Textile sewing and shoe machinery	4,059	1,738	2,321	56.75	33.00	23.75	1	233.5	4,035	232.2	1.3	−.6
Agricultural machinery	1,281	633	648	47.25	24.00	23.25	4	202.4	1,258	198.7	3.7	−1.8
Automobiles, trucks, etc	1,642	979	663	37.75	23.00	14.75	2	167.7	1,627	166.2	1.5	−.9
Medical and pharmaceutical preparations	4,776	4,556	220	73.50	59.50	14.00	6	104.8	4,762	104.5	.3	−.3
Pigments, paints and varnish	580	2,132	(1,552)	57.75	38.25	19.50	1	27.2	561	26.3	.9	−3.3
Nitrogen fertilizer material	130	61	69	17.65	14.50	3.15	5	213.1	127	208.2	4.9	−2.3
Average, unweighted	1,665	1,293	372	52.80	28.12	24.68		128.8	1,640	126.8	2.0	−1.5
Average, weighted	2,234	[3] 3,015	(781)	50.51	28.83	21.68		74.1	2,212	73.4	.7	−1.0
B. Import rates higher than export rates [2]	(5.5)	(1.0)										
Fruit juices, canned or frozen	$495	$119	$376	$73.00	$120.25	($47.25)	13	416.0	(No adjustments, export rates are currently above import rates.)			
Standard newsprint paper	138	123	15	27.00	35.75	(8.75)	58	112.2				
Average, unweighted	317	121	196	50.00	78.00	(28.00)						
Average, weighted	232	120	112	39.06	106.64	(67.58)						
Grand total (A plus B):												
Average, unweighted	1,513	1,161	351	52.47	33.99	18.48		130.4	$1,484	128.5	1.9	−1.5
Average, weighted	2,125	2,986	(861)	49.88	29.60	20.28		71.2	2,104	70.5	.7	−1.0

[1] All commodities shown in source as both exports and imports.
[2] Percentage of total value of exports or of imports represented by groups A and B. Export and import values are those indicated in table I–C of Source.
[3] High import value per ton due to electrical machinery which constitutes 52 percent of total import value of all commodities in sample.

Source: "Discriminatory Ocean Freight Rates and the Balance of Payments," hearings before the Joint Economic Committee, 88th Cong., table IV–C, p. 77.

TABLE 5.—*Average value per unit of leading U.S. exports and imports 9 major shipping commodity categories covered by tables I–A, I–B, I–C of Joint Economic Committee hearings on discriminatory ocean freight rates, pp. 67–69*

Classification number	Commodity	West Germany		Belgium		Netherlands		Japan	
		Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
	Fruit juices:								
13502	Pineapple juice (including reconstitute and concentrate) (gallon)			$0.69				$0.65	
13530	Orange juice, concentrate, canned (gallon)	$3.87		3.66		$3.36			
13535	Orange juice, concentrate, frozen (gallon)	3.69							
13510	Grapefruit, single strength (gallon)			.61					
13525	Orange, single strength (gallon)			1.01		.93		.98	
13555	Fruit juice, not elsewhere specified (gallon)	1.31				1.63		1.47	
1770190	Citrus fruit juices not elsewhere specified under ½ percent alcohol (gallon)								$0.87
1770309	Cherry juice, etc., concentrate under ½ percent alcohol (gallon)		$4.10				$4.41		
1770460	Grape juice, etc. (gallon)		1.80						
1770500	Cider, apple (gallon)				$1.74				
	Weighted average of value per gallon of above items	2.51	3.46	.95	1.74	2.35	4.41	.85	.78
	Percent of total group represented by items above	(87.5)	(98.9)	(82.6)	(100.0)	(77.7)	(99.4)	(94.9)	(100.0)
	Rubber tires and inner tubes:								
20610	Tires and tire casings, trucks and buses, pneumatic, new (not otherwise specified)	55.48		73.96		60.53		31.40	
20624	Tires and tire casings, passenger cars, pneumatic, new (not otherwise specified)	10 86		12 07		13.17			
20632	Tires and tire casings, off-the-road, pneumatic, new (not otherwise specified)	194.90		267.76		138.43			
20634	Tires and tire casings, farm tractor, pneumatic new (not otherwise specified)			77.36					
2022020	Tires, passenger car and motorcycle, pneumatic, new (not otherwise specified)		12.28		8.66				6.57
2022200	Tires, bicycle (not otherwise specified)		.73		.65		.63		.63
	Weighted average of value per tire of above items	16.49	1.54	35.81	.76	22.12	.63	31.40	.70
	Percent of total group represented by items above	(94.7)	(87.5)	(89.2)	(97.5)	(85.3)	(92.3)	(93.1)	(88.5)
	Cotton semimanufactures:								
30060	Cotton pulp (pounds)	.14		.13		.13		.13	
30102	Cotton mill hard waste (pounds)			.14		.09		.14	
30104	Cotton card strips (pounds)							.17	
30105	Cotton comber waste (pounds)	.18		.18		.16		.18	
3006150	Card and vacuum strips, lap, sliver, roving waste (pounds)		.26				.25		.24
3006350	Cotton waste, soft, not elsewhere specified (pounds)		.08		.07		.11		.05
	Weighted average of value per pound of above items	.14	.09	.14	.07	.13	.15	.15	.11
	Percent of total group represented by items above	(96.3)	(97.7)	(93.0)	(97.8)	(97.0)	(100.0)	(96.7)	(100.0)

TABLE 5.—*Average value per unit of leading U.S. exports and imports 9 major shipping commodity categories covered by tables I–A, I–B, I–C of Joint Economic Committee hearings on discriminatory ocean freight rates, pp. 67–69*—Continued

Classification number	Commodity	West Germany		Belgium		Netherlands		Japan	
		Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
48010	Standard newsprint paper: standard newsprint paper (pounds)	$0.06		$0.06			$0.03		
	Weighted average of value per pound of above items	.06		.06			.03		
	Percent of total group represented by item above	(100.0)		(100.0)			(100.0)		
	Lubricating oils and greases:								
50330	Lubricating, red and pale oils (barrels)	9.66		8.67		$9.52		$10.72	
50351	Lubricating oil, cylinder, bright stock (barrels)	10.52		10.30		11.14		10.99	
50391	Lubricating oil, industrial diesel engine (barrels)							18.93	
50403	Lubricating oil, automotive engine (barrels)	26.68		15.01		17.69		12.66	
50407	Lubricating oil, not elsewhere classified (barrels)							5.07	
5075000	Lubricating oil and greases not elsewhere specified (barrels)		$79.54		$96.00		19.29		
	Weighted average of value per barrel of above items	11.50	79.54	10.08	96.00	10.74	19.29	9.01	
	Percent of total group represented by items above	(78.1)	(100.0)	(84.8)	(100.0)	(75.1)	(100.0)	(77.1)	
	Sulfur:								
57141	Sulfur, crude (long ton)	22.52		22.29		21.42			
57150	Sulfur, crushed, ground, refined, etc. (long ton)							413.96	
5930350	Sulfur, in any form not elsewhere specified (long ton)		235.95						
	Weighted average of value per long ton of above items	22.52	235.95	22.29		21.42		413.96	
	Percent of total group represented by items above	(92.4)	(100.0)	(100.0)		(100.0)		(100.0)	
	Iron and steel castings and forgings:								
60582	Axles without wheels, Rycars, las, trolley, rolled and forged (pounds)							.06	
61010	Castings, gray iron, including semisteel (pounds)	.21							
61041	Castings, carbon steel (pounds)	.55				.44			
61050	Castings, alloy steel except stainless (pounds)					.73			
61055	Castings, stainless steel (pounds)							.83	
61060	Forgings, rough and semifinished, carbon steel (pounds)							.98	
61065	Forgings, rough and semifinished, alloy steel (pounds)	1.03		1.40				.53	
6113100	Cast iron castings and iron (pounds)								$0.09
6113200	Cast iron, advanced, not made into articles (pounds)		.23		.36				.10
6113400	Cast hollow ware, coated glazed, etc., not enameled (pounds)		.17						
6113800	Malleable-iron castings, not elsewhere specified (pounds)				1.71				
6113900	Forgings, not advanced not specifically provided for (pounds)		.19				.16		
	Weighted average of value per pound of above items	.39	.20	1.40	.63	.50	.16	.26	.10
	Percent of total group represented by items above	(85.0)	(89.9)	(90.7)	(100.0)	(80.7)	(100.0)	(91.4)	(91.8)

