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THE AMERICAN OCEAN SHIPPING POLICY

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School of Political and Social Sciences
of the University of Ottawa as partial
fulfillment of the requirements for the
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INTRODUCTION

Any analysis of the value of the merchant marine must answer two questions -- is it adequate to fulfill its rightful part in the realization of commercial potentialities; and is it as ready as it can and should be to serve the requirements of national defense of the particular country? The development of the merchant marine in any country in turn depends upon the policy toward it by the government of that very country. It is imperative for every country to adopt a sound ocean shipping policy in order to maintain a self-sufficient merchant marine.

We like to think of shipping as an example of individual initiative, sustained by investments and capable of being operated at a profit. In practice, however, the industry requires substantial government support to survive, which naturally leads to some measure of government control, and it in turn means inflexibility, curtailment of investment, and perhaps in the end an increased need for subsidies.

The twin functions of shipping, commercial service and national defense, are in themselves contradictory both with respect to each other and with respect to the agencies which they serve. Successful commercial operation calls for economy and reliability; military considerations may dictate uneconomic speeds, extra bulkheads, and other features which tend to reduce earning capacity. Shipping,

meanwhile, is a prolific source of trouble in international affairs.

The formation of the American shipping policy has to meet the above mentioned requirement; that is, the balance between national defense and commercial service. Legislation in a democratic country is seldom a simple process. Rarely do the representatives of the people spontaneously recognize a particular policy to be in the interests of the nation and formulate laws accordingly. Usually the representatives are with difficulty persuaded, by one means or another, that the interest of the country as a whole will be best served by government aid and protection for a particular group. This approach is clearly evident in tariff legislation, and merchant marine subsidies are but a variant of the protective tariff principle. In the words of one writer on shipping policy:-

"The first element in the formulation of a policy is the existence of one or a number of groups desirous of promoting their own welfare and anxious to secure government aid in this endeavor, to persuade the legislative authority that the promotion of their welfare benefits the nation as a whole. They attempt to show that laws aiding them will produce economic advantages for other groups on such a wide scale that the interests receiving benefit are truly national in scope. Thus, shipping lobbyists have assumed that an American merchant fleet contributes to national defense and trade promotion, that both these are genuine national interests because they benefit so large a portion of the population and consequently that legislation increasing an American fleet deserves the support of every lawmaker interested in the betterment

of his country.*¹

Regardless of whether the interests of individual groups do or do not coincide with national interests, the government is in reality the channel through which pressure groups express themselves, and legislation is the resultant of forces exerted by them. A review of the history of American merchant marine legislation reveals three basic pressure groups: (1) shipbuilders and suppliers of shipbuilding materials; (2) shipowners and operators; and (3) labor. These groups are all interested in the development of a large merchant marine, yet they frequently oppose each other in advocating the means of attaining that objective. Furthermore, there are other interests vitally affected by shipping policy, such as the importers and exporters, the Army and the Navy, the industries allied with operating and servicing a merchant fleet, and the general public who must pay the cost of subsidies. Many of the merchant marine problems may be traced to the conflicting aims of pressure groups. Only by recognizing these forces behind legislation is it possible to interpret the resulting policy. It is difficult to point out the specific motives of every group influencing the merchant marine policy; however, certain examples will serve to illustrate the problem of conflicting interests in this field.

*¹ Zeis, Paul M., American Shipping Policy, Princeton, 1938, pp.206-7.

Labor has been interested in the merchant marine and shipbuilding industry because of the opportunities they afford for employment. Labor, therefore, will support measures in aid of both operators and builders.

Shipbuilders are interested primarily in creating and sustaining a demand for ships and they achieve this end by direct and indirect measures. As a result of protective measures, the American operator was prevented or discouraged from purchasing tonnage in the cheapest market. This monopoly alone proved of little value; the shipbuilders have supported legislation directly aiding the operator through subsidies designed to create a demand for new ships at their high protected prices.

The shipowners and operators compete directly with foreign vessels in an internationally competitive market. To do so successfully they should have cheap ships, low operating costs and an assured volume of cargo. They will, in general, support measures for direct government assistance designed to offset their competitive disadvantages. Self-interest leads them to oppose measures increasing construction and operating costs unless offset by government aid. They also oppose all efforts to lessen the protection given by the coastwise laws.

Thus, when the American ocean shipping policy is mentioned, it is not a policy adopted independently by the shipping authorities of the American government. It is the result of legislation molded

by pressures from various groups, some of which are motivated by self-interest and others by national interest. It is also important to distinguish the objectives of a policy and the means proposed to attain those objectives. The importance of shipping to national defense of the U.S.A. makes the formation of American ocean shipping policy in this field vital to the welfare of the nation.

It is not the purpose of this thesis to present an exhaustive treatment of U. S. Merchant Marine policy. Rather, it is the intention to sketch the American ocean shipping policy and to show its influence on the development of American shipping. It is of paramount importance to study and analyze the American Shipping Policy because of recognizing the seriousness of the problem. It will be helpful also for reference in shaping the shipping policy in any other country.

CHAPTER I

THE IMPORTANCE OF AMERICAN SHIPPING

The need for an American Merchant Marine of large proportions has long been demonstrated. A modern efficient merchant fleet and a progressive shipbuilding industry are indispensable to American foreign trade as well as to national security of the U. S. A.

Shipping has always been regarded as a key industry, or an industry upon which many other industries are more or less dependent. It is by means of ships that American products can be sent to remote parts of the world and commodities from other parts be received. Such interchange of products with dependent industries should not be in danger of interruption by foreign wars or other disturbances. Furthermore, ships flying a national flag are in a sense advertisers of national products. To that extent, they are promoters of commerce. A country whose commerce is active has of necessity a sizable mercantile fleet.

Lack of merchant ships during the World Wars period caused enormous losses to American business. Everything the U. S. A. produced was in demand throughout the world at record high prices, but reaching these markets was difficult and often impossible. In disastrous and expensive fashion, it had brought

sharply to the U.S.A. the extreme folly of depending upon the ships of other countries to carry American foreign commerce.*2

The principal advantage which accrues to American foreign commerce from the possession of an adequate domestic-flag marine is that it provides a measure of insurance against possible interruption of service. For more than half a century, prior to the World War, the bulk of American exports and imports was carried by foreign vessels. Several times during that period the U.S.A. was deprived of a considerable part of the foreign fleet which customarily served American trade. It is important that the U.S.A. maintain a merchant marine of some proportions in the international carrying trades.*3

Proportional emphasis was placed upon a strong merchant marine policy regarding American vessels as a form of protection against exorbitant rates, both in time of peace and during periods of international stress.

American shippers, in order to compete successfully, require direct, speedy and reliable service to their markets abroad. The outstanding benefit to the Nation's foreign trade

*2 Editor of the Marine News, America's Post-War Merchant Marine Forecast. p.31.

*3 Ocean Transportation by Abraham Berglund, Longmans, Green & Co., N.Y., London, Toronto, 1931, p.341.

came from the establishment of regular liner service in the long-voyage, overseas trade routes which before the war were handicapped by indirect transshipment services, insufficient sailings, inferior vessels, lack of regularity and the concentration of lines at too few American ports. The operation of American lines has made transshipment generally unnecessary.

An argument often advanced to support the maintenance of an American merchant marine is the possibility of discrimination against American goods on the part of foreign lines. The trend toward nationalized shipping may increase the potentialities of discrimination in the future. In any event, the existence of an American flag fleet provides a weapon to be used if and when discrimination occurs.

Merchant marine enthusiasts maintain that money spent for American shipping service is money kept at home, with consequent benefits to American labor, management and capital.

Even more important perhaps than its role in the development of commerce is the vital relationship that exists between the merchant marine and national defense. Many authorities regard the latter consideration as the more important of the two, a view which is supported by the fact that national defense is placed ahead of trade as an objective of the American Merchant Marine Acts of 1920, 1928 and 1936. It is obvious that national defense

is an important, if not the primary, justification for the maintenance of American vessels in foreign trade.

President Woodrow Wilson stated in his Third Annual Message to Congress in May 1915:

"It is high time we repaired our mistake and resumed our commercial independence on the seas. For it is a question of independence. If other nations go to war or seek to hamper each other's commerce, we are at their mercy, to do with as they please. We must use their ships, and use them as they determine. We cannot handle our own commerce on the seas. Our independence is provincial and is only on land and within our own borders."

The World War II has given to the American people a realization of the importance of sea power to the national security. No maritime nation has ever been able to fight a war successfully without an adequate Merchant Marine. General Marshall in a comprehensive report in 1950 on the operations of the Army points out that modern warfare creates unprecedented logistical problems with respect to shipping. The parts played by the Merchant Marine in the preparations leading up to the Normandy invasion and in the landing were spectacular. The American commercial fleet has proven itself of major importance to the national defense and to the prosecution of the war in the less obvious role of providing the Navy with a great variety of essential auxiliary vessels. The fuel supply of the Navy, the supply of food and other requirements for ships' crews have to be

done by merchant vessels.*4

Careful study of all possible contingencies indicates that the military forces would require, in the event of war with a major power, a minimum of 1,000 merchant ships of all types, aggregating about 6,000,000 gross tons. These vessels would be required in the early stages of a conflict for technical military purposes, and represent but a fraction of the number that would ultimately be necessary in case of prolonged hostilities.

Merchant vessels serve the armed forces in many ways. Combination passenger and cargo vessels can be converted into aircraft carriers. Ships to be suitable for the conversion should be capable of supporting a flight deck 600 feet long by 60 feet wide, with an absolute minimum length of 500 feet. These vessels should be capable of 20 knots or better, with a minimum of 18 knots. There were in 1948, 10 such vessels in the United States Merchant Marine, some of which met only the minimum requirements. Military authorities believe that there should be at least 20 of these vessels. There is an additional need for troop transports which should have a speed of at least 16.5 knots and should be capable of carrying a minimum of 2,000 men and their equipment. The American merchant marine is deficient in tankers

*4 Ocean Transportation, Longmans, Green & Co., N. Y., London, Toronto, 1931. p.421.

capable of accompanying the fleet. The Navy would require, for a maximum military effort, a total of some 300 tankers of various types and speeds. The present American tanker fleet needs more high-speed supertankers.*5

Enormous quantities of raw materials, many of them vital to the operation of American industries, must be brought in from foreign sources of supply. Other imports should be continued as far as possible in order to avoid disruption of the domestic market and discomfort to the civilian population.

The Merchant Marine is the only great arm of national defense that is an earning asset in time of peace. If some degree of government aid is needed to meet foreign competition in the commercial shipping field, it is small indeed compared with the cost of keeping American naval forces equipped in peacetime with vessels that might be serving foreign commerce. Twice within the span of little more than twenty years, the U.S.A. has been forced to embark on emergency shipbuilding programs of huge proportions. Security requirements can be met only through the existence of an efficiently operated merchant marine of such size as to meet the initial military and naval demands in case of another war. The importance of American shipping is therefore shown in her international trade as well as national defense.

*5 N. Y. Times, Shipping Section, June 20, 1948.

CHAPTER II

AMERICAN OCEAN SHIPPING DEVELOPMENT AFTER THE OUTBREAK OF WAR II

A surprising record in shipbuilding has marked the development of the U. S. Merchant Marine in the past ten years. In 1941 the last prewar year, under an accelerated program of shipbuilding, 103 ships totalling 1,159,765 deadweight tons were constructed in the U.S.A. In 1942, the first war year, under a shipbuilding program of frantic expansion, 760 vessels aggregating 8,044,527 tons were constructed. During 1943, the war-time peak period, 1,949 ships of 19,209,991 tons and nearly matched this figure in 1944 with 1,785 ships of 16,299,985. Attention has been turned to quality ships capable of higher speeds intended for Pacific duty in the last period.*6

The Report made by the Harvard Postgraduate Studies in 1947 translated these figures into relative terms which serve to accentuate their meaning. The rate at which merchant ships were delivered in the peak year 1943 would have reproduced the world tonnage in five years. The 1943 total merchant ship tonnage constructed in U. S. shipyards exceeded the total tonnage built in the 25 years from 1914 through 1938. If all wartime shipbuilding

*6 "Log" Magazine, May to July, 1947
National Federation of American Shipping, Inc.

activity, including Navy construction had been devoted exclusively to merchant ships during 1943, the U. S. could have reproduced the prewar fleet in 16 weeks and the prewar world tonnage in three years. The total ship production for the three years of war equalled two-thirds of the world's prewar merchant ship tonnage. Only two other industries in the U.S.A. received greater government investment than was put into shipyards-aircraft and ordnance. Of over 150 billion dollars spent on munitions produced in 1942, 1943 and 1944, merchant ships accounted for more than 10 billion.

The average building time for merchant ships of World War I was eleven months. Average time for construction of Liberty ships in World War II was 39 days.*7

The total merchant ship construction for the entire World War II period was 5,900 ships totalling 57,000,000 tons. At the end of this war the U. S. had 60,000,000 tons of merchant shipping or four-sixths of the world total as compared to one-sixth of the world total prior to the war.*7

As compared to ocean shipping tonnage of other countries:
The United States Maritime Commission announced in October 1946 that*8

*7 "Log" July issue 1947

*8 Reference: Press Release Oct. 27, 1946 by the U.S. Maritime Commission (Table on next page)

fifty-one percent of the world's merchant fleet deadweight tonnage belonged to the U.S.A. as compared with 14 percent in the pre-war days of September 1939. The only other major fleet to show an increase in its share of total world tonnage was that of Russia which rose from two percent to three percent. While the world's post-war merchant fleet shows a drop in the total number of vessels, from 12,798 as of Sept. 1939 to 12,445 as of June 30, 1946, the deadweight tonnage increased from 80,601,000 to 99,220,000 or approximately 23 percent. The British Empire fleet decreased from 30 percent of the world's deadweight tonnage to 24 percent and from 3,319 vessels to 3,159.

Number, Gross and Deadweight Tonnage of Sea-Going Iron and Steel Steam and Motor Merchant Type Vessels of 1,000 Gross Tons and Over

(Excludes vessels on the Great Lakes and Inland Waterways and special types such as channel vessels, icebreakers, cable ships, etc. and vessels owned by the U. S. Army and Navy)

Flag	Merchant Fleet Sept. 1, 1939			Merchant Fleet June 30, 1946		
	No.	Gross Tons	Dwt Tons	No.	Gross Tons	Dwt Tons
Total all flags	12,798	58,270,374	80,600,600	12,445	71,000,408	99,219,900
United States	1,379	8,125,756	11,681,700	4,861	35,363,598	50,389,300
British Empire	3,319	17,770,919	24,053,700	3,159	18,064,293	24,009,600
Argentina	45	196,627	267,700	64	310,623	430,000
Belgium	72	356,862	494,000	46	242,670	341,600
Brazil	122	413,646	541,600	136	490,423	669,700
Bulgaria	8	22,306	29,700	-	-	-
Chile	50	153,959	180,900	46	151,227	196,800

China	100	204,062	276,000	73	246,479	344,300
Colombia	-	-	-	2	7,354	11,100
Costa Rica	-	-	-	1	1,067	1,500
Cuba	12	17,504	21,700	8	11,738	14,400
Denmark	379	1,041,756	1,575,800	208	640,864	952,600
Danzig	4	5,162	7,400	-	-	-
Dominican Rep.	1	1,973	2,200	-	-	-
Ecuador	-	-	-	1	1,120	1,300
Egypt	23	98,177	128,000	7	19,119	29,100
Eire	-	-	-	13	33,109	52,300
Estonia	94	176,376	276,400	13	21,209	30,900
Finland	232	530,285	826,000	125	252,761	372,000
France	555	2,678,435	2,998,800	262	1,370,836	1,612,800
Germany	854	3,915,978	5,177,100	242	800,590	1,160,100
Greece	436	1,697,986	2,791,000	146	619,320	1,006,200
Greenland	-	-	-	1	1,151	900
Honduras	27	82,068	90,500	34	140,553	167,900
Hungary	6	22,748	39,900	1	1,022	1,500
Iceland	-	-	-	5	7,245	7,900
Italy	667	3,178,120	3,910,800	123	576,199	691,700
Japan	1,180	5,102,346	7,145,400	327	1,085,969	1,432,100
Latvia	73	199,058	325,600	18	46,013	73,400
Lithuania	3	4,330	6,800	-	-	-
Mexico	10	23,815	31,600	17	79,336	118,800
Netherlands	537	2,670,149	3,424,600	291	1,591,603	2,035,800
Nicaragua	2	3,023	4,200	1	1,109	1,600
Norway	1,072	4,499,086	6,931,200	607	2,933,972	4,477,000
Palestine	2	4,147	7,000	5	9,809	14,300
Panama	130	719,041	1,105,600	164	868,855	1,329,000
Peru	7	25,834	31,100	10	37,648	46,200
Philippines	33	82,695	105,200	17	46,780	65,000
Poland	31	113,644	101,200	28	93,746	168,200
Portugal	54	197,307	263,300	66	262,329	364,000
Rumania	25	101,807	129,000	6	26,995	18,400
Spain	217	749,681	1,051,700	257	879,286	1,253,100
Sweden	484	1,311,763	2,033,100	443	1,437,535	2,204,000
Switzerland	-	-	-	7	32,690	50,900
Thailand	2	2,622	2,000	1	1,311	1,000
Turkey	67	173,847	223,800	58	151,148	192,000
Uruguay	5	13,791	14,300	3	11,989	18,900
U.S.S.R.	354	1,135,783	1,597,900	488	1,851,675	2,626,700
Venezuela	27	70,089	93,200	28	71,613	97,500
Yugoslavia	98	375,811	604,000	26	104,926	176,500

The United States has become the greatest marine power in history as shown in the above table. Several of the United Nations have lost fifty percent of their vessels and in some cases the figure is even greater. Enemy countries have lost practically all of their ocean-going shipping. Labor, as well as management has gained valuable experience from the wartime operation vessels. It is estimated that approximately 500,000 men have worked on ocean-going vessels during the past few years. The net worth of shipping companies more than doubled during the war, increasing from approximately \$273,000,000 in 1939 to more than \$587,000,000 at the end of 1944. The increases applied to operators in both foreign and domestic trade. By the end of the War II merchant shipping under the control of the United Nations had grown to an aggregate of 90,000,000 deadweight tons. Yet, at no time during the war was there a surplus of shipping. Rather, there was a constant demand for more; it can be said truthfully that shipping was the key to the war effort.

That the American Merchant Marine shall be privately owned and privately operated is one of the prime elements of the policy laid down in the Act of 1936. The problem immediately after the war was, in a sound and constructive manner, to bring about the transfer into private hands of the ships. Excessive war costs have been

variously estimated up to as much as thirty-five percent or even more. The American Government would like to recover as much of the investment as possible from the disposal of excessive ships. However, there is no point in trying to dodge the fact that the shipbuilding program, like other phases of the war effort, will have to be largely written off. Half of the Government fleet, of course, consisted of Libertys. These were good ships for the purpose for which they were built, that is, the winning of the war, - but they will not be of great value in the post-war world. Some Libertys no doubt will find employment, at least during the period while other nations are suffering from a shortage of tonnage. However, most of these ships will have to be either scrapped or laid up. The Liberty was built to do a certain job. It did that job, and did it well. In the end the Liberty, like thousands of transport aircraft and innumerable other items, must be regarded as expendable war material.*9

In order to dispose of the excessive ships left over from the war, the U. S. Maritime Commission in 1944 asked Congress to approve the Merchant Ship Sales Act of 1946. Approximately 4,300 vessels were available for disposition under the terms of the Ship Sales Act.

*9 P.173, *The Merchant Marine & World Frontiers*, by Robert Anderson, Cornell Maritime Press, N. Y. 1945.

The Ship Sales Act was a sound and stable pricing policy which facilitated a return to private ownership and operation. In this respect, the 1946 Act adhered to the principles of the 1936 Act. The Ship Sales Act was based on the assumption that purchasers should not be required to pay excess costs due to the war conditions. Selling prices accordingly were based on prewar costs. Dry-cargo vessels were sold at approximately half of the prewar domestic cost, which was roughly equivalent to the prewar foreign cost. Tankers, which had received independent consideration, were sold at prices ranging up to 87.5 percent of the prewar domestic cost. Floor prices had been set at 31.5 percent of war cost for Libertys; 35 percent of war cost for other dry-cargo vessels, and 50 percent of war cost for tankers. Terms of payment provided that vessels might be purchased for 25 percent down, the balance to be paid over a period of not more than 20 years. Depreciation was allowed at the usual rate of 5 percent a year, plus an extra allowance for the wear and tear of wartime operation.*10

The Act set up an order of preference on sales. American citizens took precedence over non-citizens. Applicants to purchase were given priority over applicants to charter. The Act also gave

*10 P.37, The Postwar Outlook for American Shipping, by the Postwar Planning Committee, 1946.

special consideration to operators attempting to replace vessels lost during the war. After all American needs had been met, the Act permitted the sale of certain vessels to non-citizens at prices and on terms no more favorable than those given to citizens. However, passenger ships, and Liberty type tankers and colliers, which have been considered essential for America's own needs, were reserved for citizen purchasers.

