January 1978

American Shipper

Aftermath

Teddy Gleason failed to win a uniform contract but found another way to spread the cost of New York's burden

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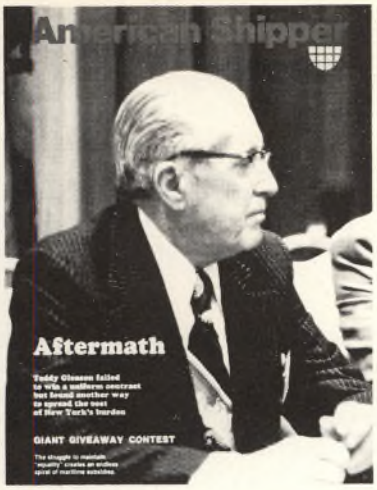

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Sometimes It Pays to Speak Up 2
Container lines operating off the Atlantic and Gulf Coasts took a financial beating from the selective dock strike during October-November and announced a 10% surcharge to recoup their loss. Shippers complained loudly, and the charge was cut back to 6% and a time limit set.

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That case between waste paper exporters and the Pacific Westbound Conference is as difficult to get rid of as ticker tape after a parade. Now, the carriers say the judge who ruled in favor of the waste paper group had the wrong idea about how ocean rates are made.

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When everything else fails, get tough. That's what Uncle Sam has done to iron out problems with Guatemala's cargo preference decree.

NMC MEET IN CHICAGO

Shippers Critical Of 10% Surcharge To Offset Losses From Strike; CPA Called In To Help Settle The Issue

200 Midwest shippers brave eight inch snowstorm for chance to sound off before FMC officials and carrier; surcharge was on most minds, but shippers decry loss of representation at FMC hearings; Daschbach asks that views be written direct to him.

Eight inches of snow didn't stop nearly 200 shippers from attending a National Maritime Council forum on the Federal Maritime Commission regulation of liner shipping in Chicago December 8.

What the Commission's two representatives, Chairman Richard J. Daschbach and Geoffrey Rodgers, director of the New York field office, found was that Midwest shippers are concerned about the length of FMC proceedings, the unpredictability of conference rates, the dual rate contract system, the possibility of the imposition of an emergency surcharge by North Atlantic conferences to recoup losses from the recent longshoremen's strike, rate disparities between inbound and outbound conferences serving the same points, and the Department of Justice interventions before the FMC.

"I am aware...that some members of the shipping community, especially small shippers, don't feel that they are given adequate representation in Commission affairs," said Chairman Daschbach. "There is some justification for the feeling shippers' voices are not heard as frequently in the corridors of the Commission as the voices of the carriers. It probably is fair to generalize that shippers do not provide as a group as much input into Commission policy making as other members of the maritime community. The blame for this deficiency rests in several areas: with the shippers themselves, with the Commission, and with the FMC's unique role as a regulatory agency."

Conferences Cut Surcharge To 6%; Ends By Oct. 4

In response to vigorous protests by shippers and consignees, the North Atlantic conferences on December 23 announced the proposed 10% temporary surcharge to cover losses incurred in the October-November dock strike would be dropped to 6%. The surcharge becomes effective January 19 and will not extend beyond October 4, 1978.

Deere & Co. Russ Waechter, the manager for overseas transportation for Deere and Company, told the forum, "For us out here, the Federal Maritime Commission is off in the distance, and it's somewhat mysterious...Before coming to this forum, I did a little bit of research on the FMC, and discovered that the statutes under which it operates were drafted in 1916—and apparently there's been very little change since then."

Waechter added that, "I don't know of any time that the Commission has given any assistance to a shipper to enable the shipper to meet worldwide competition."