	Iron and steel pipe, tubes, and tubing:								
60627	Pipe, line, seamless, carbon and alloy steel (pounds)			.25		.32			
60640	Mechanical tubing, alloy steel except stainless (pounds)	.27							
60645	Tubes and tubing, pressure, seamless, carbon (pounds)					.32			
60650	Tubes and tubing, seamless, alloy, except stainless (pounds)	.31						.71	
60655	Pipe and tubing, stainless steel (pounds)	2.28		1.61		1.33			
60680	Pipe and tubing, iron and steel, not elsewhere specified (pounds)	.07						.91	
6092000	Tubes and pipes, not under ⅜ inch in diameter (pounds)		.07		.07		.07		.07
	Weighted average of value per pounds of above items	.15	.07	.79	.07	.63	.07	.78	.07
	Percent of total group represented by items above	(91.2)	(96.4)	(59.9)	(99.0)	(73.2)	(98.6)	(63.8)	(94.5)
	Rolled and finished steel mill products:								
60320	Sheets, stainless steel, block, hard-rolled (pounds)	.29							
60325	Sheets, carbon steel, black, cold-rolled, ungalvanized (pounds)	.09		.08		.09			
60335	Sheets, stainless steel, black, cold-rolled (pounds)	.53		.51		.51			
60355	Sheets and strips, electrical (silicon) steel (pounds)	.24				.23			
60390	Strips, stainless steel, cold-rolled, coated and noncoated (pounds)	.60		.62					
60404	Plate, black, tin mill (pounds)							.05	
60411	Tinplate, primary, hot dipped (pounds)					.11			
60415	Tinplate, primary, electrolytic (pounds)			.10		.09			
60430	Tinplate, secondary, electrolytic (pounds)			.07				.06	
60435	Tin circles, cobbles, strips, scroll, shear butts (pounds)							.05	
60710	Plates, carbon steel, not fabricated, except armor (pounds)	.07							
60730	Shapes, structural, carbon steel, not fabricated (pounds)			.10					
6005300	Steel, concrete bars, over 3½ to 5 cents per pound (pounds)		.04		.04				.05
6008400	Steel bars, over 3½ to 5 cents per pound (pounds)		.04		.04				.05
6038-500	Steel plate over 3 cents per pound over 48 inches wide, not under 1⅜₁₀₀-inch thick (pounds)		.05						.06
6039-700	Sheets or plates of iron or steel, polished, etc. (pounds)								.04
6056-720	Steel sheet galvanized 1/100 to 10⅜₁₀₀₀ inch, etc. (pounds)								.08
6056-820	Steel sheets, galvanized, under 1/100 inch thick, over 3 cents pounds (pounds)								.05
6057-604	Steel sheets alloy plates, not specifically provided for, over 16 cents pounds (pounds)								.05
6081020	Steel beams, etc., not assembled, etc., over 3-inch width (pounds)		.05		.05		.05		
6081040	Steel beams, etc., less than 3-inch width (pounds)		.05		.05				.06
6081-100	Steel beams, etc., machined, etc. (pounds)		.09		.07				.08
6081-300	Iron and steel sheet piling (pounds)		.06						
6091-200	Malleable cast iron pipe fittings (pounds)								.19
6093000	Barbed wire (pounds)		.07		.07		.07		.07
6094000	Steel wire, round, over 9⅝₁₀₀₀ inch, not over 6 cents per pound (pounds)		.05		.05				.06
6094-300	Steel wire, round, over 6 cents per pound (pounds)		.14		.11				.09
6094304	Steel wire, round, alloyed, over 6 cents per pound (pounds)		.23						.57
6094320	Steel wire, round, galvanized, over 6 cents per pound (pounds)		.11		.10				.08
6094-900	Baling wire (pounds)				.07		.07		.07
6095-100	Steel strip, etc., not over 1/100-inch thick, not over 8 inches wide (pounds)		.33						

TABLE 5.—*Average value per unit of leading U.S. exports and imports 9 major shipping commodity categories covered by tables I–A, I–B, I–C of Joint Economic Committee hearings on discriminatory ocean freight rates, pp. 67–69*—Continued

Classification number	Commodity	West Germany		Belgium		Netherlands		Japan	
		Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
	Rolled and finished steel mill products—Continued								
6095500	Steel strip, etc., 5/100- to 1/4-inch thick, not over 8 inches wide (pounds)				$0.05				
6098000	Steel wire rope (pounds)		$0.19		.22		$0.17		$0.15
6098100	Steel wire strand (pounds)								.11
6100510	Galvanized fencing wire, 5/100- to 29/100-inch diameter (pounds)				.07				.07
6100520	Galvanized wire fencing 5/100- to 29/100-inch diameter (pounds)				.07				
6110500	Iron and steel cotton ties (pounds)				.06				
6111500	Iron and steel band/strips, not over 6 inches wide, under 203/1000 inch thick not specifically provided for (pounds)		.09						
	Weighted average of value per pound of above items	$0.11	.06	$0.12	.05	$0.16	.08	$0.05	.07
	Percent of total group represented by items above	(87.7)	(78.5)	(75.4)	(95.0)	(68.7)	(66.1)	(65.9)	(82.6)

TABLE 5-A.—*Percentage distribution of dollar value of 1961 exports and imports United States-Germany, Belgium, Netherlands, and Japan first 10 commodities listed on tables I-A, I-B, I-C of joint committee hearings* [1]

Commodity or item	West Germany		Belgium		Netherlands		Japan	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
Fruit juices, canned or frozen:								
Pineapple juice (including reconstituted and concentrate)	1.0		14.9		6.4		42.2	
Orange juice:								
Concentrate:								
Canned	22.7		25.4		60.0		.1	
Frozen	41.8		4.6		6.9		.6	
Single strength	1.0		17.2		9.4		30.7	
Grapefruit juice, single strength	8.5		25.2		5.9		2.7	
Fruit juices (including reconstituted and concentrate)	23.0		8.9		8.4		22.0	
Cherry juice, etc., containing under ½ percent alcohol		84.7				99.4		
All other	2.0	15.3	3.8	100.0	3.0	.6	1.7	100.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Dollar value of total exports and imports in commodity class	5,275,106	114,325	328,800	400	1,268,979	486,326	238,574	1,507
Rubber tires and inner tubes:								
Tires and tire casings:								
Truck and bus, pneumatic, new	9.6		15.3		23.9		93.1	
Passenger car, pneumatic new	59.0		24.2		43.9			
Off-the-road, pneumatic, new	26.0		39.7		17.5		(2)	
Rubber tires, passenger cars and motorcycle, pneumatic new		48.8		15.5		4.6		9.5
Tires, rubber, bicycle		38.7		82.0		92.3		79.0
Innertubes, rubber, automobile		.1		1.0		(2)		.1
All other	5.4	12.4	20.8	1.5	14.7	3.1	6.9	11.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Dollar value of total exports and imports in commodity class	1,347,304	1,283,346	1,167,919	279,494	364,434	448,851	1,109,034	348,307

See footnotes at end of table.