The Ship Sales Act provided for the chartering, at equitable rates, of dry-cargo vessels to U. S. citizens. The Ship Sales Act did not permit the chartering of vessels to non-citizens.

The total of vessels sold under the terms of the American Merchant Ship Sales Act of 1946 up to the expiration of the Act on January 15, 1951 reached 1,960 for a return to the American Government in the amount of \$1,728,821,057. Of the grand total of 1,960 sold, 1,113 went to non-citizens and 847 to domestic purchasers. The best of the available tonnage, the speedy large c-types, were sold to American-flag operators under the law's preferential arrangement.*11

The distribution of the sales of American surplus ships of the 1,806 ships up to June 30, 1949, is as follows:

*11 New York Times, January 18, 1951.

Americans bought 125 of the C-2s, 88 C-3s, 21 of the smaller C-1 type, 138 Liberty ships, 37 Victory type, 26 coastal types, one combination passenger-cargo vessel and 255 tankers. Foreign purchasers acquired 589 Libertys, 100 Victories, 48 C-1s, 8 C-2s, 152 of the coastal types and 216 tankers.*12

After conclusion of the ship sales in the U.S.A., there remained in the reserve fleet 2,048 merchant vessels, of which 1,605 are slow Liberty-type ships. The active American Merchant Marine ocean-going vessels of 1,000 tons and over consists of 1,177 vessels totalled 14,029,390 deadweight tons up to January 1, 1951. Of this number, 729 were cargo ships and 448 were tankers. About 76,000 officers and seamen were employed. Skilled and semi-skilled workers employed in private shipyards on both coasts numbered 48,000 up to January 1, 1951. There were 62 vessels of passenger type with the capacity of 19,370 passengers, and 62 vessels were under construction in U. S. yards up to April 1, 1949.*13

The privately owned portion of the American Merchant Marine dry cargo of 729 vessels had not been able to carry fifty percent of the U. S. export volume. According to a comprehensive study made by

*12 New York Times, Shipping Section, August 2, 1949

*13 Bulletin, April 1949, Joint Committee for the American Merchant Marine, and New York Times, January 15, 1951.

the New York Times in 1949, dry cargo carried by the American flag fleet, showing volume of trade in relation to capacity, the private fleet was of 38.9% and would be inadequate if this country's share of export haulage rose from its level of 38.9 percent to the sought-after fifty-fifty peak. There was an active foreign fleet of 5,802,000 deadweight tons of private vessels and 3,199,000 government tons, aggregating 9,001,000 tons. How much such a foreign fleet can carry may only be estimated. Time lost in ports, lay-up time, repairs, the type of cargo carried and other factors bear on this estimate. Using $4\frac{1}{2}$ turns-around per year as an arbitrary average, and assuming 80 percent of deadweight capacity as available for cargo, the figures would show an annual export lift of 32,405,000 cargo tons for the 9,000,000 fleet. Experts say the return lift must be adjusted by another 60 percent "to be realistic". This adjustment would be an inbound of 19,000,000 cargo tons. The combined total would be 52,000,000 tons capacity annually. The estimated annual dry cargo exports in the U.S.A. is 51,500,000 long tons, of which American vessels carry 38.09%, and import 28,100,000 tons, of which American vessels carry 43.5%. The conclusion drawn by the tonnage study report of the N. Y. Times includes the major point that the wide disparity between exports and imports is a critical problem. It is a weakness that has been recognized by the American government and one that the Marshall Plan program is designed indirectly to rectify. Another

point mentioned is the urgent need for insistence on a fifty-fifty sharing of all American trade if the U. S. private fleet is to be maintained.*14

So far as the U. S. passenger fleet is concerned, the U. S. flag flew over only five percent of the world's passenger fleet in 1951, and the U.S.A. was losing ground in the international race to restore this segment of its merchant marine to its prewar level of 8%, according to the report of April 1, 1951 of the National Federation of American Shipping. It was further pointed out that foreign countries were building ninety-seven passenger vessels with a total tonnage of almost 1,000,000, while the U.S.A. had only two vessels aggregating 71,719 tons under construction in April 1951, excluding three vessels of 37,980 gross tons as troop transports and the S. S. Independence of 23,790 gross tons finished in January 1951.*15

It seems imperative to have government subsidies to promote the building and operation of a larger and better balanced U. S. Merchant Marine so as to overcome the current U. S. deficiency in passenger-carrying vessels because they are important not only for the current level of international travel, but vital and integral parts of

*14 New York Times, June 14, 1949

*15 New York Times, April 2, 1951

the national defense system as convertible troopships.

The organization further said its studies showed that at the beginning of 1951, the world's merchant passenger-vessel fleet was 75 percent by number and 70 percent by gross tonnage of its prewar II level of 1,500 ships of 12,000,000 gross tons. That other nations are doing a far better job than the U. S. in rebuilding their passenger fleets is evidenced by the fact that upon completion of present construction, the United Kingdom will have about 92 percent of her prewar passenger tonnage, the Netherlands will have about 76 percent and France 76 percent.

The general picture of the present American Merchant Marine is shown as above. Its future development depends upon the changed world situation as well as the direction the U. S. ocean shipping policy is leading to.

CHAPTER III

SUMMARY OF THE AMERICAN HISTORICAL SHIPPING POLICY

The vigor of the American Merchant Marine was due in part to the fact that during the period from 1789 to 1830 the U.S. Government pursued a strong policy which was well calculated to develop American commerce and shipping. The public interest without a doubt lay at this time in the promotion of free trade and free navigation. The U.S.A. then was primarily a producer of raw material and foodstuffs which it was necessary to exchange for the manufactured consumer and capital goods of the world, especially those of Great Britain. It is estimated that during the period 1789 - 1820 an excess of commodity imports over commodity exports amounting to some \$500,000,000 was offset by earnings of foreign exchange and specie by the mercantile marine of between \$450,000,000 and \$800,000,000.*16 In the absence of a strong war fleet during that period, the Merchant Marine was a major element of American sea power. Hence the state had every reason to foster the maritime industries. In 1789 a law levying discriminating duties on goods imported in foreign ships was passed. The shipbuilders were protected by the Registry Act of 1789, later to become of utmost importance, which limited American documentation to American-built vessels and those already owned.*17

*16 Taussig: Selected Readings in International Trade & Tariff Problems, 1921, pp. 159-206.

*17 M.M.McKee: The Ship Subsidy Question in American Politics, pp. 309-310, Smith College in History VIII (1922-23).

Discrimination against foreign shipping has limited application, for it can be effective only when foreign vessels come under the jurisdiction of U. S. Law. However, the tremendous coastline of continental United States facing both the Atlantic and the Pacific oceans, plus American control over outlying territories in the Caribbean Sea and the Pacific Ocean, give this country a wide area over which it exercises such jurisdiction. The two elements which have acted as a restraining influence upon abuse of this power by the U. S. are (1) the traditional commercial policy of liberal reciprocity and (2) the consequences of retaliation or counter measures that other countries might adopt.

Commercial treaties with foreign countries generally provide that foreign vessels and the goods carried thereon shall be accorded the same treatment upon entry into U.S. ports as that given to ships and cargoes under the American flag. Since these treaties also provide for reciprocal treatment by the other country and include the most-favored-nation clause, all foreign shipping is accorded equal treatment.*18 The only exception to the principle of equality of treatment for foreign and domestic vessels recognized in commercial treaties is the right of either party to reserve its coasting trade to vessels of its own nationality.

*18 See the "Treaty of Friendship, Commerce, and Consular Rights between the U.S. and Finland", U.S. Dept. of State, Treaty Series, No. 868 (1934) for typical provisions pertaining to shipping.

Discrimination against foreign shipping has frequently been advocated by Congress. Since treaty provisions overrule contradictory legislation, the insertion of discriminatory measures in tariff and merchant marine acts has been ineffective. Congress has even attempted to force the President to modify treaty provisions restricting the right of the U. S. to impose discriminatory import and tonnage duties.*19 President Wilson refused to carry out the directions of Congress, and his position was upheld by his successors. Although inoperative, these efforts reflect the pressure exerted by special interests to secure protection for themselves at the expense of sound national policies.*20

The next step was the Navigation Act of 1817 which was aimed at the shipping of foreign powers employed in indirect carrying trades. It prohibited the importation of goods in foreign ships except those of the country of origin. It also completely closed the coastwise carrying trade to foreign ships. The reservations to national ships of the right to carry goods in the coastwise and intercoastal services was perhaps the greatest aid ever give by Congress to American shipping.*21 The application of the principles of the coastal trade Act to Hawaii, to Puerto Rico and to trade between the Atlantic and the Pacific coasts

*19 Merchant Marine Act, 1920, Sec. 34, Vol. XLI, p. 998

*20 U. S. 68th Congress, 1st Session, Senate Document #138, "Council of American Shipbuilders"

*21 Lindsay, "Our Merchant Shipping", pp. 18-26.

did result in a substantial increase of American shipping. The coastal trade monopoly by 1914 proved more important than all other legislation in maintaining a large merchant fleet. When World War I began, nearly 90 percent of the entire American merchant fleet was operating in the coastal trade.*22

In 1824, a special reciprocity law was passed removing all discriminating duties on tonnage and imports affecting the shipping engaged in the direct carrying trades to the maritime powers of the Netherlands, Prussia, Hamburg, Bremen, Lubeck, Oldenburg, Sardinia and Russia in return for similar privileges. Many of these countries, especially those in the Baltic, were low-cost carriers and consequently were in a position to secure a very substantial portion of the business. The reciprocity policy was also again renewed and reemphasized in the Act of 1828.*23 Its aim was to secure unrestricted navigation for American ships. The U.S. thus became the leader in the development of the modern system of free navigation. The alternative policy of establishing rigid monopolies and severe discrimination, which would have provoked serious retaliation, would have disrupted trade and been ultimately injurious to the shipping interests, although the percentages of the

*22 Merchant Marine Statistics, 1932, p. 30

*23 U. S. Statute 2 (1/2/1824) and 308 (5/24/1828)

traffic carried might conceivably have been higher. It seems evident that the policy was successful from the maritime, naval and commercial standpoint.

In 1838, different economic conditions arose in the sector of steamship navigation, it became necessary for the U. S. Government to grope the way toward national ocean transportation policies. The Congress passed a law on March 3, 1845, directing the Postmaster-General, following the practice of the British Lords of the Admiralty, to contract for the carriage of the mails to foreign countries.*²⁴ There was some uneasiness because of the control over American communications which was being secured by the British government through its contractors. These could have been seriously disrupted by war or any other event which might have caused the withdrawal of the British vessels from service. The Act of 1847 provided for the construction of five steamships of 2,000 gross tons or more and of 1,000 horse-power or more, suitably built for service as first-class warships, and for the operation of these ships on twenty round-trip voyages to Liverpool annually for the sum of \$385,000 per year for ten years.*²⁵ The N. Y. and Liverpool Mail Steamship Co. had seriously underestimated the costs of construction of its vessels, with the result

*²⁴ U. S. State 748

*²⁵ Report of the Committee on Post Offices & Roads on Mail Steamships (1852) Senate. Rep. No. 267, 32nd Congress, 1st Session, pp. 1-6.

that it was forced to apply to Congress for the loan of funds to complete them. These advances, which were authorized by the Act of 1848, totalled a year's mail pay, or \$385,000, and were repayable in ten annual installments.*26 The economic history of this period clearly indicates that American ship subsidy policy was based on erroneous principles to a considerable extent. Both the objectives of the policy and the techniques were poorly defined by the government.

The first American subsidy experiment closed in 1859 unsuccessfully. The total outlay had been about \$14,000,000. The results were hardly comparable to the expenditure.*27

The period between 1860, the Civil War, and 1914, the World War I, was a crucial one so far as American shipping policy was concerned. Although free-ship bills were presented at nearly every session of Congress, nothing was done until 1912, when it was too late to preserve the entrepreneurial talent, contacts, goodwill and economies of the shipping industry. The owners in foreign trade ordered few vessels; the yard employed few workmen; only a handful of wooden ships were made available for national defense purposes; and American seamen were neither trained nor maintained. It soon became apparent that only with the purchase of foreign-built ships could costs be substantially reduced, efficiency

*26 U. S. State 266

*27 Saugstad Report "Shipping & Shipbuilding Subsidies", 1932
U.S. Dept. of Commerce Trade Promotion Series 129.

increased and the margin which might allow of expansion and manning reforms be secured. In 1912, after repeated failures, the Congress authorized the purchase for use in the trade to foreign countries and the Philippines of foreign-built ships which were not over five years of age.*28 By then, the age of sail was over, and that of war, nationalism and subsidy struggles was beginning.

At the outbreak of the World War in 1914, many foreign ships on which the U.S.A. had depended for the carriage of its international trade were withdrawn from their peacetime routes for use in naval, auxiliary and other emergency services. Congress passed the Act of 1916, which financed acquisition of merchant vessels for the emergency. Congress established a Shipping Board in 1916 and gave that Board authority to form one or more corporations for the purchase, construction, equipment, lease, charter, maintenance and operation of merchant vessels in the commerce of the U. S. The extent of the wartime effort can be visualized from the fact that the Shipping Board fleet reached a total of almost 2,500 vessels of 8,000,000 gross tons. This fleet involved an aggregate expenditure for purchase or construction of about 3,000,000,000. Together with other requisitions, the American Merchant fleet rose to 17,000,000 gross tons in 1917.*28 Within a few years

*28 Handbook of Merchant Marine Development & Regulations in the U.S.A., 1940, U.S.M.C.

after the restoration of peace, the Shipping Board undertook to liquidate its fleet, as a governmental enterprise, and to encourage private citizens to assume the maintenance of the merchant marine. This Shipping Act of 1916 still is in great influence today. The Maritime Administration still acts under such authority. It gives the Administration the power to impose strict conditions in time of emergency. All ships of foreign registry and flags built in the U.S.A. have been called for assurance that they would be available to the U.S.A. in time of emergency. For instance, approval was granted on June 26, 1951 by the Maritime Administration for the construction in American shipyards of six large tankers for Panamanian Co. However, the Administration stipulated the vessels cannot trade with ports barred to the U.S.A. vessels and these tankers would be ready for use in the U.S.A. should the Administration deem it necessary.*29

The Merchant Marine Act of 1920 directs the Shipping Board to maintain essential trade routes until private American capital is prepared to take over these routes. Practically every witness from the Shipping Board gave as the chief justification for the subsidy bill the desire to eliminate the losses resulting from public operation. The officials of the Shipping Board and of the Fleet Corporation permitted private companies to operate the government fleet under a contract

*29 N. Y. Times 6/27/51.

which even the Board admitted was not in the public interest.*30

The Board then attributed these deficits to the inefficiency of government operation and used this as an excuse to sell the ships for a fraction of their value to private shipping interests, who also were to receive a large subsidy as their rewards for relieving the government of the embarrassment of owning a merchant fleet. Government operation had not failed, it had never been tried.*31

Private shipping interests were eager to secure the destruction of the government fleet for two reasons----first, to eliminate the danger of actual or potential competition from these vessels, and second, to insure that successful government operation did not become a reality. As indicated in the program of the steamship association to which allusion already has been made, the shipping companies wanted the government to sell its best ships to private operators for almost nothing, and to scrap the remainder of the fleet. Between 1921 and June 30, 1928, the Board sold 1,164 ships representing 5,460,144 dead-weight tons for \$90,620,576.47 at a rate of \$17 or \$18 a ton.*32

In the main, the responsibility for the reprehensible policies followed in taking the government out of the shipping business may be placed

*30 Joint Hearings to Amend the Merchant Marine Act 1920, 1922, Supra pp. 129-30, pp. 538-9.

*31 American Shipping Policy, Zeis, p. 131.

*32 Ocean Transportation by Abraham Berglund, Longmans, Green & Co., New York, London, Toronto, 1931, p. 371.

upon the private shipping interests which displayed beyond all shadow of a doubt the hollowness of their devotion to the principle of an American Merchant Marine designed to benefit the entire country and not simply their own little group.

The Mail Subsidy Act of 1928 contained a number of important sections in addition to those providing for mail contracts. It reaffirmed the policy laid down in the Merchant Marine Act of 1920, which had declared that for purposes of commerce promotion and national defense it was necessary that the U. S. have a merchant marine capable of carrying the greater portion of its commerce and that this fleet ultimately was to be privately owned.*³³

The most significant sections of the new law were those dealing with the mail contracts. One section provided that all mails of the U. S. carried on vessels between ports between which it is lawful under the navigation laws for a vessel not documented under the laws of the U. S. to carry merchandise shall if practicable, be carried on vessels in respect of which a contract is made under this title.*³⁴

Ships operated in the coastal trade were not to receive mail contracts. The Postmaster-General was to certify to the Shipping Board the mail route which he believed should be established and the Board was to certify back to the Postmaster-General the types of vessels

*³³ The Shipping Act, Merchant Marine Act, 1920 & 1928, pp. 30,63.

*³⁴ The Shipping Act, Merchant Marine Act, 1920 & 1928, p. 66.

which should be employed on such routes. In making such certification the Board was directed to take into consideration the desirability of having the mail service performed by vessels constructed in accordance with the latest and most approved types with modern improvements and appliances.*³⁵ The framers of the Act expected through this provision to secure a replacement program which if carried out, would compel the recipients of mail contracts to undertake a large amount of new construction.

All of the new vessels had to be built in American yards and kept under American registry during the entire time the ships operated under the provisions of the mail contracts. The criticism on this Act could be summarized as quoted from "American Shipping Policy" by Paul Zeis, (Page 150), -

"Judged by the interest of the country at large, the Merchant Marine Act of 1928 was to be a colossal failure; measured by the shipowners and shipbuilders the Act was to be an amazing success".

The mail contracts for the fiscal year 1929 amounted to approximately \$9,000,000; in 1930 they were \$13,000,000; in 1931, \$18,000,000; in 1932 they amounted to \$22,000,000; in 1933, \$26,000,000 and in 1934, \$29,000,000.*³⁶ Much of this huge subsidy served to continue the process of enriching the operators at the expense of the government --

*³⁵ American Shipping Policy, Zeis, p. 148

*³⁶ Report of Postmaster-General Farley to President Roosevelt on Mail Contracts, p. 1100.

a process which started on a large scale in 1917 and continued unabated down to the cancellation of the mail contracts in 1937.

The mail subsidies had failed to accomplish their purpose for two main reasons. First, while technically the mail contracts called for certain routes to be served at specified speeds, there was little relation between the cost or character of the service performed and the subsidy grant, and no relation at all to the core of maritime problems, foreign cost of ship construction and operation. Second, the law and the related contracts failed to provide adequately for the monies paid to the ship operators to be used for purposes beneficial to the American Merchant Marine.*³⁷

Between the years 1930 and 1935 there was a great oversupply of tonnage which threatened to destroy all rate agreements and the conference lines felt, accordingly, that government regulation might eliminate some of the excess competition and reestablishment rates at profitable levels.

A number of major marine disasters, including the destruction of the Morro Castle and the Mohawk, focussed public attention upon the inadequate safety devices used on American ships and upon the incompetence of the officers and crews that operated them.*³⁸

*³⁷ The Merchant Marine and World Frontiers, by Robert Earle Anderson, Cornell Maritime Press, New York 1945, p. 65.

*³⁸ Safety at Sea, Wm. McFee, Harpers, June 1936, Vol. 173, pp. 40-51.

Responsibility for the poor construction of the vessels rests upon both the shipping companies and the government -- on the former because they did not construct their vessels with safety as a paramount consideration. The law of 1935 provided that when loss or damage was occasioned or incurred, "without the privity or knowledge" of the owners of the vessel, the liability was not to "exceed the amount or value of the interest of such owner in such vessel, and her freight then pending."^{*39} If this sum was insufficient to meet all damages and if the disaster had involved loss of life or bodily injury, the amount was to be increased to \$60 per gross ton of the vessel's tonnage to meet claims arising from death or injury.

A second important law designed to increase safety at sea was the act providing for a thorough reorganization of the Bureau of Navigation and Steamship Inspection which was renamed the Bureau of Marine Inspection and Navigation. The new measure provided for a large increase of both supervising and travelling inspectors to insure an adequate inspection staff. One of the most significant features of this act was the creation of several marine casualty boards to investigate mishaps and accidents at sea, as quoted:

^{*39} Public Law No. 662, 74th Congress.

"In order to determine whether any incompetence, misconduct, unskillfulness or willful violation of law on the part of any licensed officer, pilot, seaman, employee, owner or agent of such owner of any vessel involved in such casualty, or any inspector, officer of the Coast Guard or other officer or employee of the U. S., or any other caused or contributed to the cause of such casualty."*40

The movement for greater safety at sea was not instituted by the shipping interests. It came, instead, from the shipping and travelling public which was shocked by an almost unparalleled succession of marine disasters. Safety legislation meant curtailed profits and the operators considered that legitimate legislation concerning their industry was that which had the effect of increasing or maintaining profits.