TABLE 5-A.—*Percentage distribution of dollar value of 1961 exports and imports United States-Germany, Belgium, Netherlands, and Japan first 10 commodities listed on tables I-A, I-B, I-C of joint committee hearings* [1]—Continued

Commodity or item	West Germany		Belgium		Netherlands		Japan	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
Cotton seminanufactures:								
Cotton pulp	87.6		35.0		68.2		11.6	
Cotton mill hard waste	.9		48.8		12.7		49.5	
Cotton comber waste	8.7		9.2		16.2		23.7	
Card and vacuum strips, lap, sliver, and roving waste		24.6		2.1		50.6		63.7
Cotton waste, soft, not elsewhere specified		73.1		97.8		49.4		36.3
All other	2.8	2.3	7.0		2.9		15.2	
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Dollar value of total exports and imports in commodity class	2,500,899	536,395	1,534,752	236,740	597,189	165,040	4,163,524	44,646
Lubricating oils and greases:								
Lubricating, red and pale oils	44.9		51.3		46.1		15.0	
Lubricating oil:								
Cylinder, bright stock	15.5		8.5		15.4		11.0	
Diesel engine	4.9		5.4		2.1		9.5	
Automotive engine	17.7		25.0		13.6		21.6	
Not elsewhere classified	4.9		.8		5.7		20.1	
All other	12.1	100.0	9.0	100.0	17.1	100.0	22.8	100.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Dollar value of total exports and imports in commodity class	5,126,426	2,227	9,775,439	384	5,146,980	199,421	21,180,511	134
Sulphur:								
Crude	92.4		100.0		100.0			
Crushed, ground, refined, sublimed, and flowers	7.6						100.0	
Total	100.0	100.0	100.0		100.0		100.0	
Dollar value of total exports and imports in commodity class	1,376,350	5,191	969,457	0	1,799,028	0	28,439	0

Iron and steel castings and forgings:								
Axles without wheels, railway cars, locomotive and trolley, rolled and forged	0		0		0		14.9	
Castings:								
Gray iron, including semisteel	31.6		.5		4.1		1.9	
Carbon steel	20.6		1.9		53.3		4.7	
Alloy steel, except stainless steel	.0		.3		27.4		.8	
Stainless steel	2.8		1.3		5.2		17.3	
Forgings:								
Rough and semifinished carbon steel	8.6		1.1		5.6		33.7	
Rough and semifinished, alloy steel	32.9		90.7		3.1		25.6	
Cast iron castings and iron, etc		3.9		0		0		37.2
Cast iron, advanced, not made into articles		41.6		46.1		0		54.6
All other	3.5	54.5	4.2	53.9	1.3	100.0	1.0	8.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Dollar value of total exports and imports in commodity class	226,030	181,539	534,813	8,554	184,604	2,127	225,755	551,749
Tools and basic hardware:								
Files and rasps, 7 inches and over in length	.2		.8		11.1		2.8	
Cutting tools and devices, hand-operated, not elsewhere classified, and parts	1.3		2.1		2.9		9.2	
Tools and parts:								
Mechanics, hand-operated, not elsewhere classified, and parts	9.7		5.7		6.8		8.8	
Hand operated, not elsewhere classified	33.5		11.8		8.7		23.2	
Bolts, screws, nuts, rivets, and washers, iron and steel	21.0		23.4		12.4		3.9	
Nails, staples and spikes, iron and steel, not elsewhere classified	1.3		9.2		3.9		.3	
Hardware, iron and steel, not elsewhere classified	11.2		3.8		10.2		11.9	
Wire nails over 65/1000 inch in diameter or 1 inch long		23.3		83.6		63.0		48.7
Horseshoe nails and nail not specifically provided for		.3		1.3		.4		3.0
Planes, chisels, gages and parts, excluding axes and hatchets		11.2		(2)		.1		8.4
Calipers, rules, etc		6.1		.1		0		.3
Bolts and bolt blanks		2.3		6.1		9.9		10.2
Nuts, nut blanks, and washers		6.3		1.0		18.6		4.4
All other	21.8	50.5	42.3	7.9	44.0	8.0	39.9	25.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Dollar value of total exports and imports in commodity class	3,466,010	9,017,651	1,890,020	9,012,183	2,353,148	4,332,003	1,298,696	31,683,996

See footnotes at end of table.

TABLE 5–A.—*Percentage distribution of dollar value of 1961 exports and imports United States-Germany, Belgium, Netherlands, and Japan first 10 commodities listed on tables I–A, I–B, I–C of joint committee hearings* [1]—Continued

Commodity or item	West Germany		Belgium		Netherlands		Japan	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
Iron and steel pipe:								
Pipeline, seamless, carbon and alloy steel	1.2		11.3		14.2		4.8	
Mechanical tubing, alloy steels, except stainless steel	29.4		.2		1.8		0	
Tubes and tubing, pressure, seamless:								
Carbon steel	1.5		5.7		11.9		3.9	
Alloy steels, except stainless	10.7		9.3		3.9		37.2	
Pipe and tubing:								
Stainless steel	19.3		48.7		47.1		4.1	
Iron and steel, not elsewhere classified	31.8		6.5		5.7		26.6	
Tubes, pipes, not under ¾ in diameter		96.4		99.0		98.6		94.5
Iron or steel tubes, not specifically provided for		2.9		.5		1.3		4.2
All other	6.1	.7	18.3	.5	15.4	.1	23.4	1.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Dollar value of total exports and imports in commodity class	1,843,643	23,978,742	162,012	5,979,451	475,052	1,436,478	873,300	13,564,829
Rolled and finished steelmill products:								
Sheets:								
Stainless steel, black, hot rolled	6.6		5.5		1.6		1.0	
Carbon steel, black, cold rolled, ungalvanized	55.3		8.9		8.3		.5	
Stainless steel, black, cold rolled	6.3		17.4		21.2		4.5	
And strip, electrical (silicon) steel	12.3		3.8		12.3		1.4	
Plate, black, tin mill	2.1		.9		3.1		19.1	
Strip, stainless steel, cold rolled, coated or uncoated except electrical	3.8		9.3		1.1		.8	
Tin plate:								
Primary, hot dipped	0		.5		20.8		5.4	
Primary, electrolytic	.2		23.8		7.0		2.8	
Secondary, electrolytic	.7		8.6		2.0		32.5	
Tin circles, cobbles, strip and scroll, shear butts	(2)		.3		.2		14.3	
Plates, carbon steel, not fabricated, excluding armor	3.4		(2)		.1		.3	
Shapes, structural, carbon steel, not fabricated	1.0		1.5		.3		3.2	
Steel concrete bars, 3½ to 5 cents per pound		20.1		26.4		0		18.3
Steel bars, 3½ to 5 cents per pound		1.9		6.2		.2		1.6
Steelplate, over 3 cents over 48 inches wide 109/1,000 to 18/100 inch thick		2.6		.3		.3		3.2
Sheets, or plates of iron or steel, polished		(2)		0		0		2.3

Steel sheet:								
Galvanized, 1/100 to 109/1,000 inch		.1		(2)		0		4.5
A plates, not specifically provided for, alloyed, over 16 cents pound		.1		0		0		4.0
Steel beams:								
Not assembled, over 3 inches wide		7.6		17.3		5.7		1.3
Less than 3 inches wide		7.3		14.8		1.9		2.4
Machined		8.6		.7		.1		2.5
Iron and steel sheet piling		1.7		.4		0		0
Malleable cast iron pipe fittings		.1		0		2.4		2.4
Barbed wire		8.1		7.1		32.8		1.6
Steel wire, round:								
Over 95/1,000 inch, not over 6 cents		3.1		1.1		1.3		5.9
Over 6 cents per pound		4.9		2.4		.5		11.7
Alloyed, over 6 cents per pound		1.8		(2)		(2)		2.0
Galvanized, over 6 cents per pound		1.8		5.9		3.8		2.1
Baling wire		.1		.6		6.7		3.4
Steel strip:								
Not over 1/100 inch thick, not over 8 inches wide		2.6		(2)		.8		0
5/100 to 1/4 inch thick, not over 8 inches wide		.8		2.6		0		.8
Steel wire rope		4.4		1.1		20.8		2.3
Steel wire strand		.4		.3		0		9.2
Mesh:								
Not finer than 30 wires per linear inch		.2		(2)		4.8		.2
Finer than 90 wires per linear inch		4.3		0		.7		(2)
Galvanized fencing wire, 5/100 to 29/100 inch diameter		1.0		2.3		3.5		1.6
Galvanized wire fencing, 5/100 to 29/100 inch diameter		.9		4.0		1.0		.2
Welded wire mesh		.2		.9		2.9		1.9
Iron or steel cotton ties		1.0		1.6		0		0
Iron or steel band or strips, not over 6 inches wide and 20 3/1,000 inch thick not specifically provided for		1.9		.4		0		.2
All other	8.3	12.4	13.5	3.6	22.0	9.8	14.2	14.4
Total	0.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Dollar value of total exports and imports in commodity class	16,552,993	30,513,670	2,906,114	99,046,465	4,603,226	2,841,907	4,479,361	34,263,483

[1] Hearings before the Joint Economic Committee, June 20 and 21, 1963, "Discriminatory Ocean Freight Rates and the Balance of Payments," pp. 67–69.
[2] Less than 0.05 percent.

NOTE.—The items shown are those contained in commodity codes of schedules A and B (the Census Bureau classification of foreign commodities exported and imported into the United States), as indicated by schedules S and T (the condensation of 195 shipping commodity groupings which are used by the Maritime Administration and are employed in tables of the joint committee. Standard newsprint paper has been omitted because the classification in the Maritime statistics (schedules S and T) is the equivalent of only 1 commodity code in schedules A and B.

TABLE 6

U.S. EXPORTS [1] OF MAJOR IRON AND STEEL PRODUCTS, 1961 AND 1962

	1961				1962			
	Short tons	Value (thousands)	Value per ton	Percent of total value	Short tons	Value (thousands)	Value per ton	Percent of total value
Steel ingots, blooms, billets, slabs, and sheet bars	138,044	$13,981	$101.27	2.0	252,667	$20,500	$81.13	2.8
Carbon steel bars, hot rolled, and iron bars	51,712	9,059	175.18	1.3	52,491	9,683	184.47	1.3
Other steel bars	23,916	11,095	463.92	1.6	27,731	12,038	434.10	1.7
Iron and steel plates, including boiler plate, not fabricated	97,403	19,603	201.26	2.9	119,856	26,187	218.49	3.6
Iron and steel sheets, galvanized	65,933	13,062	198.11	1.9	124,692	25,046	200.87	3.5
Steel sheets, black, ungalvanized	492,826	105,036	213.13	15.2	458,073	102,826	224.48	14.4
Cold rolled strip, hoop, band, and scroll iron and steel	35,298	16,252	460.42	2.4	33,196	15,784	475.48	2.2
Hot rolled strip, hoop, band, and scroll iron and steel	34,919	8,672	248.35	1.3	31.617	6,779	214.41	.9
Tinplate and terneplate	401,752	66,812	166.30	9.7	329,852	53,011	160.71	7.4
Water, oil, gas, and other storage tanks (unlined), complete and knockdown	18,536	7,193	388.05	1.0	20,282	8,502	419.19	1.2
Structural shapes, fabricated	53,948	22,858	423.70	3.3	58,841	29,517	501.64	4.1
Structural shapes, not fabricated	214,263	29,153	136.06	4.2	145,702	20,842	143.05	2.9
Rails for railways	89,307	12,218	136.81	1.8	102,191	12,922	126.45	1.8
Boiler tubes	12,092	7,975	659.53	1.2	10,424	7,552	724.48	1.0
Casing and line pipe	92,159	30,176	327.43	4.4	86,083	27,582	320.41	3.8
Seamless black galvanized pipe and tubes, excluding casing, line and boiler, and other pipes, tubes	25,589	7,931	309.94	1.2	32,066	8,681	270.72	1.2
Iron and steel pipe, fittings, and tubing, not elsewhere classified	69,883	45,487	650.90	6.6	50,451	41,978	832.05	5.9
Bolts, screws, nuts, rivets and washers, not elsewhere classified	12,784	16,842	1,317.43	2.5	15,025	19,211	1,278.60	2.7
Castings and forgings: Iron and steel including car wheels, tires, and axles	79,461	23,976	301.73	3.5	64,343	24,534	381.30	3.4
Buildings (prefabricated and knockdown)	[2]	6,931		1.0	[2]	7,607		1.1
Chains and parts	8,410	9,992	1,188.11	1.5	7,993	10,069	1,259.73	1.4
Construction material	8,259	6,180	748.27	.9	9,264	6,599	712.33	.9
Hardware and parts	[2]	22,153		3.2	[2]	23,563		3.3
House-heating boilers and radiators	[2]	6,651		1.0	[2]	6,666		.9
Oil burners and parts	[2]	8,709		1.3	[2]	8,857		1.2
Tools	[2]	54,836		8.0	[2]	59,162		8.2
Other:								
(a) With tonnage recorded	211,332	59,368	280.92	8.6	251,202	71,581	284.95	10.0
(b) Without tonnage recorded		44,395		6.5		52,049		7.2
Total, with tonnage recorded	2,237,826	542,921	242.61		2,284,042	561,424	245.80	
Grand total		686,596		100.0		719,328		100.0

U.S. IMPORTS[3] FOR CONSUMPTION OF MAJOR IRON AND STEEL PRODUCTS, 1961 AND 1962

Steel concrete reinforcement bars	582,807	$48,468	$83.16	10.4	607,024	$44,285	$72.95	7.6
Steel solid and hollow bars, not elsewhere specified	112,663	14,276	126.71	3.1	126,358	17,010	134.62	2.9
Wire rods, nail rods, and flat rods, steel, up to 6 inches in width	451,209	59,015	130.79	12.7	644,594	62,049	96.26	10.7
Boiler and other plate, iron, and steel, not elsewhere specified	71,045	8,408	118.34	1.8	216,069	26,319	121.81	4.5
Steel ingots, blooms, and slabs; billets, solid and hollow	178,915	12,537	70.07	2.7	170,605	13,323	78.09	2.3
Sheets of iron or steel, common, or black and boiler or other plate of iron or steel	64,700	8,994	139.01	1.9	215,179	26,261	122.04	4.5
Structural iron and steel	553,155	59,775	108.06	12.8	709,295	75,590	106.57	13.0
Steel pipes and tubes	521,270	79,845	153.17	17.0	632,329	92,979	147.04	16.0
Barbed wire	82,457	11,810	143.23	2.5	66,598	8,762	131.57	1.5
Round steel wire, not elsewhere specified	172,026	31,037	180.42	6.7	242,250	44,609	184.14	7.7
Flat wire and iron and steel strips	59,881	14,245	237.89	3.1	86,366	17,337	200.74	3.0
Rope and strand	34,178	10,165	297.41	2.2	39,323	11,959	304.12	2.1
Galvanized fencing wire and wire fencing	59,955	8,341	139.12	1.8	73,042	9,642	132.00	1.7
Nails	252,713	36,930	146.13	7.9	281,800	40,085	142.25	6.9
Bolts, nuts, and rivets	43,584	13,583	311.65	2.9	67,934	20,097	295.83	3.5
Chains and parts	7,052	4,784	678.39	1.0	9,506	6,102	641.91	1.1
Tools	[2]	18,070		3.9	[2]	20,071		3.5
Other:								
(a) With tonnage recorded	111,508	19,967	179.06	4.3	179,905	34,297	190.63	5.8
(b) Without tonnage recorded		5,905		1.3		9,766		1.7
Total, with tonnage recorded	3,359,118	442,180	131.71		4,368,177	550,706	126.13	
Grand total		466,155		100.0		580,543		100.0

[1] Items under $6,000,000 in 1961 are listed under "Other" for 1961 and 1962.
[2] Weight not recorded.
[3] Items under $4,000,000 value in 1961 are listed under "Other" for 1961 and 1962.

Source: Bureau of Mines Minerals Yearbook, 1962, U.S. Department of the Interior.