*40 Public Law No. 662, 64th Congress.

CHAPTER IV

ESSENCE OF THE AMERICAN OCEAN SHIPPING POLICY

The American shipping legislation discloses that while merchant vessels are constructed primarily for the purpose of trade, they constitute at the same time an essential arm of national defense. Merchant vessels may be used as either auxiliary naval cruisers or auxiliaries for the transport of troops, fuel, munitions or supplies for either the naval or military service. The Army and Navy require, in case of a major conflict, large numbers of auxiliary craft -- transports, seaplanes, tenders, ammunition ships and the like. Occasionally merchant vessels when armed and armored may be used for combat purposes. Even the air force has to lean heavily on ships. It takes scores of tankers to mount an oversea air offensive. Cargo aircraft can deliver men and materials to the other side of the earth in the matter of hours, but they probably depend on fuel supplied by ships. This was confirmed, beyond any question, by the use of merchant vessels during the World War. Such idea was definitely incorporated in the Merchant Marine Act of 1936.

The principle of the American ocean shipping policy is clearly expressed in Section 101 of the Merchant Marine Act of 1936, as quoted:

"It is necessary for the National defense and development of its foreign and domestic commerce that the U. S. shall have a merchant marine:
a. sufficient to carry its domestic water-borne commerce and a substantial portion of its water-

"borne export and import foreign commerce of the U.S. and to provide shipping service on all routes essential for maintaining the flow of such domestic and foreign water-borne commerce at all times.
b. capable of serving as a naval and military auxiliary in time of war or national emergency.
c. owned and operated under the U. S. flag by citizens of the U. S. insofar as may be practical, and
d. composed of the best-equipped, safest, and most suitable types of vessels constructed in the United States and manned with a trained and efficient citizen personnel. It is hereby declared to be the policy of the United States to foster the development and encourage the maintenance of such a merchant marine."

The substantial portion of the first point needs some explanation. A country cannot just covet for vessels of its flag the transportation of all of its direct traffic with another maritime country. The merchant marine of both flags involved may justly claim an equal division, approximately, of such traffic. However, there are countries whose merchant marines are inadequate to transport their half, some having merchant marines in excess of their needs. Fifty per cent should be the minimum goal, a mere starting point.

The Merchant Marine Act of 1936 was recommended, passed and approved, providing aid in the form of direct subsidies to meet the differences in construction and operating costs between American and foreign vessels so as to put the American ship operator on a parity with his foreign competitor. By clearly differentiating between the construction and operating problems, by centralization of authority

in the U. S. Maritime Commission, and other means, it was thought that any diversion of subsidy funds would be prevented.*41

The U. S. Maritime Commission functions as a regulatory body, a policy-making and promotional organization, a government-owned shipping organization, and the agency for the determination, payment, and supervision of shipbuilding and operating subsidies; all of these functions are directly or indirectly concerned with the general problem of aid, but it is the last one that is the most immediate concern of the Commission and of present interest.

Under the subsidy provisions of the Act of 1936, the U. S. Maritime Commission is (1) a fact-finding group with legislative powers, since it must accumulate the facts with regard to differential costs and fix subsidies in accordance with its findings; (2) a board of examiners with final authority to determine both the need for a subsidy and the qualifications of the recipient; (3) a custodian and disbursing agent for subsidy funds, and (4) the agency for enforcing the innumerable requirements and restrictions of a commercial, financial and sociological

*41 The Merchant Marine and World Affairs, by Robert Earle Anderson, Cornell Maritime Press, N. Y. 1945.

character which are included in the new subsidy contracts.

The Merchant Marine Act of 1936 provided for the termination of ocean-going mail contracts by June 30, 1937, and substituted the payment of direct subsidies to private ship operators on essential foreign trade routes. These subsidies are based on the difference between foreign and domestic building costs, on calculation.*42

The Act further provides for the payment of construction differential subsidies, based on the difference between foreign and domestic building costs, on vessels, built for private operators for use on essential foreign trade routes.

The Act authorizes the American government to build vessels and to charter them to commercial steamship lines for operation on essential trade routes when private enterprise is either unable or unwilling to provide the necessary ships.

Other provisions under the Act require subsidized lines to establish special funds to replace over-age vessels, provide for loans and for mortgage insurance, establish citizenship requirements for crews, require the establishment of a training program.

Under this Act a building program of 50 ships a year over a 10-year period was started to rehabilitate the dry-cargo tonnage of the merchant marine.*43 This program was of inestimable value to the

*42 Handbook of Merchant Marine Development & Regulations in the U.S.A., U.S.M.C. 1940.

*43 New Ships for the Merchant Marine, P.1, U.S. Govt. Printing Office, U.S.M.C. 1940.

U.S.A. at the outbreak of World War II, for it provided not only impetus which aided the expansion of the shipbuilding industry before the war but also high-quality ships of proved designs for wartime usage. With the outbreak of war this program was accelerated and increased.

In accordance with the American ocean shipping policy laid down in the Merchant Marine Act of 1936, steps were taken to restore the Merchant Marine to private control, to dispose of Government-owned war-built ships, and to plan for the development and maintenance of an adequate and well-balanced Merchant Marine in the future.

There are arguments for and against maritime subsidies under the Act of 1936. To sum them up, there are chiefly five points against subsidy to the U. S. Merchant Marine. First, shipping is itself an item of foreign trade; when you ship goods under another nation's flag you import a service, and conversely, you export a service when you carry them under your own. Thus a shipping subsidy is a tariff in reverse. And to the internationalist, who blames most of the world's financial grief on tariff walls, a U. S. shipping subsidy merely aggravates protectionism and disturbs the balance of trade. Second, the U. S. Merchant Marine is the most costly in the world to operate. By using the shipping services of other nations the U.S.A. buys transportation service cheaper and benefits from other people's subsidies.

Third, the U. S. economy is not an overseas economy, but an internal economy. The U.S.A. should leave the operation of ships to those nations in which ships play a major economic role -- to Britain, for instance, and the Scandinavian countries. Fourth, maritime subsidies may conflict with present American foreign trade policy, because other countries tend to cut total U. S. imports, of which shipping service is one, which may, so far as the more strictly maritime nations are concerned, offset the goodwill gained by mutual tariff concessions. Last, subsidies may conflict with American neutrality policy.

That American maritime subsidies are not imperative is shown by this following instance: Up to June, 1951, not less than 100 new merchant vessels have been ordered from foreign shipyards by shipping interests in the U. S. during 1949-51. All but a very few of these ships are large transoceanic vessels, principally oil tankers.

The volume of this shipbuilding business placed in foreign shipyards by American shipping interests totals 1,630,310 deadweight tons as compared with 1,346,740 deadweight tons under construction in the U.S. The contract value in foreign currency of the ships ordered from foreign yards by American ship owners amounts to approximately \$240,000,000. If these ships were built in the U. S. instead of in foreign countries they would cost approximately \$326,000,000 or 31 percent more. Thus by

having these ships built abroad American owners are saving 86,000,000 in first cost.*44

In addition to the saving in the cost of construction, all of these ships being built abroad for American shipowners will be documented in foreign countries and manned by crews of foreign nationalities. The cost of their operation will be reduced to the standards of foreign shipping and foreign seamen will gain in the employment offered by their addition to the world's fleets.

On the other hand, the chief arguments for the subsidies are: First, a U. S. merchant marine on the high seas, serving American industries to and from every part of the world, is a protection to all U. S. business from certain competitive factors--especially from discrimination against U. S. exporters in foreign markets by foreign shippers. Second, In the event of an emergency growing out of economic or actual warfare, a merchant marine will be essential for the purpose of conducting foreign trade and especially of ensuring American imports. Third, in case the U.S.A. are drawn into an actual war, the Navy would need a merchant marine as an auxiliary. Fourth, the maintenance and replacement of a merchant marine provides work for seamen, dock workers, shipyard workers, steel workers and a host of trades. Fifth, the maintenance of a marine keeps shipbuilding alive -- the 'know-how'. It also

*44 P.35. Marine Engineering & Shipping Review, June, 1951.

keeps alive the knowledge of how to run a shipping service, which is a complicated affair. Sixth, the prestige of the U.S., its tradition at sea, its pride, its flag, all but prohibit the thought of allowing the American Merchant Marine to vanish forever from the seas. The National Federation of Shipping Inc. reported in May 1949 that while the world passenger fleet as a whole was 44% under pre-war capacity, the U. S. was down 51.6%, despite plans for superliners, the U.S.A. building only 12% of the new tonnage on order or under construction throughout the world.

Shipping has been a troublesome aspect of international relations throughout history. The pages of diplomacy are filled with conflict of nations at sea. All too frequently, these ambitions have led to hostile economic policies and even to war. The position which ocean shipping occupies in relation to national security has made, more and more, a concern of government. There has been considerable criticism of the American subsidy program in foreign countries, but nearly all countries in the world have paid subsidies at one time or another and subsidies are in effect merely an inverted tariff, and finally, American payments are designed only to equalize American cost with those of competitors.

President Roosevelt asserted in his message to Congress on March 4, 1935 in discussing the question of the desirability of an adequate American Merchant Marine:

"To me, there are three reasons for answering this question in the affirmative. The first is that in time of peace, subsidies granted by other nations, shipping combines, and other restrictive or rebating methods may well be used to the detriment of American shippers. The maintenance of fair competition alone calls for American flag of sufficient tonnage to carry a reasonable portion of our foreign commerce.

"Second, in the event of a major war, in which the U. S. is not involved, our commerce in the absence of an adequate American Merchant Marine, might find itself seriously crippled because of its inability to secure bottoms for neutral, peaceful foreign trade.

"Third, in the event of a war in which the U.S. itself might be engaged, American-flag ships are obviously needed not only for naval auxiliaries, but also for the maintenance of reasonable and necessary commercial intercourse with other nations. We should remember lessons learned in the last war." *45

To effectuate the carrying out of the American shipping policy, the law provided for the creation of an agency to be known as the United States Maritime Commission, which was to consist of five members appointed by the President with the consent of the Senate.

Perhaps the most important single power of the Commission was the discretionary authority to determine what trade routes and services were "essential for the promotion, development, expansion and maintenance of the foreign commerce of the U. S."*46 The only standards set to guide it were that it should act as a prudent businessman would in the conduct of his business with the added consideration of the intangible benefits of such trade routes in promoting foreign

*45 House Committee on Merchant Marine & Fisheries, Hearing to Develop on American Merchant Marine, 1935, p. 1093-5.

*46 Public Law No. 835, 74th Congress.

commerce and aiding national defense. In other words, the Commission was given complete authority to determine what foreign trade routes were desirable, which meant in effect what subsidies should be granted.

The first comprehensive statement on the American post-war shipping policy came from Rear Admiral Emory S. Land, War Shipping Administrator, in his Maritime Day address in Alameda, California.^{*47}

Admiral Land proposed a seven-point program as follows:

- "(1) Private ownership, private operation and private construction.
- (2) Ship American; Travel American.
- (3) Our goal is to ship a liberal percentage of our overseas traffic in American bottoms.
- (4) Set up proper routes, lines and services with a minimum of American competition as foreign flags will furnish all possible competition necessary.
- (5) Study seriously indirect lines, as other leading maritime nations have done.
- (6) Modify previous Maritime Commission policy by thoroughly considering and adopting tramp shipping.
- (7) Maintain for the duration the present policy of holding title to new ships."

Some of the points are merely a reaffirmation of policies under the Act of 1936; others go far beyond previously set aims, particularly the invitation to enter the hitherto undeveloped fields

^{*47} Maritime Engineer & Shipping Review, Vol. 48, No. 6, June 1943, P. 172.

of indirect lines and tramp shipping -- presumably with the active support of the Maritime Commission and its subsidy funds.

Admiral Land elaborated his program with the following remarks:

"We should definitely earmark for U.S. commerce, under U. S. Flag, a modern fleet of from 15 to 20 million deadweight tons (10 - 135 million gross tons)... We should so set our sight as to hold this fleet of about 20 million deadweight tons but in addition, though no necessary from a world economic point of view, it is very desirable that we lay our plans so that our best shipyards... should be able to proceed with a nucleus of construction of new ships even though we may build up a reserve... It appears probable that we will have an excess of ships... we should so plan as to retain not only a proper merchant marine fleet but also a reasonable reserve even though such action might be uneconomical at the particular time."

As to the exact extent of the "liberal percentage" of American foreign trade to be carried in American vessels, an at least semi-official explanation has been given in the Foreign Commerce Weekly, a Department of Commerce publication, in rather cautious and non-committal terms:

"... Some shipping men hold for 50 percent on the ground that a nation's ships should carry one-half of the trade it creates. Others consider this too high. They say certain nations producing little industrially and thus creating a small share of trade depend upon their shipping for an important share of their national income. These nations would be seriously hurt if the U. S. carried much more of its foreign trade it is said."*48

*48 Foreign Commerce Weekly, Vol. 11, No. 6, May 8, 1943, P. 7.

In an address before the Marine Society of New York in 1943, Frederick E. Hasler, President of the Chamber of Commerce of New York, states:

"If this nation can afford to build and operate 10 or 20 million tons of shipping to help carry on a war, it can equally well afford to maintain the greatest merchant marine in peace time..... We subsidize agriculture and silver mining and, through a protective tariff, manufactures. Why not continue to subsidize merchant shipping?"*49

Frank J. Taylor, President of the American Merchant Marine Institute, said on February 20, 1944:

"This nation should always have a merchant marine built, owned and manned by Americans; a merchant marine second to none."*50

The sentiment for a large post-war merchant fleet centers in the ship operators and the Maritime Administration. As the agency responsible for the American merchant fleet, the Administration will always carry great weight with Congress and within the Administration on shipping policy. The National Federation of American Shipping has been organized to combine the most important shipping organizations. Some exporters have taken exception to this view, having an interest in cheap shipping and seeing the possible loss of markets if foreign countries can no longer earn dollars by shipping

*49 N. Y. Times, Jan. 12, 1943.

*50 N. Y. Times, February 21, 1944.

operations, but their views have not been strongly or systematically expressed.*51

In 1949, several groups of ship operators proposed bills amending the Merchant Marine Act of 1936 to stimulate ship construction and foster perpetuation of American shipbuilding skills and to add incentives designed to encourage fleet expansion. The National Federation of Shipping of the U.S.A. has stressed these salient points: clarification of the ten Maritime Commission's authority in computing realistically the differential in construction costs in American and foreign shipyards; the need for accelerated fleet depreciation privileges permitting the balancing of high-income shipping years against those of depression periods; a limit on the liability in which a ship purchaser may be held freeing the company of the threat of a deficiency judgment and a reduction of the interest rate paid by ship owners on deferred payments. The Association of American Ship Owners, representing the opinion and interest of unsubsidized operators, agreed on the necessity of rewriting the 1936 Law. They were particularly concerned with the request for accelerated depreciation privileges because the subsidized industry, which receives tax exemption on earnings deposited in reserve funds for future construction, have an unfair advantage over the non-subsidy concerns, and that accelerated depreciation would, in fact,

*51 N. Y. Times, September 5, 1943.

remove this inequity.*51a

The Act of 1936 definitely recognized the need of an adequate merchant marine to promote American commerce and to provide for the national defense. It embodied a plan for equalizing foreign building and operating cost so as to put the American ship operator on a parity with his foreign competitor. The Act was designed to bring about the adoption of sound business practices on the part of shipping companies and the provision of adequate cash reserves for ship replacements and for tiding over lean years. It laid the groundwork for a carefully controlled ship-building program and for the adaptation of that program to the special requirements of national defense, and it laid down as fundamental the principle that American Merchant Marine should be privately owned and privately operated.

In a word, to maintain an adequate fleet of merchant marine for fostering national defense and developing commerce by construction and operating subsidies is the aim of American ocean shipping policy. Ships built in the U. S. and manned by trained crews of American citizens are priceless in time of emergencies, when a strong merchant marine is imperative to the national defense and foreign trade of the U.S.A. which was proved in the World War II. The value of the Merchant Marine Act of 1936 should be greatly appreciated.

*51a N. Y. Times, June-July 1949.

CHAPTER V

CONSTRUCTION-DIFFERENTIAL SUBSIDY UNDER
THE AMERICAN OCEAN SHIPPING POLICY

American shipping in the international market must meet foreign competition both in the procurement of equipment and in their operation. Because ocean shipping cannot be brought under the protection of the tariff system, shipping subsidy system has been adopted to lower the American cost through equalizing government aid. Shipping subsidies, although of a different form from protective tariff, operate in much the same manner and have the same general effect with respect to United States shipping engaged in international commerce as do the protective tariffs with respect to many of American domestic industries.

In the years prior to 1936 the American foreign trade fleet was weak. American ships carried less than one-third of exports and imports. There was substantial public criticism and controversy because of the indirect character of the government-aid system and the lack of relationship between the amount of mail transported and the actual compensation paid.

An American operator is enabled by the construction-differential subsidy provisions of the 1936 Merchant Marine Act to obtain a new vessel built in an American shipyard at the same cost as a vessel of similar capacity and utility purchased by his foreign competitor which is built in a foreign yard. The excess of the American cost over the foreign cost is called a "Construction-Differential Subsidy".

Suppose that an American citizen, either an individual, or a shipping company that can establish the fact of its citizenship by showing that at least 75 percent of its stockholders are citizens, wishes to have a ship built in an American shipyard for use in the foreign trade. He has the right to apply to the Commission for aid in obtaining such a ship. The law provides that he may arrange through the Commission for the building of his ship, and if it is to be used in a service, route or line that the Commission finds is essential to American foreign commerce.

The U. S. Maritime Commission was authorized to approve if it decided, as quoted from Section 501(a) Act of 1936:

"That (1) the service, route or line requires a new vessel of modern and economical design to meet foreign flag competition and to promote the foreign commerce of the U.S.; (2) the plans and specifications call for a new vessel which will meet the needs of the service, route or line, and the requirements of commerce; (3) the applicant possessed the ability, experience, financial resources and other qualifications necessary to enable it to operate and maintain the proposed new vessel in such service, or on such route or line, and to maintain and continue adequate service on said route or line, including replacements of worn-out or obsolete tonnage with new and modern ships; and (4) the granting of the aid applied for is reasonably calculated to carry out effectively the purposes and policy of this Act."

Before final approval the plans and specifications of the new vessel were to be submitted for examination to the Navy Department which could suggest such changes as it deemed necessary to render the vessel easily convertible into a naval or military auxiliary.

Two methods for distributing the subsidy were provided in the Act, but in all probability the only one of importance was that which retained the construction loan principle. Under this plan, the Commission was to enter simultaneously into contracts with both the company desiring the new vessel and the shipbuilder engaged to construct it. All payments to the shipbuilder were to be made by the Commission which was to sell the ship to the purchaser at a price estimated by the Commission to equal the cost of building the vessel in a foreign shipyard.*52 The applicant was required to make a cash payment to the Commission equal to 25 percent of the construction cost of the vessels paid by the Commission (additional costs for national defense features were excluded from this calculation). The balance of the purchase price constituted a loan to be paid within twenty years after delivery of the vessel on the basis of equal annual instalments. Interest on this loan was to be computed at $3\frac{1}{2}$ percent per annum. The Commission was authorized to purchase the obsolete vessel to be replaced at a price not exceeding its cost to the owner less depreciation on a basis of twenty-year life for the ship, less obsolescence, such sum to be applied as part of the purchase price of the new ship. If necessary, the Commission was thus to sell the old vessel for scrap. It gave the ship companies an opportunity to dispose of their worn-out equipment at a figure considerably in excess of what they could obtain by sale in the open market.*53

*52 Public Law No. 835, 74th Congress.

*53 ~~House Report No.~~ 1423, 81st Congress, 1st Session, 1949, Inquiry Into the Operation of the Maritime Commission.

In addition to a clause allowing the Commission to reject unreasonable bids and to use navy yards for construction purposes, the Act contained several other provisions designed to curb excessive profits of shipbuilders. All books and records of the ship-building company and its affiliates were to be open to inspection by the Commission. The ship builder was to be required to file a complete report of his costs, including overhead, and his profits made on contracts under the Act. All profits in excess of 10% on the contract prices were to be recaptured by the Commission and this recapture clause was to apply to sub-contracts in excess of \$10,000.*54 In computing his profits on these contracts, the ship builder was not to charge as cost any salary in excess of \$25,000 a year. Finally, the Commission was to attempt to determine that the ship-builder paid a fair and reasonable price for materials used in the contracts. This last provision, needless to say, involves almost insuperable difficulties.

On the basis of experience, this construction-subsidy policy appears to allow some flexibility in the terms and amounts of the contracts, to regulate certain aspects of the contractors' operations, to assure a reasonable amount of permanence in the relationship and to

*54 Public Law No. 835, 74th Congress, Section 505.

recapture a part of the earnings over a fair return. Mere grant of money, followed by laissez-faire policy is most unsatisfactory.