TABLE 7.—*Relative importance of imports and exports of steel mill products, year 1961*

Source table	Commodity	Imports		Exports		Percent imports exceed exports	Percent exports exceed imports
		Tons	Percent of total	Tons	Percent of total		
15-A	Semifinished products	630,716	19.9	185,240	9.3	240.5	
16-A	Structural shapes and piling	293,228	9.3	222,576	11.2	31.7	
17-A	Rails and accessories	22,611	.7	109,055	5.5		382.3
18-A	Reinforcing bars	583,125	18.4	15,681	.8	3,618.7	
19-A	Other bars and tool steel	323,557	10.2	75,601	3.8	328.0	
20-A	Pipe and tubing	521,257	16.5	211,096	10.6	146.9	
21-A	Wire and wire products	562,159	17.8	25,807	1.3	2,078.3	
22-A	Tin mill products	19,105	.6	480,482	24.2		2,415.0
23-A	Sheets and strips	171,056	5.4	566,289	28.4		231.1
	All other	37,442	1.2	97,352	4.9		160.0
13-A	Total steel mill products	3,164,256	100.0	1,989,179	100.0	59.1	

Source: "Steel Prices, Unit Costs, Profits, and Foreign Competition," 88th Cong., hearings before the Joint Economic Committee, tables 13-A and 15-A to 23-A, pp. 735-740.

TABLE 8.—*U.S. exports and imports by product grouping, year 1962, arrayed according to average value per ton*

	1962 average value per ton	Short tons		
		Number (thousands)	Percent of total	Cumulative percent of total
EXPORTS				
Ingots, blooms, billets slabs, etc	$81	253	12.6	12.6
Skelp	94	12	.6	13.2
Concrete reinforcing bars	134	22	1.1	14.3
Structural shapes and piling	145	159	7.9	22.2
Rails and accessories	152	117	5.8	28.0
Tin mill products	153	394	19.6	47.6
Barbed wire	206	13	.6	48.2
Plates	218	120	6.0	54.2
Wire rods	226	17	.8	55.0
Sheet and strip	240	600	29.8	84.8
Other bars and tool steel	272	80	4.0	88.8
Wire fencing	288	2	.1	88.9
Other wire and wire products	356	28	1.4	90.3
Pipe and tubing	448	192	9.5	99.8
Wire nails	764	4	.2	100.0
Total	211	2,013	100.0	100.0
IMPORTS				
Concrete reinforcing bars	73	607	14.8	14.8
Ingots, blooms, billets, and slabs, etc	78	171	4.2	19.0
Skelp	89	4	.1	19.1
Plates	93	150	3.6	22.7
Rails and accessories	95	12	.3	23.0
Wire rods	96	645	15.7	38.7
Structural shapes and piling	98	374	9.1	47.8
Other bars and tool steel	112	388	9.5	57.3
Wire fencing	130	73	1.8	59.1
Barbed wire	131	67	1.6	60.7
Wire nails	139	271	6.6	67.3
Pipe and tubing	148	655	16.0	83.3
Tin mill products	160	56	1.4	84.7
Sheet and strip	163	383	9.3	94.0
Other wire and wire products	185	244	6.0	100.0
Total	118	4,100	100.0	100.0

Source: Hearings before the Joint Economic Committee, Apr. 23-29 and May 2, 1963, table 7, p. 477.

TABLE 9.—*Illustrations of differing rates in opposite directions*

Commodity description	From—	To—	Rate (cents per 100 pounds)	Minimum weight (pounds)	Tariff authority
Nails, excluding horseshoe, iron or steel, in bags, boxes, or kegs (carlots)	Birmingham, Ala.	Pittsburgh, Pa.	93	40,000	SFA [1] ICC-S-224.
Do	Pittsburgh, Pa.	Birmingham, Ala.	90	40,000	TEA [2] ICC-C-282
Chemicals, not otherwise specified	New York, N.Y.	Los Angeles, Calif.	458		TCFB [3] ICC-1683.
In tank cars	Los Angeles, Calif.	New York, N.Y.	498		TCFB ICC-1684.
Acid, sulfuric	Chicago, Ill.	San Francisco, Calif.	344		TCFB ICC-1683.
In tank cars	San Fransicco, Calif.	Chicago, Ill.	254		TCFB ICC-1684.
Iron or steel	Chicago, Ill.	Geneva, Utah	180	80,000	WTL [4] ICC-A-4411.
Plate or sheet; carlots	Geneva, Utah	Chicago, Ill.	196	80,000	WTL ICC-A-4411.
Juice, citrus fruit	Jacksonville, Fla.	Los Angeles, Calif.	196	40,000	TCFB ICC-1683.
Other than frozen	Los Angeles, Calif.	Jacksonville, Fla.	192	40,000	TCFB ICC-1684.
In metal cans, in crates	Jacksonville, Fla.	Los Angeles, Calif.	181	60,000	TCFB ICC-1683.
Or in bulk, in barrels; carlots	Los Angeles, Calif.	Jacksonville, Fla.	168	60,000	TCFB ICC-1684.

[1] Southern Freight Association.
[2] Traffic Executives Association—Eastern Railroads.
[3] Trans Continental Freight Bureau.
[4] Western Trunk Lines.

TABLE 10.—*Illustrations of differing rates in opposite directions*

TRUCK

Commodity description	From	To	Rate per 100 pounds	Minimum weight pounds	Tariff authority
Spices, truckload	Memphis, Tenn	Los Angeles, Calif	$3.56	30,000	RMMTB,[1] MF, ICC 133.
	Los Angeles, Calif	Memphis, Tenn	3.42	30,000	RMMTB, MF, ICC 119.
Tools—anvils, bits, mallets, etc	Jamestown, N.Y	Milwaukie, Oreg	5.12	10,000	RMMTB, MF, ICC [1] 133
	Milwaukee, Oreg	Jamestown, N.Y	4.78	10,000	RMMTB, MF ICC 119.
Tools, anvils, etc	Jamestown, N.Y	Los Angeles area, California	4.01	20,000	RMMTB, MF ICC 133.
	Los Angeles, Calif	Jamestown, N.Y	4.85	20,000	RMMTB, MF ICC 119.
Electrical transformers, not otherwise indexed	Omaha, Nebr	Los Angeles, Calif	3.56	30,000	RMMTB, MF ICC 133.
	Los Angeles, Calif	Omaha, Nebr	3.81	30,000	RMMTB, MF ICC 119.
	Omaha, Nebr	Los Angeles, Calif	3.42	40,000	
	Los Angeles, Calif	Omaha, Nebr	3.54	40,000	
Refrigerators, household	Dallas, Tex	Los Angeles, Calif	4.89	10,000	RMMTB, MF ICC 133.
	Los Angeles, Calif	Dallas, Tex	4.92	10,000	RMMTB, MF ICC 119.
Cloth, dry goods, or fabric (cotton piece goods in the original piece or in mill-end remnants, but not finished articles ready for immediate use).	New Bedford, Mass	Thameston, Ga	3.12	[2]	SMRC 95, MF, ICC 1235.
	Thomaston, Ga	New Bedford, Mass	2.92	do	
Cloth, dry goods, or fabric (cotton piece goods not otherwise included, woven cloth made wholly of cotton in the original piece or in mill-end remnants).	New York, N.Y	Danville, Va	1.84	do	SMRC 95,[3] MF, ICC 1235.
	Danville, Va	New York, N.Y	1.75		
Rayon fiber, not otherwise indexed rayon yarns: synthetic fiber not otherwise indexed, acetate fiber oracetate yarn, truckload.	Meadville, Pa	Madison, N.C	1.07	26,000	SMCRC 95, MF, ICC 1235.
	Madison, N.C	Meadville, Pa	1.12	24,000	
	East Hartford, Conn	Gastonia, N.C	(1.14)	(22,000)	SMRC 95, MF, ICC 1235.
	Gastonia, N.C	East Hartford, Conn	(1.31)	(30,000)	
			1.19	30,000	
Cloth, dry goods or fabric (fabric or piece goods, made of cotton mixed with acetate, rayon, or synthetic fiber in the original piece or in mill-end remnants, cotton content in excess of 50 percent by weight).	New York, N.Y	Charlotte, N.C	2.58	[4]	SMCRC 95, MF, ICC 1235.
			2.27	[5]	
	Charlotte, N.C	New York, N.Y	2.27	[2]	

[1] Rocky Mountain Motor Traffic Bureau.
[2] Any quantity.
[3] Southern Motor Carriers Rate Conference.
[4] Under 2,000 lbs.
[5] 2,000 and over, less than truckload.

TABLE 11-A.—*Examples of commodities with different air-freight rates between New York and Amsterdam, eastbound versus westbound*

Commodity No.	Commodity	From Amsterdam to New York		From New York to Amsterdam	
		U.S. cents per kilogram	Minimum weight in kilograms	U.S. cents per kilogram	Minimum weight in kilograms
1204	Leather, tanned, dyed, cut to shape, not elsewhere specified	80	45	80	45
		55	500	66	200
		54	22,500	65	9,000
		51	27,500	61	13,500
				58	18,000
2196	Yarn, thread, fibers—natural and synthetic, etc.	75	45	75	45
		62	500	60	500
		61	13,500	58	18,000
		58	18,000		
		54	22,500		
		51	27,500		
4312	Electrical office machinery and parts, etc.	110	45	110	45
		80	200	80	200
		60	500	63	500
		58	18,000	61	13,500
		54	22,500	58	18,000
		51	27,500		
4416	Electrical household appliances and automotive radios	88	45	88	45
		72	300	65	500
		67	7,000	61	13,500
		65	9,000	58	18,000
		61	13,500		
		58	18,000		
		54	22,500		
		51	27,500		
5297	Pottery, chinaware, etc.	81	100	81	45
		67	7,000	72	500
		65	9,000	67	7,000
		61	13,500	65	9,000
		58	18,000	61	13,500
		54	22,500	58	18,000
		51	27,500		
9206	Toys and sporting goods, etc.	83	45	83	45
		72	500	72	500
		67	7,000	67	7,000
		65	9,000	65	9,000
		61	13,500	61	13,500
		58	18,000	58	18,000
				54	22,500
				51	27,500
9559	Handbags, purses, and wallets other than leather	80	45	80	45
		72	300	72	300
		67	7,000		
		65	9,000		
		61	13,500		
		58	18,000		
9993	Household goods and personal effects	72	1,000	72	1,000
		67	7,000	67	7,000
		65	9,000	65	9,000
		61	13,500	61	13,500
		58	18,000	58	18,000
				54	22,500
				51	27,500

Source: Pan American World Airways transatlantic freight tariff as of November 1963.

TABLE 11–B.—*Examples of commodities with different air-freight rates between New York and Bremen and Hamburg, eastbound versus westbound*

Commodity No.	Commodity	From Bremen and Hamburg to New York		From New York to Bremen and Hamburg	
		U.S. cents per kilogram	Minimum weight per kilogram	U.S. cents per kilogram	Minimum weight per kilogram
1204	Leather, tanned, dyed, cut to shape, not elsewhere specified.	80	45	80	45
		55	500	66	200
2196	Yarn, thread, fibers; natural and synthetic, etc.	75	45	75	45
		62	500	60	500
2206	Clothing, except furs and skins, etc.	112	45	110	45
		76	300	76	300
4312	Electrical office machinery and parts, etc.	110	45	110	45
		80	200	80	200
		60	500	63	500
4416	Electrical household appliances and automotive radios:				
	Bremen only	88	45	88	45
		72	300	65	500
	Hamburg only	88	45	88	45
		72	300	65	500
		70	7,000	----------	----------
		68	9,000	----------	----------
		64	13,500	----------	----------
		61	18,000	----------	----------
		57	22,500	----------	----------
		54	27,500	----------	----------
5297	Pottery, chinaware etc.	81	100	81	45
				72	500
7103	Magazines and periodicals, weekly	73	45	73	45
		65	2,000	----------	----------
9559	Handbags, purses, and wallets other than leather.	80	45	80	300
		72	300	72	1,000

Source: Pan American World Airways transatlantic freight tariff as of November 1963.

TABLE 12.—*Examples of directional air freight rates where the eastbound rates are under the westbound*

[Dollars per hundredweight for specified weight breaks]

Commodity No.	Commodity	Carriers	From Los Angeles to New York [1]						From New York to Los Angeles [1]							
			100 pounds	1,000 pounds	2,000 pounds	3,000 pounds	5,000 pounds	10,000 pounds	Under 100 pounds	100 pounds	1,000 pounds	2,000 pounds	3,000 pounds	5,000 pounds	7,500 pounds	10,000 pounds
574	Various, including advertising materials, athletic goods, cameras and photographic equipment.	(1), (5)	16.75	15.50	14.90	14.30	14.00	13.70	37.00	25.40	23.90	22.90	22.15	21.65	-------	21.40
5	Dry goods, missile parts, hides, pelts	(3), (4)	16.75	15.50	14.90	14.30	14.00	13.70	34.00	23.75	22.25	21.25	20.50	20.00	-------	19.75
600	Skins, household utensils, costume jewelry, metals or alloys, optical goods and others.	(2)	16.75	15.50	14.90	14.30	14.00	13.70	37.00	25.40	23.90	22.90	22.15	21.65	-------	21.40
70	Eggs, hatching	(1), (2), (5)	15.95	14.70	14.10	13.50	13.20	12.90	37.00	25.40	23.90	22.90	22.15	21.65	-------	21.40
70	do	(3), (4)	15.95	14.70	14.10	13.50	13.20	12.90	34.00	23.75	22.25	21.25	20.50	20.00	-------	19.75
224	Plastic medical supplies	(5)	12.00	12.00	12.00	12.00	12.00	12.00	37.00	25.40	23.90	22.90	22.15	21.65	-------	21.40
6	do	(3)	12.00	12.00	12.00	12.00	12.00	12.00	34.00	23.75	22.25	21.25	20.50	20.00	-------	19.75
623	do	(2)	12.00	12.00	12.00	12.00	12.00	12.00	37.00	25.40	23.90	22.90	22.15	21.65	-------	21.40
572,435	Seafood, other than live	(1)	15.20	15.20	15.20	14.65	13.20	10.50	-------	16.80	15.80	15.30	15.00	14.80	14.80	[2] 14.80
572,4	do	(4)	15.20	15.20	15.20	14.65	13.20	10.50	-------	16.80	15.80	15.30	15.00	14.80	14.80	[2] 14.80
572,435	do	(5)	15.20	15.20	15.20	15.20	13.20	10.50	-------	16.80	15.80	15.30	15.00	14.80	14.80	[2] 14.80
613	do	(2)	15.20	15.20	15.20	14.65	13.20	10.50	37.00	25.40	23.90	22.90	22.15	21.65	-------	21.40
592	Radio and electronic equipment and supplies.	(3)	16.75	15.50	14.90	14.30	14.00	13.70	34.00	23.75	22.25	21.25	20.50	20.00	-------	19.75
593	do	(1), (5)	16.75	15.50	10.00	10.00	10.00	10.00	37.00	25.40	23.90	22.90	22.15	21.65	-------	21.40
593	do	(4)	16.75	15.50	10.00	10.00	10.00	10.00	34.00	23.75	22.25	21.25	20.50	20.00	-------	19.75
594,642	do	(1), (3), (5)	16.75	15.50	14.90	14.30	14.00	13.70	37.00	25.40	23.90	22.90	22.15	21.65	-------	21.40
594	do	(4)	16.75	15.50	14.90	14.30	14.00	13.70	34.00	23.75	22.25	21.25	20.50	20.00	-------	19.75
571	Games or toys	(1), (5)	16.75	15.95	15.95	15.95	14.25	13.70	37.00	25.40	23.90	22.90	22.15	21.65	-------	21.40
571	do	(3), (4)	16.75	15.95	15.95	15.95	14.25	13.70	34.00	23.75	22.25	21.25	20.50	20.00	-------	19.75
615	do	(2)	16.75	15.95	15.95	15.95	14.25	13.70	37.00	25.40	23.90	22.90	22.15	21.65	-------	21.40
616	do	(2)	16.75	15.95	15.95	15.95	11.34	11.09	37.00	25.40	23.90	22.90	22.15	21.65	-------	21.40
596	Office machines	(3)	16.75	13.50	12.00	12.00	11.20	11.20	34.00	23.75	22.25	21.25	20.50	20.00	-------	19.75
618	do	(2)	16.75	13.50	12.00	12.00	11.20	11.20	37.00	25.40	23.90	22.90	22.15	21.65	-------	21.40
446,624	Stands, aircraft engine, shipping	(1), (2), (5)	[3] 14.50	13.90	13.90	13.90	13.90	13.90	37.00	25.40	23.90	22.90	22.15	21.65	-------	21.40
446	do	(4)	[3] 14.50	13.90	13.90	13.90	13.90	13.90	34.00	23.75	22.25	21.25	20.50	20.00	-------	19.75

[1] Eastbound rates shown are specific commodity rates. Westbound rates are general commodity rates unless otherwise indicated.