The purpose of Congress in authorizing the Maritime Commission to make such construction-differential subsidy determinations was stated by the House of Representatives Merchant Marine and Fisheries Committee as follows:

"The object of the Merchant Marine Act is to put our operators on a comparable basis with foreign operators. Any foreign operator, unless restricted by national policy, in which he receives concession by his own government, has available to him a world-wide building market."

Section 210, in describing the objectives of a long range program for the replacement of and additions to the American merchant marine, includes as one objective the following:

"... In planning the development of such a fleet the Commission is directed to cooperate closely with the Navy Department as to national defense needs and the possible speedy adaptation of the merchant fleet to national defense requirements."

Section 212 authorizes and directs at the Maritime Commission:

"(b) to study and cooperate with vessel owners in devising means by which....(2) there may be constructed by or with the aid of the United States express-liner or superliner vessels comparable with those of other nations, especially with a view to their use in national emergencies and the use in connection with or in lieu of such vessels of trans-oceanic aircraft service....."

The Government will pay for national defense features in excess of commercial requirements where they are added to the plans and specifications at the suggestion of the Navy Department made after the plans and specifications at the suggestion of the shipping operators have been submitted to the Secretary of the Navy for his approval. The purpose of referring the vessel plans and specifications to the Navy Department is to assure the construction of a commercial vessel with commercial features which will be "....suitable for economical and speedy conversion into a naval or military auxiliary, or otherwise suitable for the use of the United States Government in time of war or national emergency." Many details of the vessel may be subject to Navy modifications or suggestions which do not adversely affect commercial operations or add materially to the cost of such commercial vessel. These are required by the Commission but the full cost thereof is not absorbed by the United States.*55

Modern war requires a large number of vessels for the carriage of troops, for the carriage of military and other cargo, and for use as naval or military auxiliaries. There can be incorporated in a commercial vessel features which will have little or no commercial value in the commercial operation of the vessel and may in fact be a commercial detriment, but which will greatly increase the speed and the economy

*55 Ocean Transportation by Abraham Berclund, Longmans, Green & Co., N.Y. London Toronto, P. 354-355.

of converting the vessel to naval or military use. Such features are features for national defense uses which the Act provides shall be paid for by the American Government. National defense requirements for any anticipated future emergency call for a large number of vessels which can be converted to troop carriers with as little conversion delay and expense as possible.*56

Construction subsidies, with the exception of those national defense features, are designed to equalize the domestic and foreign costs of construction. Owners are thus theoretically to be placed on an equality with those of foreign nations so far as vessel prices are concerned.

The American Government experienced thus far great difficulty in the allotment of differentials. The amount of money should be given under a construction-subsidy contract, as envisioned in the 1936 Act. Considerable trouble has been encountered in obtaining reliable and adequate cost data in foreign shipbuilding centers. In initiating a service, however, it has been difficult in practice to secure responsible and informed bidders. The process of determining foreign costs is a difficult and complex task, perhaps impossible of accurate accomplishment. At best, only a rough approximation of the construction differential can

*56 Section 502(b) Merchant Marine Act of 1936

Also P.33, The Maritime Subsidies, John Nicolson, 22 E. 29th St., N.Y.C.

result from comparison between foreign and domestic cost. In preparing estimates of foreign costs variations have been discovered in the prices of identical material. The cost of vessels, the expense of maintaining the service and the amount of patronage, all have been at times badly estimated. Foreign shipyard practices may differ greatly from those in the United States with respect to efficiency, methods of construction, and anticipated profits. A comparison of contract prices as between foreign and domestic builders is not necessarily indicative of a ship-building cost differential as it is possible that prices quoted on a certain vessel may be relatively high in one yard and low in another due to specialization. There is no guarantee, moreover, that the yard which gets the contract is the low bidder. In some cases the foreign yard may bid high and finance part of the cost of construction. In other cases the yard and operating companies may be parts of one organization. The U. S. Maritime Commission announced August 25, 1949 that their own technical experts abroad will gather first-hand information on foreign ship-building costs.*57 Revision of the differential-subsidy provision of the statute along clarifying and practical lines would undoubtedly be helpful in dispelling some of the confusion.*58

Outside of these difficulties, which vary from month to month, and according to the type of vessel, there is always the possibility of

*57 N. Y. Times, August 26, 1949.

*58 P. 25, House Report No. 1423, 81st Congress, 1st Session, G.P.O. 1949, Washington, D.C.

government interference. It is obvious that much of the data required to compute a differential is held confidential by builders, operators, and owners. Still more confidential is the extent and type of aid granted by some foreign governments. The cost quoted for a vessel may be a net cost after some government subsidy has been paid in the form of grants, tax exemptions, relief payments to workmen, or any one of the scores of other methods used to aid shipbuilding. Even if the quoted figure is the true cost, it may later be reduced by payments in the form of construction bounties, interest contributions, and loans which may or may not be repaid. Moreover, in some cases, vessels are constructed abroad in exchange for goods rather than currency on the so-called barter basis.

After the mass of data of this nature obtained for a number of countries has been digested, the supposedly simple matter of translating foreign costs into American dollars is encountered. The currencies involved may have fluctuated greatly in the several countries involved may be both in relation to each other and to the dollar since the cost figures were obtained. Moreover, one country may be operating under a series of exchange rates each applicable to a different type of transfer of funds. The official exchange rate may be 10 foreign units to the American dollar, while it may be possible to buy unofficially at the rate of 15 to the dollar. Again, because of exchange controls, it may be possible to purchase "blocked" currency at a heavy discount and to use

this currency in payment for vessels. Under such circumstances it becomes very difficult to discover the going rate of exchange from any of the official or generally recognized exchange rates, since each purchase may be a matter of individual negotiation. Thus it can readily be appreciated that the determination of foreign construction differential costs must in the last analysis depend upon the opinion of reliable experts. As experience in the administration of this feature of the law is acquired, it may be expected that the margin of error will decrease. The Commission did its best to obtain private building commitments. It secured legislation reducing the required down payment from 25 percent of the domestic cost of construction to 25 percent of the foreign building cost. Another amendment, adopted in 1939, permitted the Commission to accept obsolete vessels in part payment for new ships. In addition, the Commission adopted a liberal policy in according construction-differential subsidies. Under the law, it could grant differentials up to 33-1/3 percent of the American building costs, and up to 50 percent if four of the five members approved. In practice the subsidies on cargo and combination vessels built under Title V amounted to between 44 and 48.82 percent.*59

Construction differential subsidies assumed by the Maritime Commission and Maritime Administration under the 1936 Act amounted to

*59 U.S.M.C. 1939 Report, P. 45.

approximately \$420,154,000.00 for the period 1939 (when the first ships built under the act were delivered) to 1950.

As quoted from the statistics, Appendix C of "Shipping Subsidies", published by the National Federation of American Shipping, Inc., Washington, D. C., it shows:

"United States Government Expenditures for Merchant Marine Support
(000's dollars)

Year	Construction Aid		
	Accrued	Recaptured	Net
1939	\$ 1,193	\$ 1,086	\$ 107
1940	22,846	13,666	9,180
1941	55,071	20,320	34,751
1942	39,267	2,843	36,424
1943	51,321	6,071	45,250
1944	19,968	-	19,968
1945	36,538	-	36,538
1946	75,677	-	75,677
1947	73,642	-	73,642
1948	6,841	-	6,841
	<u>\$382,364</u>	<u>\$43,986</u>	<u>\$338,378</u>
	Less Adjustments		-267,319
			<u>\$ 71,059</u>
	(Annual average \$6,460)		
1949	\$ 37,790	-	\$ 37,790
1950	-	-	-
	<u>\$420,154</u>	<u>\$43,986</u>	<u>\$108,849"</u>

The grant of a construction subsidy will not itself entitle the applicant by implication or otherwise to an operating subsidy; therefore, if an applicant is building the vessel solely on the assumption that an operating subsidy will also be given him, he should state

in his application for a construction subsidy is contingent upon the grant of an operating subsidy also.*60

President Truman's budget for ship construction subsidy in 1952 fiscal, provides \$105,000,000 and an additional \$20,000,000 for improvement of existing vessels.*61

Of all the federal subsidies paid, that to ship operators is the only one subject to recapture. Shipping is the only industry which returns substantial amounts to the U. S. Treasury. Construction subsidies are recaptured in effect when the vessels for which they are provided are taken over by the government during the course of construction or are requisitioned for public use after being placed into service. The net cost of such construction subsidies, that is, the benefits that actually accrued to the ship owners and were utilized to obtain parity conditions with foreign competitors, amounted to \$71,059,000 over a period of eleven years.

*60 P.21, The Maritime Subsidies by John Nicolson, N. Y.

*61 New York Times, 1/22/51.

CHAPTER VI

RECENT DEVELOPMENTS OF SHIPBUILDING IN THE U.S.A. UNDER THE U.S. GOVERNMENT CONSTRUCTION SUBSIDY POLICY

Shipbuilding costs in U. S. shipyards are among the highest of the maritime nations of the world because of high wages and high material costs. Moreover, because the number of ships in each class is relatively small in times of peace, it is not possible to apply in shipbuilding the methods of mechanized mass production which are so conspicuously successful in reducing costs in other American industries. In normal times, no dependence may be placed by the industry on obtaining business by building ships for foreign countries. It is interesting to note, therefore, that material shortages and the capacity shipbuilding programs have forced nations which require early delivery of ships to turn to the U. S. for the filling of their needs. With respect to shipbuilding facilities, surplus yards of permanent construction have been or are being laid up in a state of preservation and will be available should emergency require an expansion of the shipbuilding industry. In the case of personnel, however, it is important in this country not to lose a minimum industry capable of wartime expansion. Managerial know-how, technological and design staffs and specialized skilled trades must be preserved at some level of employment. It will be impossible for the American Merchant Marine to build up a force of adequate number of skilled personnel in the emergency of preparation for war should the valuable shipbuilding men be not kept in the period of peace.

As quoted from an article on U. S. shipbuilding crews from the New York Times, July 6, 1950:

"On April 1, 1950, the eighty-one private shipyards listed a total of 44,575 men engaged in ship construction and ship repair. Of this number 21,730 were working on construction and 22,845 were on repair jobs. This is the lowest employment level since December 1933. During the peak building period of the war, employment in private yards topped the 1,300,000 mark."

It is evident that some measure of American government regulation will be required to achieve this. Just how extensive the need for this regulation may be, will depend to some extent upon the rate at which construction to balance the merchant fleet is carried forward, but even more importantly, upon the response of the shipping industry to incentives for the orderly replacement of their existing tonnage. One means of regulation which has the advantage of minimizing government interference in private industry lies in the spacing of military and naval construction work in private shipyards in such a manner as to equalize fluctuations in civilian construction demands.

Until the flow of shipbuilding contracts to the nation's shipyards builds up to a reasonable level, it is important that such new construction as is in demand be distributed, and not concentrated in one or two yards. Not only bid prices, but also the current workload, the availability of facilities, the geographic location, and other conditions will have to be taken into account in determining this distribution.

The building program contemplated will include groups of ships of the same design. Provisions for the distribution of such a group to several yards is contained in Section 502 (f) of the Merchant Marine Act

of 1936. Under this section the interests of the shipping company purchasing the vessels are protected by the requirement that any additional cost which may result from building the ships in two or more yards be borne by the government as a national defense measure. In administering this provision, the unit-sales price to the operating line should be determined on the basis of the low responsible bid for the construction of the maximum practical number of ships of each group, if possible the entire class in a single yard rather than on bids for arbitrary smaller divisions of the class.

In prosecution of such a program, it is important that the competitive character of the industry, expressed in efficiency of the operations and in the close control of costs, be preserved. No guarantee of survival against poor management can or should be extended to any shipyard.

In order to determine the construction needs of the post-war fleet, the Maritime Commission has worked out a long-range dry-cargo shipbuilding program which balances available ships against probable requirements. According to these studies, a total of 1,044 vessels of 11,400,000 deadweight tons will be needed to serve adequately the foreign and domestic trade of the U. S. About 900 vessels at present in operation are considered suitable for these needs, leaving some 144 vessels to be built in the next ten years, of which 58 would be combination passenger-cargo vessels and 86 freighters with betterments to 9 vessels, enabling

them to accommodate 50 passengers each, to be carried out. This would result in a passenger fleet of about 96 vessels of 33,000-passenger capacity compared with 127 active vessels of 38,000 capacity in 1939. Cost of this program to the U. S. Government would probably not exceed \$180,900,000.*62 In view of the tanker shortage, the construction of a number of modern high-speed tankers has been augmented.

To prevent the fleet from becoming obsolete all at one time, an orderly replacement program is necessary. The Commission has suggested a 25-year long range program which would provide for building about 25 ships a year for the first 10 years and 64 ships for the succeeding 15 years.*62

The first period would be devoted primarily to the construction of new vessels to active balance in the fleet, but would also include replacement of existing vessels as they become over-age. The second period would be devoted primarily to a systematic replacement of vessels as they become over-age, since by that time most of the existing fleet will be 15 years or more of age. Vessels which are replaced may be sent to reserve fleets to take the place of those least useful in an emergency.

The most serious defect in the American Merchant Marine is lack of passenger ships. This situation puts the U.S.A. at a serious competitive disadvantage in the international travel field in peacetime and

*62 Letter of Transmittal of U.S.M.C. 12/4/47 to Congress.

constitutes a great danger should a national emergency arise for passenger ships could become troop and hospital ships in time of war.

In 1939 there were 127 passenger vessels; up to August 1951 there were only 49. Out of the total 3,500 ships, the U.S.A. will have a passenger capacity of less than 50 percent of the 1939 fleet.*63 Great Britain has 279 passenger ships out of 2,605. It is also necessary to provide the U.S.A. with enough troop ships to meet any national emergency. The Armed Services have estimated that the U.S.A. needs about fifty new ships with capacity ranging from 2,000 to 10,000 men. It is of the same importance to keep the nation's shipbuilding plants and preserve ship construction and repair skills.

It was the duty of the Maritime Administration, under the Merchant Marine Act, to study and to cooperate with vessel owners in devising means whereby there might be constructed "by or with the aid of the other nations, especially with a view to their use in national emergency" the then Maritime Commission early came to the conclusion that it would be unwise for the U.S. to attempt to compete with nations favored by lower costs with respect to luxury, size and speed, and that participation in international trade should be limited to the operation of vessels necessary to the development of American commerce and the preservation of facilities for defense. This meant avoiding the building of extremely large, extremely

*63 Address of Vice-President Alben Barkley to the launching party of the S.S. President Jackson of the American President Lines. N.Y. Times, Shipping Section, June 27, 1950, also N. Y. Times, 8/22/51.

fast or inordinately luxurious vessels. Commercially, the then Commission believed that the luxury liner would be economically unsound.

The tendency in shipbuilding industry in the U.S.A. is of a practical and common-sense fleet, such as the superliner which is in construction in Newport News, Virginia.

Safety and efficiency are the two guiding factors in American shipbuilding industry. The U. S. and Great Britain have been leaders in effecting toward minimizing the risk to ship and cargo and lessening hazards for crew and passengers. Highly modernized cargo-handling appliances, -- powerful electric winches; cargo booms arranged for rapid service of the ship's holds; hatches designed to facilitate loading and unloading in the shortest possible time; deep tanks for liquids and other special types of cargo that must be sealed off from other commodities and, in many cases, also refrigerated spaces.

The long range program has been as definitely standardized as possible; C-1 of 9,100 deadweight tons and 14.5 knots speed, the C-2 of 10,700 tons and 16 knots and the C-3 of 12,000 tons and 17 knots.

The Newport News Shipbuilding and Drydock Company of Virginia started the construction of the 48,000 gross ton superliner on April 7, 1949. The construction work will be completed around April, 1952. It took more than 1,250 days for construction and outfitting. The first trip will be in July 1952 from New York City.^{*64} The approximate adjusted price

^{*64} 12/3/51 N. Y. Times.

basis in the amount of \$67,350,000 permits the yard to charge off certain cost increases such as for steel and labor. It was understood that this basis was more acceptable to the American government than a flat bid, since the latter would necessarily include a wide margin to protect the yard against cost variations. It resulted the estimate budget in the amount of \$70,373,000, and the share of the U. S. Lines will be \$28,056,525, with the government taking care of the balance through a construction shipping subsidy and payment for incorporating several national defense features.*65 American naval authorities are anxious to have the ship built for potential transport, and adding defense equipment in the specifications. Defense features include extra speed, estimated at 34 to 35 knots, to be well over the best of the Queen Mary, the present record holder. Other items are separated engine rooms, each an integral unit that can be operated independently if the other fails for any reason, parallel piping systems for safety, special hull protection, special refrigeration equipment and extra water capacity. The ship, according to details that have been released previously, 990 feet long, manned by a crew of 1,000, could carry 14,000 troops in wartime and provide sufficient fresh water for troops over long distances without stopping. Her fuel capacity and economy of operation also

*65 New York Times, 4/7/49.

increase her range. In peacetime the liner would carry 2,000 passengers on a deluxe basis, nearly the capacity of the world's biggest ship, the Queen Elizabeth, which is some 35,000 tons larger than the proposed new American vessel. The Queen Mary and Queen Elizabeth are listed at 81,235 and 83,673 gross tons respectively. S.S. America, the largest U. S. flag ship is 26,314 gross tons. Powered by high pressure, high-temperature steam propulsion equipment, the ship could travel 10,000 miles without refueling.*66 She would have a 48,000 cubic foot cargo refrigeration space as well as 100,000 cubic feet for automobiles and other express cargo. In proposing the ship the United States Lines has counted on a considerable special subsidy for the defense qualities in addition to the regular construction subsidies. Such speed would not be commercially economical, and would be installed only for the additional value as a speedy naval auxiliary.*67

S.S. President Cleveland and S.S. President Wilson of the American President Lines are now under operation in the Pacific area. The U. S. Navy has benefited as much as the American Merchant Marine since these two liners entered into service in 1947 and 1948. These new vessels have been equipped as a potential wartime auxiliary as well as efficient

*66 Marine Engineer & Shipping Review, August 1951, P. 38.

*67 N.Y. Times, March 25, 30 and April 7, 1949, Shipping Section.

passenger-cargo carrier. Virtually all of the construction details of these two ships were planned with much attention to her possible use by the Navy as to her attractiveness to the traveling public. Part of the ships double purposes of construction is her unique below-decks arrangements which provides two completely separate and entirely self-contained engine rooms, where huge General Electric turbine generators supply a maximum of 20,000 horsepower; cross connection of two engine rooms enable both "wheels" to produce 80 percent of normal speed from one power plant in case extensive damage makes either room unusable, for the wartime uses. However, under normal operation, each engine room powers one of the vessels' propellers. A further security measure, usually only found on naval vessels is dynamic braking control, which, should the danger of collision arise, enables the ship to go from full speed ahead to full speed astern in the shortest possible time. Following the modern practices, each ship has been given 35 steel doors that will seal off the entire vessel into 14 watertight compartments in the event of collision. These doors can be operated either electrically or manually and any two of these compartments can be flooded completely without endangering the ships buoyancy. The newest techniques and materials of ship construction render the new liners as completely fireproof as is possible. Most partitioning in first class quarters consists of a two-inch thickness of unburnable fibreglass enclosed by steel plates. Steel faced marinite, another fire-proof material, is

used in partitioning the balance of the living quarters abroad. Other precautionary devices employed throughout the living quarters include electrically operated firescreen doors that close off passageways and divide the ship into numerous fire zones, each with its own fire-fighting equipment. Almost every modern aid to safe navigation, including radar, Loran, radio direction finder and an echo depth sounder that gives a visual and recorded reading of the depth of the water beneath the ship's keel. They are 23,500 gross ton each. Each could carry 550 passengers, and the length of the ship is 610 feet. Each cost around \$22,000,000.*68 On August 18, 1948, the U.S.M.C. authorized the award of the construction contract for three combination passenger and cargo vessels of the American President Lines to the N. Y. Shipbuilding Corp. at the bid price of \$10,671,000 per vessel. The vessels are designed to carry 188 passengers and 7,800 tons of cargo at a speed of 19 knots on a round-the-world route from New York City. A construction-differential subsidy amounting to 44.05 percent of the cost of the vessels has been granted.*69

The cost of the two fast 20,000 gross ton passenger liners, S.S. Independence and S.S. Constitution, is \$25,000,000 each.

*68 N.Y. Times, 3/20/48; also Marine Engineering & Shipping Review, June 1948.

*69 P.36-37, Inquiry into Operations of the Maritime Commission, House Report #1423, 81st Congress, 1st Session, G.P.O. 1949, Washington, D. C.

The American Export Lines had agreed to pay approximately \$11,900,000 each; the difference will be paid in the form of construction subsidy, which represents the variance in the cost of building the ships in this country and abroad. The government also financed the defense features incorporated in the liners.*70 Their specifications are: length 683 feet; breadth 89 feet; draft 30 feet; engine 50,000 horsepower. They will make 22.5 knots at cruising speed with a top of 26.8 knots. Each will make 15 round trips a year to Western Mediterranean ports, with a maximum of 28,000 persons. Actual capacity for each vessel will be 937 passengers with 314 in cabin class, 318 in tourist and 305 in third class. These new ships mean a boost to the shipbuilding industry, and the introduction of what may be a replenishment program for the merchant marine. One of these two ships, S. S. Independence, started her maiden voyage from New York City on February 10, 1951. She is the first luxury ship built in this country in more than ten years. The S.S. Constitution made her first trip in June 1951.