[2] Specific commodity rate.

[3] Minimum weight, 500.

NOTE.—Carrier code: (1) American; (2) Flying Tigers; (3) Slick; (4) TWA; (5) United.

Examples of directional air freight rates where the eastbound rates are under the westbound

[Dollars per hundredweight for specified weight breaks]

Commodity No.	Commodity	Carriers	From Los Angeles to New York						From New York to Los Angeles								
			100 pounds	1,000 pounds	2,000 pounds	3,000 pounds	5,000 pounds	10,000 pounds	25 pounds	50 pounds	100 pounds	1,000 pounds	2,000 pounds	3,000 pounds	5,000 pounds	7,500 pounds	10,000 pounds
386, 641	Personal effects, used, not for resale.	(1), (2), (5)	11.00	11.00	11.00	11.00	11.00	11.00	37.00	37.00	25.40	23.90	22.90	22.15	21.65	-------	21.40
386	do	(3), (4)	11.00	11.00	11.00	11.00	11.00	11.00	34.00	34.00	23.75	22.25	21.25	20.50	20.00	-------	19.75
272	Drugs	(3), (4)	16.75	12.50	12.00	11.25	10.50	10.00	34.00	34.00	23.75	22.25	21.25	20.50	20.00	-------	19.75
638	do	(1), (2), (5)	16.75	12.50	12.00	11.25	10.50	10.00	37.00	37.00	25.40	23.90	22.90	22.15	21.65	-------	21.40
589, 612	Engines, internal combustion or jet.	(1), (5)	-------	-------	-------	[4] 16.00	[5] 15.70	15.70	-------	-------	-------	-------	-------	[4] 17.60	17.60	17.60	[26] 17.25
589	do	(4)	-------	-------	-------	[4] 16.00	[5] 15.70	15.70	-------	-------	-------	-------	-------	[4] 16.00	16.00	16.00	[26] 15.70
612	do	(2)	-------	-------	-------	[4] 16.00	[5] 15.70	15.70	-------	-------	-------	-------	-------	[4] 17.60	17.60	17.60	[26] 17.25
249	Carpet, carpeting, or carpeting remnants.	(3)	16.75	11.15	11.15	11.15	11.15	11.15	34.00	34.00	23.75	22.25	21.25	20.50	20.00	-------	19.75
607	do	(2)	16.75	11.15	11.15	11.15	11.15	11.15	37.00	37.00	25.40	23.90	22.90	22.15	21.65	-------	21.40
276, 611	Electronic machines	(1), (2), (5)	16.75	13.50	12.00	12.00	11.20	11.20	37.00	37.00	25.40	23.90	22.90	22.15	21.65	-------	21.40
276	do	(3), (4)	16.75	13.50	12.00	12.00	11.20	11.20	34.00	34.00	23.75	22.25	21.25	20.50	20.00	-------	19.75
270	Cut flowers	(1), (5)	19.65	18.15	17.15	16.40	15.90	15.65	37.00	37.00	25.40	23.90	22.90	22.15	21.65	-------	21.40
270	do	(4)	19.65	18.15	17.15	16.40	15.90	15.65	34.00	34.00	23.75	22.25	21.25	20.50	20.00	-------	19.75
270	do	(2)	17.65	17.65	17.15	16.40	15.90	15.65	37.00	37.00	25.40	23.90	22.90	22.15	21.65	-------	21.40
270	do	(3)	17.65	17.65	17.15	16.40	15.90	15.65	34.00	34.00	23.75	22.25	21.25	20.50	20.00	-------	19.75
599	Military stores	(1)	-------	-------	13.48	13.48	13.48	13.48	-------	34.00	23.75	22.25	15.94	15.94	15.94	15.94	[3] 15.94
599	do	(2)	-------	-------	13.48	13.48	13.48	13.48	34.00	-------	23.75	22.25	15.94	15.94	15.94	15.94	[3] 15.94
599	do	(3)	-------	-------	13.48	13.48	13.48	13.48	-------	-------	-------	-------	15.94	15.94	15.94	15.94	[3] 15.94
599	do	(4)	-------	-------	13.48	13.48	13.48	13.48	-------	34.00	23.75	22.25	15.94	15.94	15.94	15.94	[3] 15.94
380	Decorative greens, florists' stock.	(1), (2), (5)	15.95	14.45	13.45	12.70	12.20	11.95	37.00	37.00	25.40	23.90	22.90	22.15	21.65	-------	21.40
380	do	(3), (4)	15.95	14.45	13.45	12.70	12.20	11.95	34.00	34.00	23.75	22.25	21.25	20.50	20.00	-------	19.75

295,470	Fruits or berries, fresh, edible, and vegetables, fresh or green.	(1), (2), (5)	15.95	14.45	11.95	11.95	10.70	9.95	37.00	37.00	25.40	23.90	22.90	22.15	21.65	21.40
295,470	do	(4)	15.95	14.45	11.95	11.95	10.70	9.95	34.00	34.00	23.75	22.25	21.25	20.50	20.00	19.75
295,470	do	(3)	15.95	14.45	11.95	11.95	11.95	8.45	34.00	34.00	23.75	22.25	21.25	20.50	20.00	19.75
350	Magazines, newspapers, periodicals.	(1), (5)	16.75	12.50	12.00	11.25	10.50	10.00	37.00	37.00	25.40	23.90	22.90	22.15	21.65	21.40
350	do	(4)							34.00	34.00	23.75	22.25	21.25	20.50	20.00	19.75
264	Clothing or footwear	(1), (5)	16.75	15.50	14.90	14.30	14.00	13.70	37.00	37.00	25.40	23.90	22.90	22.15	21.65	21.40
264	do	(2)	16.75	15.55	14.90	13.50	13.50	13.50	37.00	37.00	25.40	23.90	22.90	22.15	21.65	21.40
264	do	(3), (4)	16.75	15.55	14.90	13.50	13.50	13.50	34.00	34.00	23.75	22.25	21.25	20.50	20.00	19.75
250	Cards, greeting	(2)	16.75	15.55	14.90	13.50	13.50	13.50	37.00	37.00	25.40	23.90	22.90	22.15	21.65	21.40
250	do	(3), (4)	16.75	15.55	14.90	13.50	13.50	13.50	34.00	34.00	23.75	22.25	21.25	20.50	20.00	19.75
644	Precision lab testing calibration and measuring equipment.	(2)	16.75	13.50	12.00	10.00	10.00	10.00	37.00	37.00	25.40	23.90	22.90	22.15	21.65	21.40
636	Foodstuffs, in gift packages.	(2)	19.70	13.25	13.25	12.45	11.85	11.85	37.00	37.00	25.40	23.90	22.90	22.15	21.65	21.40
609	Electric generators, motors, engines.	(2)	16.75	15.50	14.90	14.30	14.00	13.70	37.00	37.00	25.40	23.90	22.90	22.15	21.65	21.40
349	Rubber-coated glass cloth	(4)	19.70	12.00	12.00	12.00	12.00	12.00	34.00	34.00	23.75	22.25	21.25	20.50	20.00	19.75

[2] Specific commodity rate.
[4] Minimum weight 4,000.
[5] Minimum weight 7,000.
[6] Minimum weight 9,000.

Senator PELL. I would like at this point to ask Admiral Harllee, the Chairman of the Federal Maritime Commission, if he would come forward for a moment.