The American Export Lines had a contract with the government negotiated in 1948 for the construction of these two ships. The contract specified a construction subsidy at 45 percent. Above that amount of Federal assistance, authorized to bring parity to domestic

*70 N. Y. Times, 10/5/51

ship purchases in competition with foreign builders, was an additional amount to cover "defense" features in the ships authorized and ordered by military authorities.

On the question of construction differential subsidies, Mr. Slater, President of the American Export Lines, expressed before the Senate Committee April 1950 how American Export had sought reliable foreign shipping cost data. Since no European yard would give an American operator a reliable bid on a hypothetical ship, knowing such a ship would not be constructed abroad, American Export Lines obtained plans and specifications of a vessel comparable to its own new liners under construction in a Dutch shipyard. The company then asked for bids on this liner in American yards. The Dutch cost was between 43.5 and 45.5 percent of the American bids. American Export Lines obtained a 45 percent differential construction subsidy on its liners, plus a special allowance of 2.9 percent for defense features.*71

In addition to the above two passenger liners, the American Export Lines had four passenger ships rebuilt. S.S. Exclaibur, built by the Bethlehem Steel Company, commenced her maiden voyage on November 30, 1948; S.S. Excambion, S.S. Exochorda and S.S. Exeter also went into service in the same year. Built to American Export design, the vessels

*71 N. Y. Times, Shipping Section, April 25, 1950.

during World War II called by the company the "Four Aces" were requisitioned by the Navy and used as transports. Since their return, they have been completely rebuilt. Each has an overall length of 473 feet, a breadth of 66 feet and draft 27' 6". They are single screw turbine driven, and designed to operate 17 knots. Each will accommodate 125 passengers, crew of 131, general cargo spaces 392,000 cubic feet.

Excessive construction-differential subsidy is defection of sound American shipping policy. Of the instances cited above, the U.S.M.C. approved the application of the American Export Lines on August 9, 1948 for S.S. Independence and S.S. Constitution, the application of American President Lines for the construction of three combination passenger and cargo vessels on August 11, 1948, and the superliner of the United States Lines on April 7, 1949. All of these vessels were to be constructed under Title V of the Merchant Marine Act of 1936, as amended, with the aid of a construction-differential subsidy and with certain allowances made for national-defense features. The amount of the cost to be borne by the respective parties as published by the U. S. M. C. is as follows:

	<u>A.E.L.</u>	<u>A.P.L.</u>	<u>U.S.L.</u>	<u>Total</u>
<u>U.S.M.C.'s</u>				
<u>Share</u>				
Subsidy	19,564,830	13,838,700	18,225,270	51,628,800
Nat'l Def.				
Features	<u>3,352,600</u>	<u>600,000</u>	<u>24,060,514</u>	<u>28,013,114</u>
Total	22,917,430	14,438,700	42,285,784	79,641,914
<u>Applicant's</u>				
<u>Share</u>				
Comm'l				
Vessel	23,912,570	17,574,300	26,749,730	68,236,600
Nat'l Def.				
Features			<u>1,337,486</u>	<u>1,337,486</u>
Total	<u>23,912,570</u>	<u>17,574,300</u>	<u>28,087,216</u>	<u>69,574,086</u>
Grand Total:	<u>46,830,000</u>	<u>32,013,000</u>	<u>70,373,000</u>	<u>149,216,000</u> *72

The special report of the Comptroller General was made in 1949 which related to the construction of these six vessels and the sale of those vessels to private ship operators for approximately \$70,000,000. It contained serious charges of maladministration and excessive expenditures of public funds alleging "irregular procedures, inaccurate calculations and unjustifiably liberal interpretation of statutory language". The report indicated "not less than \$25,000,000 must be considered as excessive.....It is evident, however, that most of these features were requested by the applicants for commercial use and accordingly, should have been considered as part of the cost of the vessel in the

*72 P.31. House Report No. 1423, 81st Congress, 1st Session
G.P.O. 1949, Washington, D. C.

computation of the subsidy rather than paid for as national-defense features".*73

In addition to the passenger ships already in operation or construction, a proposal to build two giant one-class trans-Atlantic passenger ships larger and faster than any commercial ship afloat was presented to the Federal Maritime Board for approval on March 1, 1951 by Paul W. Chapman, President of Liberty Liners, Inc. and former President of the U. S. Lines. Preliminary plans of the new superliners have been prepared by Theodore E. Ferris & Sons, Naval Architects, New York. The tentative dimensions adopted for these ships are: Length, overall 1,254 feet; beam 144; depth 103' and draft at normal load 38'. Propelled by four screws driven by double-reduction geared turbines, designed to develop 280,000 normal shaft horsepower, the vessel will be capable of a sustained sea speed of 34 knots.

Designed to place two-week European vacations within the reach of Americans of moderate means, the vessels will each have accommodations for about 9,000 passengers and a crew of 1,600. At least 20,000 troops could be carried if used as transports in time of emergency. The top deck has a clear length of nearly 800' and would be available for carrying airplanes.*74

*73 P.30. Appendix of House Report No. 1423, 81st Congress, 1st Session, G.P.O. 1949.

*74 P.44. Marine Engineering & Shipping Review, May, 1951.

The vessel, known as C-3-S-DX1, has been planned as a typical cargo carrier by the U. S. Maritime Commission for use in future emergencies. The design calls for a vessel 477 feet 6 inches long, with 66 feet beam, a loaded draft of twenty-eight and a half feet, and gross tonnage of 8,800. Propulsion machinery will be of the geared turbine type, with a normal output of 12,500 shaft horsepower, giving the vessel 18.5 knots at a sustained draft of 27 feet. The hull will feature a curved raked stem and a cruiser stern. The freighter will carry 10,500 tons of cargo in five holds, three of the holds forward and two aft of the machinery space. The cargo compartments, with a capacity of 553,400 cubic feet, will be served by cargo booms mounted on the two masts and three kingposts. Manned by a crew of 52 officers and men, the vessel also will carry 12 passengers in six large staterooms on the boat deck. Passengers, officers and crew, are to be quartered in the midship house and outside rooms have been planned for everyone. Mechanical ventilation will be used in all public accommodations and service spaces. The portions of the five hatches suitable for carrying dry cargo, including deep tanks, will be fitted with a ventilation system. The vessel will have a cruising radius of 14,000 miles. Also a prototype vessel is being planned.*75

*75 Ships of American Merchant Marine, U.S.M.C. 1950, P. 11.

The U.S.M.A. in February 1951 ordered 25 freighters fast enough to outrun submerged submarines. The new "Mariners" will be bigger than World War II Victory ships (560 feet, 12,500 tons, vs. 455 feet, and 10,850 tons) faster (20 knots vs. 15 knots) and will carry sub-spotting helicopters. The freighters will be built by four companies, Newport News Shipbuilding & Drydock Co., Ingalls Shipbuilding Corp., Pascagoula, Miss., Bethlehem Steel Corp.'s yards at Sparrows' Point, Md. and Quincy, Mass., and Sun Oil Co.'s Sun Shipbuilding and Drydock Co., Chester, Penna.

Up to October 1951, 35 of these 20-knot "Mariners" have been ordered. Due to steel limitations, 14 of them were suspended by order of the U.S.M.A. on October 15, 1951. These ships are being constructed under a special budget, as government ships, and will be allocated to private concerns for peacetime operations so they will be ready for military use if necessary.*76

The first delivery of these ships will be made in April, 1952; the rest will come along in rapid succession. The "Mariner" class was expected to match the post-World War II development of fast submarines. With all the latest navigational and protection devices incorporated in their construction, as well as what was said to be very high speed for

*76 N. Y. Times, July 7, 1951.

freighters, these ships were to be able to venture across the ocean in wartime without convoy protection.

With the placing of orders for the construction of 25 Marine Class fast cargo ships, the volume of shipbuilding in the U. S. A. reached a new peak of over 1,200,000 deadweight tons in 1951.*77

According to the construction report released by the Ship-Builders Council in 1949 more than 80 percent of the merchant vessels on order or under construction are oil tankers. The 74 ships contracted in 1949 include 63 tankers totalling 1,151,186 gross tons. Thirteen of these tankers are built for the Standard Oil Co. of N.J.*77

The Esso Zurich, first 26,555 deadweight ton "supertanker" being constructed for the Standard Oil Co.(N.J.) has entered service after a successful trial trip in January 1949 during which the new ship exceeded her designed speed of 16 knots.

These supertankers are single deck vessels of steel welded and riveted construction. All will have a haulage capacity 70 percent greater than the T2 type tankers built during the war, but their draft will permit them to enter most ports than can accommodate T2s. Their over-all length is 628' and they have a molded beam of 82½'. Each has pumping equipment capable of discharging 22,000 barrels an hour.

*77 N. Y. Times, Feb. 20, 1949.

The Zurich was built by the Sun Shipbuilding & Drydock Co. at Chester, Pa., which also is building three sister ships. Eight others of the same type were built by the Newport News Shipbuilding & Drydock Co.*78

Up to May 17, 1951, the Esso Shipping Co. completed the negotiations for the construction of more 26,800 deadweight ton super tankers, each capable of carrying 230,000 barrels of oil. These vessels are the latest of 18 large tankers ordered by the company in this country in the last three years. These tankers will increase the total fleet of Jersey to 130 ocean-going vessels of 2,350,000 deadweight tons.*79

In addition to eight tankers already under construction in the U.S.A., and another fifteen on order in British yards for American interests, the Maritime Administration is preparing to start a new \$100,000,000 national defense tanker-construction program for ten super-size tankers capable of out-running submarines at 20 knots or better.*80

So far as the American shipbuilding production in 1950 is concerned, 26 large vessels, each over 2,000 gross tons totalling 404,617 gross tons and 652,093 deadweight tons with propulsion machinery of

*78 N.Y. Times, Shipping Section, March, 1949

*79 N.Y. Times, May 18, 1951

*80 N.Y. Times, July 7, 1951

325,700 horsepower, were completed in 1950. They were constructed by seven shipyards, including 23 oil tankers, two bulk ore carriers, and one seagoing hopper dredge. Of the 23 tankships delivered, 20 were of the super-size class, each over 26,000 deadweight tons. The oil tanker "Atlantic Seaman" represented the largest of its class in the world with a deadweight tonnage of 30,155 tons constructed by the N. W. Shipbuilding Co. She is one of the highest speed tankers in operation achieving a speed of 18.09 knots loaded on her maiden voyage. The vessel is 660 ft. long overall, 85 feet beam, 45 ft. depth. The displacement at summer load draft is 39,664 tons. She is of 19,498 gross tons and has a cargo capacity of 257,529 barrels. Two sister ships, the "Atlantic Engineer" and the "Atlantic Navigator" were delivered in 1951.

The twenty super-size tankships completed during 1950 were of the now more or less standard design. Seven were of 26,500 deadweight tons, eleven of 28,500 tons, one of 29,950 tons and three smaller tankers of 16,563 tons. All of the 23 tankers completed are propelled by double-reduction geared-turbines, steam being supplied in all cases by two high-pressure high-temperature water-tube boilers.

The output of U. S. shipyards in 1950 was similar to that in 1949 in that most of the production was tankships. This represented the planning and ordering work accomplished in 1948 for 60 large tankers.*81

*81 Marine Engineering & Shipping Review, P. 36, February 1951.

**Number and Tonnage of Steel, Self-Propelled Merchant Vessels, Each Over 2,000 Gross Tons, Built Each Year
in United States Shipyards, Through the Period Including World War I, the Intervening Peacetime Years,
World War II, and Through 1950 (1914-1950)**

Year	Cargo			Passenger-Transport			Tanker			Total		
	No.	Gross Tons	Deadweight Tons	No.	Gross Tons	Deadweight Tons	No.	Gross Tons	Deadweight Tons	No.	Gross Tons	Deadweight Tons
1914	17	87,585	130,287	1	2,662	800	8	44,917	67,222	26	135,164	198,300
1915	17	88,262	131,388	3	19,987	12,600	4	20,088	29,862	24	128,337	173,850
1916	49	200,824	299,623	1	6,063	7,480	24	163,068	246,953	74	369,955	554,056
1917	92	413,602	627,002	1	10,206	9,940	32	218,312	314,225	125	642,120	951,167
1918	375	1,508,003	2,282,585	5	29,736	24,297	34	231,890	339,368	414	1,769,629	2,646,250
1919	679	3,086,207	4,680,321	2	10,285	10,650	42	273,392	394,713	723	3,369,884	5,085,684
1920	375	1,758,086	2,695,753	12	99,911	111,000	80	573,548	778,027	467	2,395,545	3,584,780
1921	57	316,909	485,418	22	256,436	243,380	104	786,081	1,158,053	183	1,359,426	1,886,851
1922	10	78,442	155,680	3	41,293	34,384	6	48,289	70,653	19	168,024	260,717
1923	9	67,582	110,410	7	33,947	26,110	2	15,513	23,420	18	117,042	159,940
1924	4	34,016	48,450	7	43,740	19,758	1	6,546	10,544	12	84,302	78,752
1925	9	65,066	92,200	3	18,850	11,470	-	-	-	12	83,916	103,670
1926	2	16,302	25,625	5	28,789	15,880	1	8,952	15,262	8	54,043	56,767
1927	9	72,936	104,300	7	51,294	27,459	3	30,470	49,752	19	154,700	181,511
1928	-	-	-	3	44,190	37,400	4	27,726	44,086	7	71,916	81,486
1929	5	32,603	49,200	2	23,614	19,800	1	9,096	15,180	8	65,313	84,180
1930	2	15,824	24,000	5	50,311	39,269	11	97,365	161,219	18	163,500	224,488
1931	-	-	-	9	108,968	85,413	5	41,981	69,528	14	150,949	154,941
1932	2	16,122	21,800	13	129,348	82,572	-	-	-	15	145,470	104,372
1933	-	-	-	4	49,527	32,367	-	-	-	4	49,527	32,367
1934	2	9,544	15,180	-	-	-	-	-	-	2	9,544	15,180
1935	-	-	-	-	-	-	2	19,022	29,760	2	19,022	29,760
1936	-	-	-	-	-	-	8	63,428	104,860	8	63,428	104,860
1937	-	-	-	-	-	-	15	121,852	191,929	15	121,852	191,929
1938	6	39,196	56,100	-	-	-	18	142,170	227,982	24	181,366	284,082
1939	14	91,560	128,484	3	30,063	20,436	11	119,429	193,112	28	241,052	342,032
1940	31	227,275	334,660	6	68,943	61,222	16	148,509	238,352	53	444,727	634,234
1941	61	423,022	597,943	6	58,107	56,515	28	267,979	434,039	95	749,108	1,088,497
1942	652	4,678,880	6,842,689	11	101,847	81,290	61	612,121	982,381	724	5,392,848	7,906,360
1943	1,410	10,103,245	14,921,082	20	219,760	180,047	231	2,162,624	3,420,405	1,661	12,485,629	18,521,534
1944	1,175	8,455,475	11,856,797	48	461,291	330,311	240	2,486,397	3,954,957	1,463	11,403,163	16,143,065
1945	807	5,336,152	7,206,201	46	509,163	311,046	188	1,769,583	2,787,397	1,041	7,614,898	10,304,644
1946	66	487,354	728,583	9	76,719	84,667	8	81,633	120,900	83	645,706	934,150

The table shown on the preceding page represents shipbuilding from 1914 to 1950.*82

As of July 1951, construction for the U. S. Merchant Marine consisted of 20 ships totalling 429,000 tons, also three troop transports, one dry-cargo vessel and 35 mariner class vessels. The U.S.A. with 18 percent of the world's total fleet is building 2.8% of the world's present construction. This percentage is surpassed even by Italy, 4.2% and Germany 3.6% of the total world output 1,362 vessels, aggregating 15,300,000 deadweight tons. After this completion, the world's ocean-going merchant marine would total 102,500,000 deadweight tons. This will be 29.4% above the comparable fleet before the outbreak of World War II.*83

It is important to the economy of the U.S.A., to the Merchant Marine as an industry, and to national defense that America continue to build ships.

The American Merchant Marine cannot compete with foreign flag services unless it is equipped with fast, efficient vessels of the most modern design. Furthermore, these ships must be kept coming off the ways from year to year to replace vessels which become over-age and obsolete. According to the research results of the U.S.M.A., the proto-

*82 Marine Engineering & Shipping Review, February 1951, P. 37.

*83 N. Y. Times, October 22, 1951.

type cargo ship (type C3-S-DXL) is expected to be the standard model for replacement of dry cargo vessels in the future.*84

Shipbuilding is also essential to the maintenance of shipyard facilities and the skilled and experienced personnel they employ. If shipbuilding should be permitted to decline in this country, shipyard facilities would be dismantled and shipbuilding workers would become absorbed into other industries. Then, if an emergency arose, this country would lack even the nucleus of facilities and personnel from which to expand into a large building program. It has been estimated by the U.S.M.C. that approximately 100,000 skilled and semi-skilled workers should be employed in the Nation's private shipyards.*85

The problem of determining the adequate and reasonable amount of construction subsidy is very complicated. So far, a sound formula has not been established. An Advisory Committee, under the Chairmanship of Professor H. L. Seward of Yale University, has been set up in 1950 to study the problems of the construction-differential subsidy.*86 We hope that they will contribute their best effort to derive a way in determining fair construction-differential subsidy systems.

*84 Ships of the American Merchant Marine, P. 5, U.S.M.C. 1950

*85 " " " " " " " " " "

*86 Marine Engineering & Shipping Review, P. 36.

CHAPTER VII

THE OPERATING-DIFFERENTIAL SUBSIDY UNDER THE
AMERICAN OCEAN SHIPPING POLICY

The operating-differential subsidy is designed to overcome two distinct handicaps which have long faced the American Merchant Marine, in foreign trade. The first of these is the actual excess of fair and reasonable operating expenses - insurance, wages, repairs, maintenance, subsistence, etc. - incurred over the foreign competitor's similar expenses. Enjoyment by the competitors of financial aid from their governments is the second handicap designed to be overcome. To qualify under the subsidy provisions, in general a vessel must be under twenty years of age, steam or motor propelled, built in the United States or documented under its laws not later than February 1, 1928, and, if built later than the Act, must have approved naval auxiliary features. Equalization of the first handicap is a normal and regular function of the Commission, but the second handicap constitutes and forms an extraordinary grant requiring consultation with the Secretary of State and unanimous vote of the Commissioners. Subsidy contracts as awarded by the Commission may run for twenty years, though payments may be reduced for periods in which the vessel is laid up and proportionately reduced for domestic portions of a route serving more than one American port as well as foreign ports.*87

*87 Public Law No. 835, 74th Congress, Section 601-603.

The diversion of subsidy funds is prevented by the prohibition of holders of subsidies from having financial interests in ship servicing operations, or foreign flag operations, domestic trade operations, or foreign flag except, in the latter case, by consent of the U.S.M.A. The maintenance of uniform records which the Administration must audit is required. A new form of assistance was established in 1938. An amendment in that year to the Act of 1936 provided aid that should be of value to the whole maritime industry. It established a Maritime Labor Board to which parties to a maritime labor dispute may voluntarily resort. It is a plan for the establishment of a permanent federal policy on maritime labor relations.

An operating subsidy could be paid to offset only in the foreign trade and were under no condition to compete with the non-subsidized coastal or intercoastal carriers. No subsidy was to be paid for the operation of any vessel more than twenty years of age unless the Commission made a special exception in its favor and filed a full report explaining its action.^{*88} This provision was designed to compel the retirement of the obsolete vessels and the construction of a new fleet of modern ships.

^{*88} Public Law No. 825, Sec. 605.

To prevent the depletion of the assets of the subsidized company through excessive dividend payments, the Act required the establishment of two reserve funds: a capital reserve fund and a special reserve fund. In the former, the contractor was to deposit each year a sum equal to depreciation charges on his vessels. Any insurance indemnities were also to be included in this fund which was to be used to pay debts on existing vessels and to construct new ones. The special reserve fund was designed as a cushion to meet temporary financial reverses. Profits in excess of 10% in good years were to be placed in the fund to meet operating deficits incurred during less prosperous years. After provision had been made for these reserves, the contractor was to be permitted to withdraw annually from his net earnings, as dividends, a sum not in excess of 10% of the "capital necessarily invested in the business", a designation which was not to include borrowed capital. If, over a five-year period, cumulative earnings were over 10%, one half of these excess profits was to be repaid to the Commission.*89

In addition to these safeguards, a number of restrictive provisions were placed upon contractors to prevent a recurrence of the evils pervading the mail contract system. With the exception of

*89 American Shipping Policy, P.200, by Paul Zeis.

terminal facilities, operators were not to be permitted to employ affiliated companies in the performance of various services connected with shipping. Likewise, they were to have no connection with companies operating foreign-flag tonnage. Nor were they to divert any of the subsidy money for use in competition with the unsubsidized coastal carriers. They were not to employ holding company devices or similar methods of taking profits from the operating expenses of the business.*90 Finally, no official of the subsidized company was to receive a salary in excess of \$25,000 a year. Strict enforcement of these provisions would diminish greatly the wholesale diversion of public funds to private purposes which characterized the mail contract system.

For an American-owned ship to operate in foreign trade on a parity with the ships of the other maritime nations involves the problem of operating cost. It is largely a matter of wages. It takes the same number of men to operate a ship, no matter what flag it flies, but an American seaman or ship's officer is paid about double what the British seaman or officer receives, and the difference is even greater in the case of other nations where the standard of living is low.

*90 Public Law No. 825, Sec. 803-805.

One of the basic requirements of the Merchant Marine Act is that American ships shall be manned by crews who are American citizens. Operating-differential subsidy is designed to put the American ship operator on a parity with his foreign competitor. The ship operator must agree to operate his vessels on a definite trade route which the Maritime Administration, after careful analysis of trade requirements, has found to be essential to the needs of American foreign commerce. He must agree to maintain, with these vessels on the assigned trade route, a regular schedule of sailings, the minimum number per year being stipulated in his contract. His account books must be kept in accordance with a system prescribed by the Administration. Then the actual expense of the operator is determined for each voyage and the subsidy is paid voyage by voyage with a detailed audit by a competent accounting staff maintained by the Administration and manned by auditors thoroughly conversant with all the special practices and problems of the shipping business.

If, after having his operating expenses equalized with that of his competitor, the subsidized operator should find himself in any year with a profit from his subsidized operation of more than ten per cent of the capital employed, he must set aside the amount of such excess in a reserve fund which he may use with the permission of the Administration for new ship construction or to meet operating losses in the lean years.

With the outbreak of World War II and the tremendous demand for ocean shipping that resulted, the profits of individual operators soared. The then Maritime Commission finally withdrew the subsidy plan until 1949 when the situation again warranted it.^{*91}

The difficulties encountered in determining the operating differential are similar to those indicated for the construction differential. Subsistence of American seamen consists of entirely different items from those supplied on the vessels of Britain, Germany and Japan. Wage rates may be kept confidential or, if obtained, may furnish half the picture. Some governments furnish paid vacations, some supply insurance, and others old-age benefits. In some cases, wages which appear to be low may be supplemented by bonuses. All of these things must be taken into account to secure a reasonable accurate comparison.

Manning scales vary widely between countries. One country, for military reasons, may put 50 men on a freighter which would carry 36 men under another flag and perhaps 22 under the flag of a third country. Seamen of some countries may receive extra compensation for membership in a military reserve. It is a hopeless task to attempt to run down, and to keep current, the crew expense of the various national-

^{*91} House of Representatives Report No. 2735
77th Congress, 2nd Session, 1942.

ities, with which the American operators must compete. Another item in the cost of operation is repairs. Subsidized American vessels are compelled to have their repairs made in the United States or to pay a 50% duty on those made abroad. To calculate the differential on repairs would mean, to be accurate, running down the actual practice of every competing line. Foreign lines may have repairs made in the cheapest available market; some British lines repair their vessels in England at English rates; others have this work done in Hong Kong at cheaper prices. Vessels engaged in indirect trade may be sent home for major repairs, or they may be sent half way around the world to take advantage of a cheaper market. The situation with regard to competing foreign lines is complicated by constant changes in the number and types of vessels in the various trades. The picture is hopelessly complicated by the fact that some of the competing lines may charter the vessels of other nationalities. Every trade, in addition, is beset by the competition of fluctuating tramp tonnage, the operating costs of which vary according to the size, speed, and nationality of the vessels competing at any given time. Even for steady liner competition it is not easy to assess the degree of competition offered by an individual line or nation as against all the others. Some of the competing lines may receive preference of some sort or another. An American line may operate under a handicap as compared to one competitor; the competition

may be even with respect to another and the American line may have the advantage with respect to a third competitor. The point is that competition varies from port to port. It also varies according to season. Some of the foreign competitors finally may be operating at a loss or they may be operating tonnage obtained at low cost during a depression, while the American line is compelled to run ships built at high cost under the subsidy program.*92

It is necessary to deal with the complexities of foreign exchange in translating the foreign cost into equivalent American dollars, as was previously described in connection with the construction differential. Thus it is seen that the operating differential, to justify any claim to scientific accuracy, would have to take into account literally scores of fluctuating elements scattered over the entire surface of the earth and its waters. Even if it were possible to determine accurately a differential between American vessels and all foreign ships which at any time compete on any portion of a given route, some such factor as a strike, a tariff increase, an import licensing arrangement, or currency manipulation could upset the picture overnight. Here, again, as in the case of the construction differential, experience should tend to decrease the margin of error.

*92 Merchant Marine for Trade and Defense, P. 53, published by U.S.M.C. 1946.

Many of these difficulties were experienced by the U. S. Maritime Commission in fixing the first long-term operating differential subsidy for the United States Lines. The United States Lines operates three services. On two of these services--the so-called London and Liverpool services--it was found that the foreign competition was primarily British, and the amount of the operating-differential subsidy was, therefore, based on estimated British costs exclusively, notwithstanding the existence of certain lower-cost competition. In determining the British costs extreme difficulty was experienced except as to the item of wages, where the then U. S. Maritime Commission was in possession of fairly reliable data. The other items were fixed principally on the basis of expert opinion. On the third and most important route served by the United States Lines--the so-called Hamburg route--the problem was much more complicated. On that service the United States competes to a substantial degree with vessels of German, British and French nationalities, and to a lesser extent with vessels for other maritime countries. The operating-differential subsidy on these services was, therefore, based on the weighted average cost of operation of all the principal competitors, the actual costs being weighted in accordance with the degree of competition furnished by each group. Considering the differences in routes, schedules, and rates, and in the type, speed and size of vessels of each of the foreign competitors, the

weighting of foreign costs was largely a matter of judgement.

Even more difficult was the problem presented by the monetary system of Germany. After consultation with financial and foreign exchange experts and independent analysis, it was considered that the standard German mark should not form the criterion in establishing German costs, but rather the so-called blocked mark most regularly quoted in monetary exchanges, which seems more accurately to reflect the actual value of German goods and services, especially in international transactions.

Finally, after careful consideration of all these problems, a basis for an operating-differential subsidy, which at current costs is expected to involve the payment of \$2,200,000 in 1938 to the United States Lines, was approved by the Commission in 1939. 150 of 326 American vessels operating in foreign commerce received operating-subsidies.*93

Operating differential subsidies for the period 1938 (when these subsidies were initiated) to 1950 totalled \$101,068,000.00. Actual subsidies payable for the fiscal year 1950, aggregated \$57,637,000 and covered 264 subsidized ships, making a total of 1,523 subsidized voyages.*94 The 1951 budget covered 262 vessels and 1,434 voyages.*95 According to President Truman's budget, the 1952 estimate listed \$35,000,000 compared with the \$26,450,000 appropriated in the fiscal year 1951.

*93 U.S.M.C. Press Release No. 416, Oct. 10, 1939

*94 Marine Engineering & Shipping News, P. 57, June, 1951.

*95 N. Y. Times, 1/22/51.

United States Government Expenditures for Merchant Marine Support
(000's Dollars)

Year	Operating Aid		Net
	Accrued	Recaptured	
1938	\$ 9,633	\$ 1,065	\$ 8,568
1939	11,853	2,576	9,277
1940	13,036	11,797	1,239
1941	11,087	14,351	- 3,264
1942	670	- 318	988
1943)	Suspended during war years		
1944)			
1945)			
1946)			
1947	12,581	9,932	2,649
1948	29,093	13,035	16,058
	<u>\$ 87,953</u>	<u>\$ 52,438</u>	<u>\$ 35,515</u>
	(Annual average \$3,229)		
1949	\$ 40,317	\$ 14,552	\$ 25,765
1950	55,755	15,967	39,788
	<u>\$184,025</u>	<u>\$ 82,957</u>	<u>\$101,068</u>

*96

The House Appropriations Committee, in May 1951, considered the reduction of the President's 1952 budget for operating subsidies, from \$35,000,000 to \$20,000,000. A letter was written by Frazer A. Bailey, President of the National Federation of American Shipping, to Senator Burnet R. Maybank, Chairman of the Senate Committee, criticizing

*96 Appendix "C", Shipping Subsidies, published by The National Federation of American Shipping.

the House Appropriations Committee for invading Legislative Committee rights and amending existing maritime law, contrary to custom and practice.*97 1,823 voyages would be necessary to allow for normal expansion and growth in 1952 while in the Bill H.R. 3880 provisions were made to limit to 1,450 the number of voyages of American vessels with operating differential subsidies. The Independent Offices Appropriations Act, under which funds are made available for government aid to shipping, provided for 1,522 subsidized voyages; 307 of such voyages must be earmarked for companies that are not already holders of operating differential subsidy contracts.*98 The provision for new subsidy agreements, in the opinion of shipping men, amounts to a substantial cut in the number of voyages available to present contract holders and comes at a time when the interests of the American Merchant Marine should be advanced instead of curtailed.

American steamship companies with operating subsidy contracts have been authorized by the U.S.M.A. to submit vouchers for 75 per cent of the estimated subsidies as permitted by the law, payable to them for 1950 and 1951. These had been limited to 50 per cent because of uncertainty as to proper rates in 1950. Nine companies have agreements for the resumption of subsidized operation discontinued in World War II.

*97 N. Y. Times, May 7, 1951.

*98 N. Y. Times, September 17, 1951.

They are:- Grace Line, American Mail Lin Ltd., Farrell Lines, Inc., Lykes Brothers Steamship Co., Seas Shipping Co., Inc., Mississippi Shipping Co., U. S. Lines, Moore-McCormack Lines Inc., American Export Lines, Inc. Resumption contracts with three companies were being negotiated in 1951. They are: American President Lines, Ltd., New York and Cuba Mail Steamship Co. and The Waterman Co. One new company with a post-war contract is the Pacific-Argentine-Brazil Line.*99

The subsidized segment of the American Merchant Marine consisted of 120 vessels of between 10 and 13 knots speed and of a total of 930,000 deadweight tons. The corresponding fleet in 1939 consisted of 262 vessels of 15 to 18 knots (with passenger ships of considerably higher speed) and over 2,500,000 deadweight tons. While the number of ships and the total deadweight tonnage is approximately doubled, the increase in size, speed and modern characteristics of the vessels far more than double their value and usefulness both for commerce and defence.

Further, to furnish regular and dependable year-round service to American importers and exporters and all Americans over all the important trade routes beginning or ending at U. S. ports, there are in operation American-flag shipping service over 31 routes found by the

*99 N. Y. Times, July 16, 1951.

the U. S. Government to be essential to the foreign trade and commerce of the United States.

Subsidies to shipping are designed not merely to encourage shipping and shipbuilding, but for the broader purpose of developing international trade and for national defense. Those who elect to accept shipping subsidies must also accept the obligations and responsibilities which go with them, as the maintenance of adequate, dependable ocean transportation service.

Criticism of the subsidy provisions in the Act of 1936, by Paul Zeis is quoted here from his Book, "American Shipping Policy"; P.203:

"While undoubtedly superior to previous laws, the new subsidy Act does not offer a satisfactory solution to the Merchant Marine problem. It imposes an extremely difficult task upon the Maritime Commission which is given wide range of discretionary powers. Many of the restrictions imposed on the shipbuilders and shipowners can be mitigated by the Commission which is given free rein in determining what subsidies should be granted and how extensive they should be. It is vital that an agency entrusted with so many important powers should be staffed with officials who will place the interests of the public ahead of those of the shipping companies. Whether the subsidy law will actually prove to be scientific is open to grave doubt. The Act is based upon the theory that the differential between foreign and domestic costs can be determined with accuracy -- a theory of very uncertain validity. Shipbuilding costs fluctuate widely from nation to nation and even among the various yards in any single country. Moreover, changing price levels and the fluctuations of the international exchange cause additional changes in costs

"from month to month. Accurate statistics on foreign costs will be difficult, if not impossible, to obtain, and the situation will be complicated further by the impossibility of ascertaining the overhead costs which should be charged to each ship constructed inasmuch as these costs vary widely according to the number of vessels built during a given period of time. It will prove almost as difficult to obtain correct information concerning operating differentials."

CHAPTER VIII

THE GENERAL CONDITION OF AMERICAN OCEAN SHIPPING
IN CONNECTION WITH THE OPERATION SUBSIDY PROGRAM
UNDER THE PRESENT AMERICAN SHIPPING POLICY

Much of the American foreign commerce is of a temporary nature, many shipping companies are chartering emergency types of war-built vessels to meet the extraordinary demands since World War II. At the same time, they are buying the high quality cargo vessels available under the terms of the Ship Sales Act of 1946 to build up their permanent fleets. Except for a limited number of types of services, they indicate that the ships which they have been able to obtain are satisfactory and meet their needs. They express, also, a general optimism with respect to future foreign trade, and almost without exception have acquired or are in the process of acquiring postwar fleets considerably in excess of their prewar tonnage. The vessels which they are buying are new ships, most of them of fast, efficient design and competitively equal or superior to existing foreign flag ships in the same category.

Despite the optimism generally expressed, except for those companies which have industrial affiliations, the consensus is that a continuation of Government subsidy will be required to overcome the handicaps imposed by the higher operating costs of American shipping. Although at the present time, there is a heavy movement of cargo which assures that vessels travel in at least one direction on their voyages loaded due to

the Marshall Plan and the Korean War, these companies feel that with the foreign flag competition and with the return to normal world trade conditions, the sphere of operating subsidy will have to be expanded.*100

The cost handicap under which United States Companies engaged in foreign trade operate, is indicated by the high wage rate in the U.S.A. In addition to this, the maintenance costs, insurance costs, and subsistence costs of United States vessels are substantially higher than on vessels of their foreign-flag competitors, so that the need for operating subsidy payments under competitive conditions is not difficult to ascertain.

With respect to the dry-cargo vessels built during World War II and of the same age, these vessels will grow old as a block at the same time. In the course of time, unless something is done to prevent it, this may lead to the condition similar to that which existed immediately before World War II, when the dry-cargo fleet was comprised of vessels built during or immediately after World War I. These ships, because of age, slow speed, and obsolete equipment, were unable to compete with modern foreign-flag vessels; and the result was that foreign bottoms carried an ever-increasing percentage of United States foreign commerce.

*100 The Merchant Marine & World Frontiers by Robt. E. Anderson, p.47
Cornell Maritime Press, N. Y. 1945.

Operating cost differentials increase the importance of insuring that United States flag vessels are efficient types in the trades they serve. The American Government expenditures for the maintenance of a merchant marine adequate for security purposes will decrease in proportion to the relative efficiency of United States ships, as measured against their foreign competitors. Or perhaps greater importance is the fact that the value of the merchant marine for reasons of national security is greatly enhanced if it is comprised of fast modern vessels.*101

Of the total number of ships in the U. S. Merchant Marine before the World War II, two-thirds were engaged in the domestic trades and thus being not subject to foreign competition, were not eligible for subsidies. More than half of the American ships in the foreign trade were operated without the aid of operating differential subsidies. The maximum number of vessels receiving such subsidies at one time was 155.

Prior to the World War II, the twelve companies, who had operation subsidy contracts were: American Mail Line, Farrell Lines, Grace Lines, Lykes Brothers, Seas Shipping Co., American Export Lines, American President Lines, Mississippi Shipping Company, Moore-McCormack Lines, New York and Cuba Mail Steamship Co., Oceanic Steamship Co. and the United States Lines. The first five companies signed the contract with the U. S.

*101 "What Shall We Do With Our Merchant Fleet" by The American Historical Assn., Washington, D.C., 1946, p.4-6.

Maritime Commission in January 1950. For example, the Lykes agreement provides for operation of Trade Routes 19, 21, 13, 22 and 15B. A minimum of 76 and a maximum of 108 sailings a year, with nine vessels are to run between U. S. Gulf ports and the West Indies, Colombia and Venezuela on No. 19. A range of 100 to 145 voyages is slated on No. 21 with 22 ships between Gulf ports and Europe. Trade Route No. 13 is to have a minimum of 24 and a maximum of 48 sailings a year, with 9 ships between Gulf ports and Spain, Portugal and Mediterranean, Adriatic and Black Sea ports, Casablanca and Spanish Morocco, the West Indies and Mexico. No. 22 has a range of 20 to 24 voyages with eight vessels, from Gulf ports to Japan, China, the Philippines, Hongkong, French Indo-China, Siam, the Netherlands East Indies, Straits Settlements, Russia in Asia, Manchuria, Korea, Formosa, Mexico and the West Indies. Trade Route 15B will have a minimum of 8 and a maximum of 13 sailings a year, with 4 ships, between New Orleans, and Sabine River ports and Capetown-Beire range, Madagascar and Southwest Africa.

Since the inauguration of the Federal Maritime Board in September 1950, up to May 1951 contracts have been signed and payments on arrears subsidies have been made to seven operators including American Mail Lines, Farrell Lines, Grace Line, Lykes Brothers Steamship Co, Mississippi Shipping Co., Seas Shipping Co. and the U. S. Lines. On August 10, 1951, the N. Y. and Cuba Mail Steamship Co. obtained a renewal of an agreement

of operating subsidy originally reached between the company and the U.S.M.C. in 1937.*102

The privately owned portion of the American Merchant Marine could not carry 50 percent of the American export volume if American government-owned vessels were withdrawn from the ocean shipping. According to a comprehensive study*103 of dry cargo carried by the present American-flag fleet, showing volume of trade in relation to capacity, the private fleet would be inadequate if this country's share of export haulage rose from its level of 38.9% of the sought-after fifty-fifty peak. This would be true even if all private ships now laid up were pulled back into service. The present American dry cargo fleet, according to the New York Times, including American government vessels operated on charter by private concerns, is carrying only 62.5% of capacity in its export runs. The fleet, counting only that portion in foreign trading, is carrying only 62.5% at the annual rate of 31,700,000 cargo tons of which 20,000,000 tons is export and the remainder import volume. Its theoretical round trip capacity is approximately 65,000,000 tons annually. The low carryings in relation to actual capacity, and the potential capacity shortage that could develop if

*102 New York Times, 8/23/51

*103 New York Times, March-April 1950.

Federal charters are withdrawn, discloses one of the paradoxical elements in the post-war American shipping situation.

Up to the end of April, 1950, the total deadweight tonnage of the dry cargo freighters and combination cargo ships is 10,921,000 tons -- 7,125,000 tons privately owned and 3,796,000 in American government ownership and under bare-boat charter operation by private companies. Of this total 1,451,000 tons, (combining 854,000 tons of private shipping and 597,000 tons in chartered vessels) are in domestic routes such as coastwise. For the foreign trading survey these are dropped, and in addition, another 469,000 tons of privately owned freighters and combination ships are temporarily inactive. This leaves an active foreign fleet balance of 5,802,000 private and 3,199,000 government tons, aggregating 9,001,000 tons.

How much such a foreign fleet can carry may only be estimated. Time lost in ports, lay-up time, repairs, the type of cargo carried and other factors bear on this estimate. Using 4 1/2 turns-around per year as an arbitrary average, and assuming 80% of deadweight capacity as available for cargo the figures would show an annual export lift of 32,400,000 cargo tons for the 9,000,000 ton fleet. The return lift must be adjusted by another 60 percent "to be realistic", since American pre-war imports historically are smaller than exports. This adjustment would give a "satisfactory and realistic capacity" inbound of 19,000,000 cargo

tons. The combined total would be about 52,000,000 tons capacity annually.

Using foreign trade figures for the first five months of 1949 and expanding it to an annual basis the nation's annual dry cargo exports would be 51,500,000 long tons. In this trading, ships of the United States flag carry 38.9%, or about 20,000,000 tons. Thus the foreign going active fleet, including both Government and private craft, shows a deficiency of 12,400,000 tons in round numbers (32,400,000 tons capacity, less 20,000,000 being moved). The American Government has been aiming at an average of 50% of dry cargo exports in American bottoms. If this were achieved the outward figure would arise to nearly 26,000,000 tons, and there would still be a surplus capacity well in excess of 6,000,000 export tons.

Considering the privately owned foreign going fleet alone, including vessels temporarily inactive, the export lift capacity would be about 22,600,000 tons, again leaving an excess over the present carrying rate. Extending the 50% conjecture further, the whole privately-owned fleet would have a capacity of 22,600,000 tons and would presumably meet an actual volume of 25,750,000 tons, half of the annual export of 51,500,000 long tons. This would produce a deficit of more than 3,000,000 tons in lift capacity. The annual import rate is now 28,100,000 tons, of which American vessels are carrying 43.5% or 11,700,000 tons. Either with

the actual capacity in excess of 32,000,000 tons or using what shipping men call their "realistic" capacity of 19,500,000 tons, the volume of business available leaves much to be desired. Even if ships of the U.S.A. received their desired 50% they would be coming back half empty.*104

If the U. S. Maritime Commission ships are withdrawn to leave the field to private enterprise, the inbound capacity would be adequate. At the adjusted or realistic capacity the ships would still have excess space, and this would be true if the U.S.A. carried 14,000,000 tons, or half of the entire import movement.