Admiral HARLLEE. Yes, Mr. Chairman.

Senator PELL. I just wanted to have the record show that we hope that you will pursue the follow-up of these hearings with all the vigor and care you can and we also hope that the shipping companies will give you the same agreeable and full cooperation they have given us, and that you will be able to work together very well, indeed.

Admiral HARLLEE. Mr. Chairman, did you wish any remarks from me at this time or do you feel that is unnecessary?

Senator PELL. If you have any you would like to make, we will be glad to recognize you. Otherwise we just want the record to show that you are here and we are asking that you and the shipping companies get together to resolve some of these problems.

Admiral HARLLEE. I realize it is late, Mr. Chairman, but if you do not have any objection, I would like to make a few brief remarks.

Senator PELL. I will be delighted. Will you come forward, please?

Representative TOLLEFSON. Mr. Chairman, I am not certain when we are going to get two or three bells and we might get them in the midst of Admiral Harllee's statement, and I would like to say before I am called away that it may be that there has been some impression received because of my comments about the Maritime Commission that I have been critical of the Commission or of its Chairman. That was not intended. I think Admiral Harllee understands that, because he and I have discussed this subject a little bit.

What I am basically concerned about is a policy or a philosophy, and Admiral Harllee, as Chairman of the Maritime Commission, is bound by the law and is bound by the policy under it and the philosophy of it, so he has no choice but to follow the provisions of law. And I don't mean to—I didn't mean to be critical of the conditions, sir, or of yourself.

STATEMENT OF REAR ADM. JOHN HARLLEE, U.S. NAVY (RETIRED), CHAIRMAN, FEDERAL MARITIME COMMISSION

Admiral HARLLEE. Thank you very much, Congressman.

While I do not have any prepared remarks because I did not know what would come up today, there are a few comments I would like to make.

The Federal Maritime Commission, of course, is a quasi-judicial body, and we do not accuse the American merchant marine of acting to the detriment of American exporters and American commerce. I don't think anybody else does, either, in general terms. Quite the contrary. We recognize that a strong American merchant marine is essential to American commerce.

However, there are some apparent freight rate disparities which I think we do have to look into. In this connection I would like to mention that even Mr. Wierda's statement on page 6 does list some 24 percent of our commodities as having a higher outbound rate than inbound rate, where the outbound rate is lower or the same.

Secondly, I have before me a clipping from the Shipping Digest, dated November 11, 1963, quoting a statement of the chairman of the Committee of American Steamship Lines as follows:

The second freight rate question concerns disparity between inbound and outbound rates. Now, very frankly, there have been some differences in the rates that make very little sense at all. We in the steamship business agree that any disparities between inbound and outbound rates must be based on sound causes or adjusted.

Of course, I recognize that the entire testimony today is directed to this question of rate disparities. I read that [quotation] only as one of the many indications we have that study and investigation on our part is warranted.

Now, we need the help as you yourself have pointed out, Mr. Chairman, we need the cooperation of the steamship industry in explaining these apparent disparities to American businessmen and exporters. The witnesses today have talked of working with the Joint Economic Committee staff. I have gotten the impression in the last few months that the Federal Maritime Commission has some connection with this matter, too, and I would like to see them working with us also. We would like to either get these matters explained and justified or have the disparities. In fact, we must do this.

Senator PELL. Exactly, because you are reporting back to us on January 10 with your findings.

Admiral HARLLEE. Yes, we are scheduled to do that, Mr. Chairman.

Now, I agree that the conference system is beneficial. There is no question about that. The Congress has recognized this. But in the investigations which Mr. Singman mentioned, and also referred to by Mr. Wierda in his statement, which found that the conference system is beneficial, every one of those investigations also charged a Government agency with surveillance of these conferences to see that they do operate to the benefit of American commerce. That is the problem faced by the commission. There has been a lot of testimony today about charging what the traffic will bear, and I would like to make one brief comment, on that before simply listing the actions which the Commission has taken.

I realize that in practically all trades today we have some independent competition. This is in part caused by the laws of Congress which gave some protection to independent competition. But, in a trade where there is little or no competition, when you talk about charging what the traffic will bear, you are talking about something a little bit different from what the American public thinks of as free and open competition. Charging what the traffic will bear, then, in a case where there is no independent competition, might possibly be a monopolistic perversion, and that is, again one of the reasons why we are charged with this surveillance of the conferences.

Now, the specific actions we are taking along the lines of exercising this surveillance are, No. 1, a formal investigation into iron and steel rates. This is a judicial matter which will be before the Commission for decision. This investigation into iron and steel rates is now in process, and it is a judicial matter which is not proper for me to discuss in detail. I would like to state that I have definite indications that that is a worthwhile investigation and not a waste of time.

No. 2, we are conducting an investigation into the Manila surcharge which has been discussed fairly widely here today, I would like to point out a number of other points about it. In the trade from the United Kingdom to the Philippines there is a 25-percent surcharge instead of a $10 one, which for many commodities results in a lower surcharge, even though the distance is substantially greater. There is a common membership in the Japanese and these other conferences, as Senator Douglas has mentioned. Secondly, we have received vigorous protests from shippers about this, particularly one important shipper on the west coast. Furthermore, as I understand it, there has been no surcharge assessed on outbound cargo from the Philippines. Again, this is a judicial matter on which I cannot now pass judgment. I can, however, say that we do have sufficient facts to warrant an investigation of the matter.

No. 3, we have requested that the conferences furnish us with reports of their handling shippers' complaints. One of the laws that Congressman Tollefson has mentioned here charges the Commission with insuring that there are adequate procedures for handling shippers' complaints. We have therefore asked the conferences for reports over the past few months on what action has been taken by them, and have requested copies of shipper complaints and the conference answers. In some cases they are simply refusing to give them to us, and in such instances we will have to take necessary action to get them.

Senator PELL. Couldn't many of these points be best made on January 10, when you come back?

Admiral HARLLEE. There is only——

Senator PELL. Unless you want the point made, because it seems to me there is a certain viewpoint coming forward here.

Admiral HARLLEE. Well, if that is the way you prefer it, of course, Mr. Chairman. I thought these viewpoints should be known at this time to the committee.

Senator PELL. Carry on.

Admiral HARLLEE. I am trying to avoid improper viewpoints, and there are only a couple of more items here. But we will be, of course, subjected to the charge of overregulation in the matter of these shipper complaints, but the reason is as I have given.

Fourth, we are making an investigation into the ratemaking processes of conferences. This was a recommendation of the Celler committee, and also a request from the Secretary of Commerce. The Joint Economic Committee has indicated that it feels that possible foreign bloc voting in conferences is a matter which we should look into.

Now, we recognize the tremendous difficulties attendant upon getting into the area of rate regulation in foreign trade, and we are therefore undertaking studies of a number of the most important commodities which represent a substantial part of our export trade. In order to avoid unnecessary formal investigations, we are attempting informally to get information upon which to make a decision as to whether to conduct formal investigations. We recognize these may be onerous and expensive. There are always problems in getting enough information.

Much information came forth today. We didn't, of course, have much of this, and we would like to work with the industry in checking and verifying these facts and figures. They can play a part, of course, in the studies that we make on whether to conduct formal investigations.

In the matter of whether we should only consider exorbitant rates, in the interest of time I will not read it, but section 212(e) of the Merchant Marine Act of 1936 calls for the Commission to investigate not just exorbitant but any rates which are different between outbound and inbound, and to make a legislative recommendation to the Congress as to what action to take.

Now, we cannot make a recommendation to the Congress unless we make some kind of an investigation of the matter.

We are starting to move forcefully and this will arouse protests. But we will move only after careful studies and investigations and in accordance with the law and the unmistakable will of Congress.

That is all I have to say.

Senator PELL. Thank you very, very much, indeed.

I ask unanimous consent that we can insert in the record various statements that may be coming in in the future.

The committee will stand in adjournment until January 10. (This date was subsequently changed to March 10.)

(Whereupon, at 4:45 p.m., the committee stood in adjournment.)

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