The wide disparity between exports and imports is a critical problem. It is a weakness that has been recognized by the American Government and one that the Marshall Plan Program is designed, indirectly, to rectify. Another point is the urgent need for insistence on a fifty-fifty sharing of all American trade, if the private fleet is to be maintained, and fortified.

The most serious deficiency in the American Merchant Marine today lies in the lack of passenger-carrying vessels. This category, which by ratified international agreement, embraces all ships carrying more than 12 passengers, covers a wide range in size, speed, and in the balance between the amount of cargo and the number of passengers accommodated. Some are

*104 New York Times, March-April 1950.

highly specialized for commercial operation on particular routes and services, while others have more general utility. All have a very great importance to American security, because of their potential use in times of war as troop transports. Losses of passenger-carrying ships during World War II were heavy and few replacement vessels have been constructed. The estimated requirements for troop movements in the event of a future major war exceeded the requirements of World War II. Although war-built transports will be retained either in service or in reserve by the Army and Navy, these will represent only a small fraction of American future requirements.*105

In the case of passenger vessels, operating costs also place United States shipping companies at a distinct disadvantage in meeting foreign competition. All of the companies without industrial affiliations engaged or hopeful of being engaged in passenger transportation agree that over most routes it can be continued in U.S. flag ships only through the granting of an operating-differential subsidy. An operating-differential subsidy contract was signed on September 3, 1948 covering the service of the passenger liner S.S. America which the U. S. Lines purchased from the U. S. Maritime Commission.

*105 Shipping & Shipping Subsidies, by Jesse E. Sangstod, P. 10
G.P.O., Washington, D. C.

Encouraged by the American Government subsidy program, in October 1948, the number of American passenger ships in operation increased to 49 with a total capacity for 12,259 persons, including S.S. President Wilson, the rebuilt Brazil of the Moore-McCormack Lines, four combination ships of American Export Lines, the old coastal liner George Washington, entering the Alaska service and the reconverted liner Panama of the Panama Line.

S.S. LaGuardia of the American Export Lines is a good example of the development of passenger ships under the government operating subsidy program. The charter of a 17,811 gross ton former troopship 609-passenger vessel, which performed wartime service as the Army transport Gen. W. P. Richardson, was converted by the Ingalls Shipbuilding Co. of Pascagoula, Miss. American Export Lines is currently operating its passenger vessels known as the "Four Aces" and a large number of cargo ships between this country and the Mediterranean. The company also acts as agents for the two Italian liners, Saturnia and Vulcania. The LaGuardia, with a speed in excess of 19 knots, will be the third largest liner flying the American flag in trans-Atlantic service, bowing only to the liners S.S. America "Queen" of the American Merchant Marine, and the S.S. Washington. Both these ships are operated by the U. S. Lines in service between New York and Europe. American Export Lines will operate the LaGuardia under a bareboat charter arrangement for two years, a basic

rate of \$341,000 a year which represents $5\frac{1}{2}\%$ of the ship's statutory sales price of \$6,194,180. In addition, the U. S. Government will receive 50% of the net earnings of the vessel above 10% of the capital necessarily employed in her operation. When converted from a P-2 type to passenger ship status, the LaGuardia will have been thoroughly refurnished from stem to stern at a cost of approximately five million dollars. The work which was ordered by the 80th Congress started about a year ago. The ship will have accommodations for 157 first class and 452 tourist class passengers, lounges for both classes, smoking room and cocktail lounge on the promenade deck and two additional tourist lounges on B and C Decks. The vessel is 622 feet long, has a 75-foot beam.

The LaGuardia will be included in the operating-differential subsidy contract now held by the A.E.L. scheduled to make at least twelve voyages a year.*106

Future movements of petroleum products in both foreign and domestic trade of the U.S.A. will depend to a considerable extent upon the American government policy regarding the conservation of existing oil supplies. The heavy demands met from domestic fields during the war have created concern over the adequacy of oil reserves. The opening of

*106 N. Y. Times, Shipping Section, January 1949.

new oil fields in the Persian Gulf area provides a source of oil that can be used to husband the country's resources and to meet the demands of increased domestic consumption, but introduces an urgent need for large fast tankers. There were 74 privately owned tank ships engaged in foreign trade in March 1947, as against 48 in 1937.

The destruction of the German, Japanese and Italian fleets of tank vessels and the serious depletion of British, Norwegian, Dutch and French tonnage during World War II, has changed the distribution of tank ships among nations to a marked extent. Because of the shipbuilding program of the United States, however, in January 1947 world tonnage totalled 21,500,000 deadweight tons of which 13,500,000 was American owned. This compares with a world total of 13,000,000 deadweight tons in 1939, of which the United States possessed approximately 3,900,000 deadweight tons.*107

In 1939 the total number of tankers in operation under the United States flag amounted to 352. In March of 1947, the number of privately owned tankers operating under United States registry was 292. This privately owned tanker fleet, although smaller in number of ships, actually represents an increase in carrying capacity over the prewar fleet because of the increased size and speed of the modern vessels. For most

*107 "Tank Ships" published by Statistical Research Division, Sun Oil Co., printed in the Oil and Gas Journal, December 28, 1946.

types of service, the tankers built during the war are suitable although there appears to be need for a limited number of more specialized vessels.

Restrictions for American security reasons somewhat limited the sale of war-built tankers to foreign countries; and although these countries are in the process of building replacement ships, the generally overloaded condition of Europe's shipbuilding industry, which suffered serious disruption during the war, precludes and hinders an early restoration of foreign-flag tonnage. The U. S. privately owned fleets are not adequate to meet peak requirements; the companies naturally find it economical to cover such peaks by chartering additional ships rather than by buying or building ships which their estimates indicate cannot be kept profitably employed. Coupled with an increased consumption of petroleum products throughout the world, the above situations have resulted in a serious world shortage of operating tanker tonnage, and have necessitated retaining in service by the United States of a large number of American Government owned tankers under General Agency Agreement. In May 1947, the number so employed was approximately 246.*108

Although nothing in the Merchant Marine Act of 1936 prohibits the payment of either construction or operating subsidies on tankers, to date, no such subsidies have been paid, except that efforts are now being

*108 N. Y. Times, April 14, 1947.

made to complete a program for the construction of 10 or 12 high-speed tankers during the year. These tankers were constructed without any subsidy, except that the Government will pay the cost of increasing the speed of these tankers from normal commercial speed to that required for naval purposes as a national-defense feature.

American tankers are owned predominantly by oil companies. Since they receive neither construction nor operating-differential subsidy assistance from the Government, they use their vessels at will in foreign or domestic trade in the U.S.A., depending upon their immediate requirements. However, since the handling costs of tanker cargoes are relatively low compared to other types of cargo, ship operating costs represent a much higher percentage of the total transportation cost of petroleum products than is the case of general cargo. This increases the impact of the differential between domestic and foreign operating costs on tank-ship operators, and is responsible for the relatively small number of American flag tankers in foreign trade. By far the greater portion of American petroleum imports, prewar, were carried in foreign-flag tankers, either owned by foreign subsidiaries of United States oil companies or chartered by these companies from foreign owners.*109

*109 "What Shall We Do With our Merchant Fleet" by the American Historical Association, Washington, D. C., 1946.

While much of the tanker tonnage is subject to the same remarks concerning the uniformity of age of the ships which comprise it, as were made concerning the foreign trade dry cargo fleet, the oil companies have historically followed a policy of keeping their operating ships modern and efficient; and there is perhaps less reason for concern that the tanker fleet will become obsolete as a block, than in the case of the dry cargo vessels. This danger cannot be completely discounted, however; and should it be found that a reasonable replacement program is not being generated by private enterprise alone, it may be necessary for the Government to provide incentives necessary to start such a program. Assistance in this direction may be expected from the prototype development of high speed, large capacity tankers for naval auxiliary service.

Tanker tonnage is of primary importance from the standpoint of American national security. The U. S. tanker fleet is not large enough and the estimates of the Armed Services Petroleum Board place the tanker shortage at nearly 120 ships. Although there has been a current building program in the United States and abroad which will add 180 tankers to the world's fleet in a few years, the long range prospects for American-flag tanker tonnage in the foreign trades was a resumption of the slow and steady decline. The great disparity in American flag operating costs is the major competitive disadvantage to American tanker operations. This disadvantage has been aggravated further by the shifting world

pattern of oil production resulting from the development of the Middle East Oil reserves, the construction of new pipe lines and the large world tanker building program in progress. The tabulation made by the American Ship Owners' Association showed that the 900,000 deadweight tons of American-flag tankers engaged in the U. S. foreign trades in 1948 has decreased approximately 65% to 327,000 tons in 1950.*110 However, such decline in the size of the huge tanker fleet operation under the U. S. flag has been arrested by the Korean war.

Up to January 15, 1952, the total U. S. ocean-going tanker fleet, according to the National Federation of American Shipping, consists of 457 craft of 6,802, 286 deadweight tons. Two-thirds of these bottoms are now operating in coastal and intercoastal trades and only 1,300,000 tons deadweight are reported engaged in foreign commerce. The U.S.A. has become a larger importer than exporter of petroleum and its byproducts since 1945. In the 12-year period from 1939 to 1951, American privately-owned fleet increased approximately 61 percent in total tonnage. It represents 25 percent of the total world fleet.*111

By "tramp" is meant a vessel carrying substantial cargoes under charter party terms, usually not exceeding three commodities on any one

*110 N. Y. Times, 3/12/51

*111 N. Y. Times, 1/16/52

voyage, with not more than three shippers in irregular and non-scheduled service. Prior to World War II between 25 to 30 percent of dry cargo imports and exports of the United States were carried by tramp ships, none of which were under United States registry. Tramp shipping companies after the war proposed to the government that they be allowed to purchase the chartered ships which they were operating, out of profits which currently are recaptured by the government according to the operating-differential subsidy contract with the government. They indicated that the war-built Liberty ships quite suitable for tramping service; and under the present conditions, they believe there are reasonable prospects for them to entrench themselves in the business, providing they are permitted to obtain the ships under favorable conditions and to depreciate them freely while operating profits are high. They concede that their costs will be higher than those of foreign-flag tramps and admit that when foreign tramp-ship competition is established, they will probably require some form of government subsidy assistance. They argue that tramp shipping plays an important role in marine transportation and has a logical place in a well-rounded merchant marine, supplementing liner service by handling bulk cargoes of an irregular or seasonal nature, and that it would provide trained crews and additional ships for a national emergency. There does appear to be some justification for a limited amount of direct tramp-ship or irregular service in United States-

flag foreign trade fleet. This type of service should be differentiated from the generally accepted conception of tramp shipping, in which a vessel moves from port to port throughout the world, depending upon the availability of cargo. Operating costs on American vessels in liner traffic average about 50 percent more than those which prevail on foreign vessels. American costs on tramps would probably run at least double those of competitors. This being true, it is obvious that putting any substantial amount of tramp shipping into international trade would be an expensive proposition.

Tramp shipping subsidies are also a delicate aspect of international relations. Tramps are not subsidized to the extent that liners are; moreover, those nations which have found it necessary to assist tramp vessels have usually done so to protect an existing industry, not to start a new one.

It is not believed that the American public is prepared to subsidize vessels to trade all over the world, and only occasionally come into an American port. It is doubtful, moreover, if American seamen could be induced to stay away from home for 2 or 3 years as the crews of foreign tramps are required to do. Therefore, any tramping which develops under the American flag will probably cling rather closely to American trade.

It may develop that the best type of operation for the United States will be a kind of limited tramping carried on by liner companies

as an auxiliary to their regular services. The liner companies may find it advantageous to do more than they have in the past with regard to the handling of peak loads, bulk commodities and off-the-route cargoes. This type of operation, which is really a form of irregular service, will probably appeal to American companies more than pure tramp-
ing. In addition, liner companies can intensify their efforts to attract cargoes which normally move in tramps. Some of these cargoes, of course, originate in out-of-the-way ports not accessible to carriers engaged in regular berth services; others pay such low rates that liner operators cannot afford to carry them; still others are of such objectionable character--due to odors, chemical reactions, and so on--as to passengers are involved. The foregoing cargoes no doubt will continue to move by casual vessels. However, there are many commodities which merit increased interest on the part of liner companies.*112

In its "Economic Survey of the American Merchant Marine" of 1937, the then Maritime Commission dealt with the advisability of government subsidy on tramp shipping under the American flag in these terms:

"...it would be unwise for the United States to enter the field of tramp shipping at this time. The trend today in world shipping...is toward greater specialization and the tramp ship which is a jack-of-all-

*112 Merchant Marine Act of 1936, Section 1201, also Hearing No. 6719, 81st Congress, 2nd Session.

"trades, is losing ground. The world is turning to liner tonnage...Only in Japan and Greece has tramp tonnage gained in relative importance since the war. An attempt to develop tramp shipping under the American flag would be a backward policy."

The document then amplifies in convincing terms its objections to the development of American tramps, and states that also from the viewpoint of national defense it is far better to subsidize cargo liners. The report concludes:

"Of all the branches of the shipping industry the tramp is the biggest gamble. There is no demand for the American Government to subsidize tramp shipping and there is really no good reason why it should attempt to do so."

From the viewpoint of ship owners, the U. S. Government subsidy for tramp ships has been also opposed. Mr. George W. Morgan, President of the Association of American Ship Owners, told a Senate Commerce Subcommittee on April 21, 1950, while they were considering a House Bill designed to encourage and expand American tramp shipping:

"We cannot advocate proposals to encourage the establishment of tramp shipping as such".

He added

"We think there are steps that might be taken by the Congress that would strengthen our foreign trade generally and that would enable American tramp-ship operations to compete fairly against foreign competition - the subsidizing tramp ships would be most harmful to the unsubsidized liner operator who requires full or part bulk cargoes to

"support his overall operation."*113

Also from the experienced shipping man's viewpoint, the American tramp shipping industry is a dying enterprise. Mr. Emmet J. McCormack, Vice-President of the Moore-McCormack Lines said:

"I am convinced that tramping is doomed; in fact England, the outstanding developer of tramp shipping is already moving in another direction...Even if the tramp ships get a subsidy they will not be able to compete with low-cost foreign competition...Cargo liners such as the C-type freighters of today are carrying a lot of the tramp cargoes of other days...They have tanks for fluids, they can carry bulk cargoes of other types, such as grain...And beyond these ships the trend is toward the specialized vessel...There are ore carriers for ore and they can handle the stuff so fast no tramps can compete with them in efficiency."*114

Quoted from a letter of August 22, 1950 from the former Chairman of the U.S.M.C., Acting Secretary of Commerce, General Philip B. Fleming addressed to Mr. Edward J. Hart, Chairman, Committee on Merchant Marine & Fisheries, House of Representatives, Washington, D. C.:

"...The extension of operating and construction-differential subsidies to vessels which do not operate on trade routes determined to be essential represents a departure from existing subsidy policy and constitutes a major new subsidy

*113 Hearings Before the Subcommittee on Maritime Affairs, 81st Congress, G.P.O. 1950, P. 70

*114 New York Times, April 26, 1950

"program...before the completion of a thorough investigation into the subsidy needs of the marine industry, it would be premature to exact subsidy to trampships".*115

On the other hand, there is a group of people who advocated to preserve tramp shipping by paying subsidies to it. Mr. F. Riker Clark, Chairman of the Committee for the Promotion of Tramp Shipping under the American Flag in Foreign Commerce, told the House Subcommittee on August 24, 1950

"Unless we know that a subsidy authority exists for such normal periods, we cannot now expand our privately owned fleet for the present emergency needs in Korea. We believe the present situation now offers a subsidized tramp fleet without any direct cost to the government for several years.....If a subsidy is granted with a sinking fund for new building, the tramp industry should be in a position to have sufficient funds to build a faster and more modern tramp vessel for use in any emergency which might ariseTramp owners have been able to maintain American ships in the field because of two reasons, satisfactory rates during the first three postwar years because of a tonnage shortage and the 50 percent guarantee contained in the European Cooperation Act for shipments there. Our tramp fleet now provides us with immediate cargo carrying capacity, trained licensed officers, and seamen, and many established steamship organizations. It would be very dangerous and ill-advised to throw away these resources at a time when peace is questionable"*116

*115 Hearings Before the Subcommittee on Maritime Affairs of the Committee on Merchant Marine & Fisheries, House of Representatives, 81st Congress, Second Session, on H.R. 6719, P. 8, G.P.O.

*116 N. Y. Times, 8/25/50, also Hearings Before the Subcommittee, 81st Congress.

Mr. Marvin J. Coles, Attorney, representing thirty American tramp ship operators, spoke before the Subcommittee of the House on August 23, 1950

"They have proved in the last few weeks that the tramp companies have taken over the job for the movement of military supplies for the Korean War.....In peacetime, the Maritime Commission found that in 1937 33 percent of the tonnage of exports and imports of the U. S. was carried in tramp type vessels. In 1938 32 percent of our total export and import tonnage was carried in tramp vessels. In that same period the American liners carried 29% in 1937 and 25% in 1938..... The American-flag tramp ships could not compete with the low-cost foreign-flag tramp ships..... Once the Korean War is over, the American-flag fleet in tramp trades will be very definitely on its way out. Today we have a tramp fleet of 100 privately owned American vessels in active operation on the high seas. We need this fleet for peace and war."*117

Also, according to the report made by Time Magazine*118 the reciprocating engines of the Liberty ships can be replaced by turbines which would raise the speed of the vessels from 12 to 15 knots, together with the large supply of tramp-designed Victory vessels. All these American reserve fleet could be well utilized. After exposition and criticism of the American shipping policy on subsidizing tramp ships, it may seem to us in time of crisis and

*117 Hearings before the Subcommittee, 81st Congress, P. 25-27

*118 Time, Vol. 42, No. 8, August 23, 1943, P.22

intense international situations it is advisable to keep the service which the tramp people in the shipping industry can perform. Unless for war reasons, the American participation in subsidizing tramp vessels in peacetime long-range plan will be highly disputable.

In addition to the construction and operation subsidy, the 1936 Act also provides for American government assistance in the financing of new construction, for trade-in allowances on old vessels, and for a system of tax exemptions and tax deferments designed to channel profits into the acquisition of new tonnage.

Tax exemptions, by far the largest item in this group and a major item in the subsidy picture, are estimated at \$81,000,000. This sum, added to construction differential subsidies and operating differential subsidies, brings the total of aid extended under the 1936 Act up to \$310,000,000.

CHAPTER IX

THE LATEST DEVELOPMENT OF AMERICAN OCEAN SHIPPING INFLUENCED BY THE MARSHALL PLAN AND THE KOREAN WAR

The American Merchant Marine occupied throughout the post war years with problems of reconversion and adjustment from war status, declined appreciably in size. A decided strategic advantage would accrue to the United States if the productive facilities for shipbuilding, both physical and human, could be maintained on a high level of activity. The reduced tonnage for operation under the American flag was hence a certain decline in opportunities for employment of American seamen and maintenance personnel. The size of the American Merchant Marine fleet has reduced to such a degree that it has caused great alarm both to shipping circles and the Administration.

When the Marshall Plan was enacted, shipping companies placed their pressure on the legislative group to shape the new law so as to patronize American bottoms to be the shipping policy.

Operators in the U.S.A. might well have asked that Congress implement public resolution which directs that American shipping shall carry all goods purchased in the U.S.A. by foreign interests with the proceeds of the U. S. Government loans or credits they might well have, but they have not. They simply request to carry at least 50% of the ECA cargoes. It is interesting to note when Great Britain consummated a trade treaty with Soviet Russia recently, it was carefully stipulated that all cargoes would move in British ships and no opportunity was

given for other nations to participate in the movement of the cargo involved.

The legislation sponsored by Mr. Eland, made mandatory a fifty-fifty sharing of all aid cargoes with American-flag tonnage. The Foreign Assistance Law provides for such sharing if American vessels are available at "market rates", a wording that led to a dispute over just what constituted market rates. Mr. Paul G. Hoffman in January 1949 announced plans to divert cargo to foreign bottoms because higher American rates imposed considerably greater costs on all ECA allocations. The plan was held in abeyance after the shipping industry, supported by maritime labor, filed protests. Foreign missions whose countries share in the ECA program have opposed the mandatory sharing. Figures based on ECA reports show that transportation of the ECA movement will cost approximately 10 percent of the overall outlay or some \$500,000,000. Since about 75% of the shipments will originate in the United States, the shipping costs on cargo movement from American ports would be in the neighborhood of \$375,000,000 and half of that, for the American share, would be about \$187,500,000 in transportation revenues. The remainder, divided among ECA nations, would amount to more than ten million dollars in each case. According to Mr. Edwin C. Johnson

"This mandate requiring that 50% of all Marshall Plan shipments move in American vessels simply is only fair that American flag ships get

"an even break with foreign ships in the transportation of these cargoes, which were almost entirely financed by Congressional appropriations amounting to billions of dollars".*119

To move essential cargoes under the Marshall Plan, the foreign assistance agency asked the Maritime Board to take more tonnage out of its reserve fleet. The shipping agency had no funds to cover repairs and the "de-moth-balling" processes and the ECA agreed to put up \$56,000,000 fund for repairing and reactivating about 100 vessels. A contract covering such arrangement was signed on March 3, 1951.*120

Up to March 8, 1952 a total of 457 Liberty class national defense reserve ships have been called from lay-up to carry cargoes for ECA. The authority has promised the shipping companies that its vessels would be taken out of service as soon as sufficient private tonnage were available to handle the volume of government assistance cargoes.*121

Persistent demands of American flag steamship companies for a major share of Mutual Defense Assistance Program shipments have been successful. More than 52% of all ECA financed commodities shipped abroad from the U.S.A. were moved in American-flag vessels during

*119 Marine Engineering & Shipping Review, P.45, November, 1950, Periodical Press, Philadelphia, Pa.

*120 ECA Press Release No. 2239, May 8, 1951, Washington, D. C.

*121 New York Times, March 8, 1952

the eighteen months ended September 30, 1950.*¹²² A semi-annual report submitted to the Congress by the U. S. Maritime Administration shows that more than 73 percent of the total tonnage, about 1,000,000 measurement tons, from October 6, 1950 through March 31, 1951 was transported in American-flag vessels.*¹²³

Coal and grain have been the chief commodities moving abroad in the fleet of U. S. Government-owned freighters reactivated from the National Defense Reserve fleet for emergency use. Of the two, coal has been by far the major cargo. The ECA agency hopes to reduce the coal export movement by about half by the middle of next year with a 21,000,000 tons goal for 1952.*¹²⁴ The European Recovery Plan not only solidifies the economy of European countries and the U.S.A., but also virtually revives the prosperity of the American Merchant Marine. In a declining market for shipping in 1948 to 1950, the ECA was by far the Merchant Marine's biggest customer. The ECA freight expenditures were of growing importance in maintaining the merchant fleet reserve which is important to the national defense. The tramp ships operators of the coal and grain have been assisted by various means under the Marshall Plan. The liberty ships were sold at prices or

*¹²² New York Times, Shipping Section, February 24, 1951

*¹²³ New York Times, April 17, 1951

*¹²⁴ New York Times, December 29, 1951

chartered at rates well below the cost of building or replacement. From the standpoint of U. S. Government shipping interests, each of the ECA carriers at sea represents the holder of 10,000 tons of cargo capacity in active service and ready for an emergency call. Meanwhile, it is earning money to pay for the ship's overhead as well as the \$14,500 wages paid each month to the 40 men manning the ship.

In order to increase the efficiency of the administrative work of the government agency to meet the changed situation, the U. S. Maritime Commission was abolished and two Federal maritime agencies within the U. S. Department of Commerce took over its function on June 28, 1950. The Federal Maritime Board has taken over the regulatory powers and the awarding of construction and operating subsidies. The three major units of the U. S. Maritime Administration are known as the Office of Subsidy and Government Aids, the Office of Maritime Operation and the Office of the Controller.

In addition to the effect of the Marshall Plan, the mounting needs of transporting military supplies and personnel across the Pacific due to the Korean War greatly contributed to the exceeding demand of American shipping.

The great value of the privately owned American Merchant Marine for national defense has again been demonstrated in the Korean incident since August 29, 1950. Official reports show that more than 80% of all military support, supplies and commodities for the U.N.

forces were delivered by privately operated American vessels, 14% by U. S. Government vessels and 6% by foreign flag vessels for the first three months after the outbreak of the Korean War.*125

Rear Admiral Roscoe H. Hillenbocter, Commandant of the New York Naval Base in Brooklyn, said at the Propeller Club of the Port of New York on December 3, 1951:

"In the first fifteen months of the War, merchant ships carried 11,000,000 tons of general cargo 8,000,000 tons of petroleum products and 500,000 troops to the War Theater".*126

Due to the Korean War, there were shortages in active freighters and troop carriers.

President Truman said to Congress on March 19, 1951:

"Recent increases in the shipping requirements arising from the national security programs have resulted in substantially greater demands for ocean-going merchant tonnage than is available through privately operated American and foreign shipping.....By overcoming existing shortages of shipping facilities, the ship operation of recommissioning 100 merchant vessels by the Maritime Administration will also help to stabilize shipping rates at fair and reasonable levels. Privately owned shipping, of course, continues to be used as in the past to the maximum extent possible".*127

*125 New York Times, Shipping Section, December 15, 1950

*126 New York Times, December 4, 1951

*127 New York Times, March 20, 1951

The United States could muster only 33 ships that are "true troop carriers". In comparison, there were 89 such vessels in active service and 27 inactive but available at the outbreak of war in 1941.*128

On August 18, 1948, the USMC awarded a 32,000,000 dollar contract to the New York Shipbuilding Corp. for construction of three luxury liners ordered by the American President Lines, President Jackson, launched on June 27, 1950, President Adams, launched on October 9, 1950 and President Hayes, launched on January 19, 1951.

Due to the Korean Incident, on August 29, 1950 the Department of Defense at the recommendation of the Joint Chiefs of Staff, requested the Federal Maritime Board to complete the three vessels as 2,500 men troopships for the Armed Forces.*129 The three President liners were designed as passenger-cargo carriers in an adaptation of World War II transports. They are 536 feet in length overall, with a beam of 73 feet and a displacement tonnage of 19,600. They were designed for a speed of 19 knots and to carry 209 passengers and a crew of 162.

In addition to this, a new shipbuilding program has been studied to increase the U. S. passenger fleet. In May, 1951, the Maritime Administration started to work on a project that would provide

*128 New York Times, January 23, 1951

*129 New York Times, January 15, 1951

needed passenger ships for the country's Merchant Marine on a reverse conversion basis. Technical staffs of the Maritime Administration have been instructed to prepare plans for modern military transports that would be specially designed for conversion to commercial liner use after the emergency passes. The ships would be about 600 feet long, measure between 18,000 and 20,000 gross tons and make better than 20 knots. When the designs of the proposed transports were completed, the next step would be to get cost estimates and then lay the project before the Bureau of the Budget for approval.*130

The Military Sea Transportation Service has been set up since October 1, 1950 after the outbreak of the Korean Incident. U. N. troops in Korea, who were carried to Asiatic battlefields aboard transports, will remember that their weapons and supplies were safely and speedily brought to them in ships of the Service across the longest supply line in the history of warfare. Director W. M. Callaghan announced September 30, 1951 that 90 percent of all the men and supplies were taken in its vessels. The Transportation Task Force is a by-product of unification of the Nation's armed forces, with Area Command Headquarters in Brooklyn, London, San Francisco and Tokyo and scores of post offices around the world. It had 215 ships of its own and was chartering 230

*130 New York Times, May 16, 1951

in June 1951.*¹³¹ The agency used 13,000 Navy men and officers and 17,000 civilians. The agency conducted like a business, charging the Army, Navy and Air Force and other government agencies for cargoes and passengers carried. During the fiscal year of 1950-51, 72% of the service's operating budget, or more than \$373,000,000, went to commercial lines and shipyards.

On February 21, 1951, the National Shipping Authority was established. This Authority has taken over the work of activating the reserve fleet from the Military Sea Transportation Service.

Ships withdrawn from reserve fleet bases have been operated for the Authority by private operators serving as general agents of the Government. They represent the ships required to supplement the privately owned American fleet in the movement of military cargoes and foreign aid.*¹³²

At the end of January 1952, the reserve fleet numbered only 1,423 vessels, the lowest point U. S. shipping reserve since its creation.

The impact of new weapons has relegated the Liberty ship to rear areas and the reservoir of these vessels, which is impressive in number, is a very slender reed on which democracy can lean if the world

*¹³¹ New York Times, October 1, 1951

*¹³² New York Times, February 8, 1952, also ECA Press Release,
May 8, 1951.

situation deteriorates further. Vice Admiral E. L. Cochrane, Chairman, Federal Maritime Board, addressed the Twenty-Fourth Annual Convention of the Propeller Club of the U. S. on September 28, 1950:

"It takes but little imagination to recognize that the developments in submarine design, the advent of new torpedoes and of new bombs have affected the problems of protecting ships in time of war. Large convoys, moving at the deliberate speed of the slowest ship, upon which we relied in World War I and World War II, need a new look in 1950. The issue therefore seems to me to narrow itself down quickly to the fact that the greatest maritime need of this country today is for a number of fast, dry-cargo ships by means of which the military strength of ourselves and our allies can be projected to any area of emergency with rapidity and with a substantial level of security.....The development of the dry cargo ships should be in the line of faster vessels of greater individual capacity".*133

The decision to build 35 "Mariner" class freighters was made promptly due to the pressure of the Korean War.

Successful effort in expanding American shipping has been made during the first year after the outbreak of the Korean War. Admiral Cochrane, the Maritime Administrator, declared on December 27, 1951 that the American Merchant fleet was better than ever to meet its mounting responsibilities in the defense of the world. He said there were 2,000 ocean-going ships carrying commercial cargoes for military

*133 Marine Engineering & Shipping Review, P. 36, November 1950.

and foreign aid use, compared with 1,248 in 1950. Virtually, all of the additional ships came from Government owned reserve fleets of war-built Victory and Liberty ships. Notwithstanding this revival, the shortage of steel was the main obstacle that confronted the shipping industry. There was an urgent and increasing need for new petroleum carriers, not only for commercial use but also to provide more tanker tonnage which would be vitally necessary if international conditions worsen. The United States was still far behind in the race of world powers to augment their merchant fleets -- the National Federation of Shipping reported October 1951 that the U.S.A., with 18 percent of the world's total fleet, was building 2.8 percent of the world's present construction. Darkening the shipping picture further was an increasing shortage of skilled sea-going personnel that had delayed the sailings of many ships carrying military and foreign aid commodities. The Coast Guard moved in December 1951 to ease the manpower shortage by relaxing its rules to hire alien officers.*134

The seeming good health of the U. S. Merchant Marine in 1951 and the early part of 1952 was largely the result of artificial stimulation. The future of U. S. shipping still seems not very bright. During 1951, the United States private-owned fleet was expanded, foreign

*134 New York Times, December 28, 1951.

commerce increased, the nation christened its first contender for Atlantic speed laurels in three generations, and more than 4,000,000 deadweight tons of liberty ships were broken out of the reserve fleet to carry cargo in a boom foreign commerce year. However, a large share of the freight carried on U. S. vessels is available only because the Marshall Plan liquidation earmarked half of the aid cargoes for the home fleet. This rich source of business cannot continue for long; the badly needed and long-sought modernization of the Merchant Marine Act of 1936, spelled out in the so-called long range shipping bill did not pass in 1951.

The subsidy principle came out of the last Congress in tatters. Its defeat was accomplished through budget limitations that not only rejected plans to expend subsidies, but actually enforced a cutback on voyages for which the Government had signed contracts. The U. S. shipping industry suffered virtually total defeat in the 1951 labor negotiations, accepting the 40-hour week for all sea-going employees and giving a 6.2% wage increase as well as other side benefits that mean radically mounting operating expenses.

Also foreign competition is on the increase. Germany, freed of restrictions is going ahead rapidly; Italy has achieved a striking comeback; Japan is steadily building ships about 73 ships in 1951, and is also regaining some of her pre-war trans-Pacific cargo business with

modern tonnage. The United States has under construction up to December 31, 1951 a total of 85 ships of 1,082,990 gross tons, a volume that moved this country to fourth place in the world shipbuilding field.*135

From the viewpoint of long-range development of ocean shipping, it is still necessary for the legislative groups, the shipping administration and the shipping industry to cooperate in order to bring about a more sound and constructive American Ocean Shipping Policy.

*135 New York Times, February 1952

CONCLUSION

Three primary objectives may be found to have actuated American policy from the beginning. First, the government has desired the development of adequate ocean transportation facilities on all major sea routes. Secondly, it has striven to secure substantial American participation in such a system. Thirdly, it has endeavored, rather unsuccessfully, to promote the national defense by means of its navigation policies. No fully satisfactory compromise has been or can be achieved between the policies of promoting a rational, low-cost, international system of ocean transportation and of developing protected national shipping services able to meet American demands in time of war or political tension and to play a leading role in national defense.

The building of merchant ships designed for service as fleet auxiliaries, transports, or war service in general has caused the ship designs which would be of maximum benefit to commerce to be substantially altered, and the resulting ships have been at times very costly. Even from the standpoint of national defense there has been a conflict between those who have advocated the development of a large low-cost shipping industry and those who have favored investment in a high-cost industry composed of shipping of considerable military value. Vessels of great military and economic value in time of war may in fact, have

little economic justification in time of peace. Since shipping is an important way, many foreign nations try to acquire American dollars, in order to finance their purchases. Some people believe that the United States should permit these countries to carry most of the U. S. trade in foreign ships. But these people forget that it is not a good foreign trade policy to have competitors controlling the distribution of your products. Nor can we overlook the sudden and critical needs for ships that always arrive when war breaks out. It is true of any country's shipping policy to have an active fleet with experienced personnel that can be immediately put into service and to maintain a merchant fleet of fast, superior, modern ships on all essential trade routes capable of serving foreign commerce in time of peace and national defense in time of war.*136

There will be some gains to the nation as a result of the adoption of the policy of ship subsidy. The building up of a nation's shipping facilities with governmental aid may enable the consumers and shippers of the nation to avoid the loss in consequence of unreasonable freight charges and other forms of foreign favoritism should the country rely entirely upon foreign vessels to carry its exports and imports.

*136 P.1-4, Postwar Outlook for American Shipping, A Report Submitted to U.S.M.C. by the Postwar Planning Committee, 1946, G.P.O. Washington, D. C.

As long as world situations are uncertain and there is no effective international agency to control war, a nation is justified in making provisions for a minimum of shipping facilities by which international communications may be maintained in the event of conflict between other nations.*137

The present U. S. Merchant Marine policy is definitely designed to provide an adequate volume of shipping under the U. S. flag on essential American routes regardless of cost. It is therefore, primarily nationalistic and mercantilistic. Such a system requires the controls over shipping in order actively to influence the course of commerce in ways favorable to American national interests. The U.S.A. is still in the process of reorganizing and strengthening its system. National rivalries to secure a favorable position at the center of the world's shipping network have thus been a costly but conspicuous feature of nationalistic policies.

U. S. shipping policy has become closely integrated with defense policy. Increased emphasis has been placed in recent years on securing a merchant fleet of adequate size which can be made available for all purposes at the outbreak of war. The shipbuilding

*137 Hon. Daniel C. Roper, Secretary of Commerce, "National Maritime Day" Address at Savannah, Ga., Released by the Dept. of Commerce, 1935, p.5.

industry is also especially supported in the U.S.A. through construction aid because of its value as a means of constructing warships. War vessels are highly complicated pieces of machinery, the construction of which requires not only the use of costly and complex equipment but also the expert services of experienced and competent designers, draftsmen, constructors and other specialists, as well as of skilled workmen.*138

The actual trend of the U. S. shipping policy has been to project national cost levels into the shipping industry. This has been done first, by means of regulations respecting labor conditions and nationalities of crews. Also on the other hand by maintaining adequate labor standard and efficiency from the national standpoint. The general trend of American policy has been to determine maritime labor policies with reference to domestic labor conditions rather than to those prevailing on foreign ships. More careful attention has been given to the techniques of policy in order that it may be carried out with efficiency at minimum cost. The shipping and ship-building industries have been brought under rigid regulation with respect to service, vessels, operations, profits, expenses and invest-

*138 P. 9-15 "The Merchant Marine Policy of the U.S." by Hsiu SSutu, University of Pennsylvania, Philadelphia, 1935.

ment. The policy of laissez-faire has been abandoned. It becomes apparent that shipping in modern times has developed such large-scale economies of operation and that such imperfections in competition have arisen, that free-trade theory and policy have become of doubtful value. Considerations of national security have also played an increasing role in determining policy.

The development of techniques adapted to the conditions and needs of the United States is of great importance. The best policy is clearly that one which enables the nation to secure at a minimum cost the transportation services and merchant fleet which are deemed necessary for its welfare and security both in peace and war. Once it has been recognized that this is essential, the problem becomes one of selecting the techniques best suited to the situation. The Merchant Marine is the only great arm of national defense that is an earning asset in time of peace. Although American Government aid is needed to meet foreign competition in the commercial shipping field, it is small indeed compared with the cost of keeping the naval force equipped in peacetime with vessels that might be serving foreign commerce. It is the cheapest kind of national insurance.*¹³⁹

*¹³⁹ P. 52-54 The American Merchant Marine by the American Bureau of Shipping, 1933, New York.

Under the construction-differential and operation-differential subsidy policy, also the influence of need of ships caused by the Marshall plan and the Korean War, a reasonably busy time is in prospect in 1952 for shipbuilding and ship repair yards. There were 97 merchant ships of 1,000 gross tons and over being constructed in U. S. yards at the beginning of 1952, aggregating 1,759,650 deadweight tons.*140

However, after 1952 the outlook is not encouraging because of a complete lack of any assurance of obtaining the necessary materials and extending the European aid endlessly.

Wage scales, costs of production and standards of living vary in different parts of the world. Certain nations are thus able to operate merchant marines more cheaply than others, and the latter are compelled to grant government aid in one form or another. When such a course is followed, an effort is made to grant sufficient aid to permit profitable private operation in competition with the vessels of other nations. However, when assistance is unnecessarily liberal, other nations, regardless of costs of construction and operation, must grant aid in order that their merchant marines may continue to compete on an equal basis with those receiving generous

*140 New York Times, January 4, 1952.

treatment from their respective governments. As a result, many great maritime nations, including Great Britain, have been compelled to foster the shipping policy to a greater extent than would be necessary if ships of all nations were operated without subsidization.

Under the dynamic and changing world situation, the sound American Shipping Policy ought to be shaped and adjusted from time to time. The Shipping Act of 1936 is to be amended and streamlined. Operators, shipbuilders and labor should not focus their attention to profits and high wages alone. The legislators also should formulate an upright principle to serve the best for the welfare of the U.S.A. as a whole.

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ABSTRACT

A suitable ocean shipping system has been essential for the development of trade with overseas nations as well as the national defense. The maritime industries have always been of importance in the economy of national defense but with the development of totalitarian warfare involving intricate long-range economic planning, they have assumed a front rank among the industries affected with a military interest. The need of providing a suitable merchant fleet for war purposes has since been probably the dominating consideration determining American policy, having been placed first among the objectives of the important Merchant Marine Acts of 1916, 1920, 1928 and 1936.

The dominant feature of shipping legislation from 1865 to 1910 was the maintenance of protection for the shipbuilders. After 1910 the shipping and travelling public and the Crew Union urged their claims upon the shipping legislation.

The multiple roles played by the shipping and shipbuilding industries in the economic development of modern states have produced complicated policies and much confusion in policy. This has been especially true of the United States.

The Shipping Act of 1916, even now, gives the government power to call for all ships of foreign flags built in the U. S. A. The Act of 1920 directed private American capital to take over the

government fleet during World War I. Government operation in peace actually has never been tried in the U.S.A. A great failure of the historical American ocean shipping policy was the Mail Subsidy Act of 1928, which failed to accomplish establishing a strong American Merchant Marine.

American shipbuilders and shipowners operating vessels in foreign trade are greatly handicapped by the high cost of operation and construction in the United States. To overcome such shortcomings, the construction-differential and operating-differential subsidies as stipulated under the Merchant Marine Act of 1936 and its subsequent amendments has been favorably considered as the most effective remedy to avoid confusion and bring about a strong Merchant Marine of the U.S.A.

The 1936 Merchant Marine Act with its fair, honest and practical provision in the public interest, has become the keystone of American ocean shipping policy. It laid the groundwork for a carefully controlled shipbuilding program and for the adaptation of that program to the special requirements to maintain important shipping routes for the sailing of American ships.

Features of new ships for national defense use will be paid by the American government. Passenger ships, including the superliner, together with modern freighters were constructed as the

result of encouragement by the government. Companies who have agreements with the U. S. Maritime Administration for operation over the subsidized routes, have been greatly encouraged and they could seldom maintain the shipping services without government subsidy to put the American ship operator on a parity with the foreign competitor.

The proper amount of construction-differential and operating-differential subsidy is difficult to reach for the reason that foreign cost analysis is usually complicated. The privately owned portion of the American Merchant Marine can only carry 38.9% of the American export volume of trade. Tankers and tramp shipping services have not been subsidized.

American shipping has been greatly stimulated to prosperity by the Marshall Plan and the Korean War, but it can only last for a comparatively short period. A strong and adequate American Merchant Marine depends largely upon a sound and constructive American ocean shipping policy.

THE AMERICAN OCEAN SHIPPING POLICY

By William (Wei-Lien) Cheng