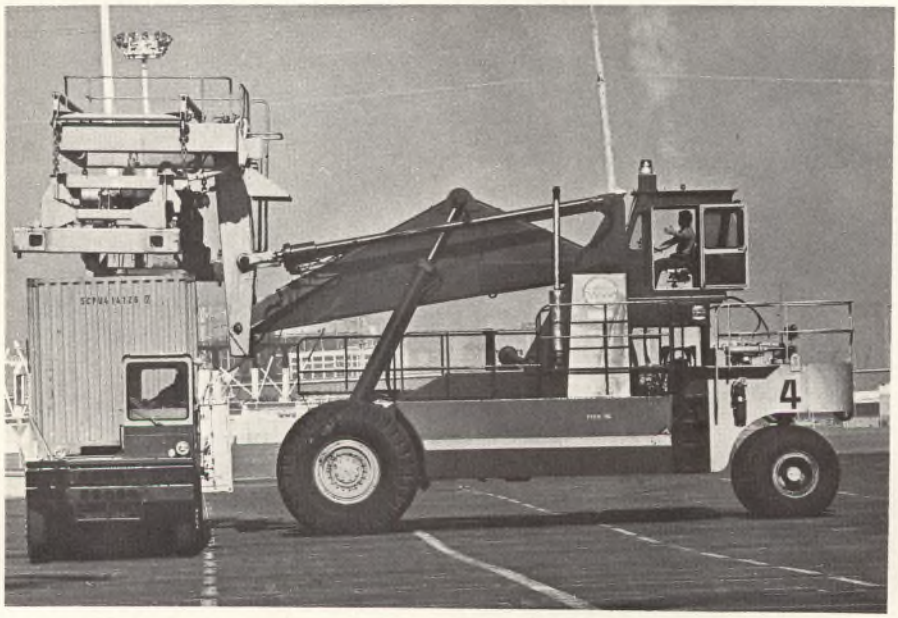
Sears, Roebuck. Milan Fabry, national manager for imports at Sears, Roebuck & Co. added, "The cost of shipping has increased more than the cost of merchandise and has become a significant cost factor. As a result, the merchant marine has become a significant cost factor in the total competitive posture of the U.S. merchandiser. Without predictability in international trade, based on predictability of rates, there always will be an underlying feeling of apprehension on the part of U.S. exporters or importers. Unfortunately, for some time now, we have been observing a lack of predictability of rates and of service. For example, the timing of rate increases has not corresponded with selling seasons in international trade. Increases are not guaranteed for a specific period of time, and buyers and sellers therefore must compensate by absorbing increases out of our profits. Both bunker and currency surcharges add to this unpredictability.

"We're facing the possibility of an 'emergency' surcharge, to be assessed on a 'temporary' basis for losses suffered by the lines during the recent East Coast longshore strike. All of these end up masking the true rate, and sometimes, additional surcharges are used as a coverup for other cost increases and operating inefficiencies," Fabry said.

Also, Fabry complained that the dual rate contract system is controlled very loosely, so that "signatories to contracts with conferences are penalized, since non-signators often are allowed dual rate discounts."

"With the new technology—containerization—contingent liability has become insignificant and inconsequential, so that the value of cargo should not be the predominant rate-setting factor," Fabry continued. "Cost of transport should be primary."

"One result of this emphasis on value as the key rate setting determinant is rate disparities on inbound versus outbound trades. In the Pacific trades, there can be as much as a 50% differential, which negatively affects the competitiveness of U.S. goods in the Far East, Fabry said. The complex tariffs that most conferences and carriers file before the FMC are another product of this value-oriented rate setting, Fabry noted.



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Joint Services? Charles Hiltzheimer, the president of Sea-Land Service told the forum that he believes that sometime within the next five or six years, there will be a major push for rationalization of the American merchant marine.

"In my opinion, approximately 20% of the U.S. flag shipping companies face either bankruptcy, or sale of all or part of their assets," Hiltzheimer said, "while around 80% do not make any profit on a year by year basis before receiving Operating Differential Subsidies from the Maritime Administration...We need to rationalize in order to realize economies of scale, and there should be encouragement given U.S. carriers to participate in joint services and other rationalizations."

Hiltzheimer said that Sea-land has advocated extension of the Shipping Act's Section 15 immunity from antitrust law to cover mergers of U.S. flag companies, allowing an antitrust exemption for conference rate bureau intermodal tariffs, and requiring conferences to promulgate independent rate action clauses to allow conferences and conference lines to price responsively.

Some Questions Asked by Shippers in Chicago

Q- There has been a move to deregulate at the Civil Aeronautics Board, a reduction of regulation in the domestic cargo and charter areas. Will President Carter get around to the FMC?

A- I don't believe the air cargo bill is a major step towards deregulation of transportation. In terms of deregulation, I think the carriers are faced with either the FMC or the Department of Justice's Antitrust Division...The real problem with deregulation is that American carriers would be obliged to live under the Sherman Antitrust Act; but will Japanese carriers, for example, be required to do so? We have found it far more difficult to export antitrust law than to export our Shipping Act.

Q- Does the FMC have the power to have conferences demonstrate the justification for a rate increase?

A- No. The Interstate Commerce Commission does have such power, and, in fact, can set rates. The FMC can require justification, and has the power in international commerce unless we can prove rate discrimination. There is a provision in the statute for disapproving a rate that is detrimental to U.S. foreign commerce, but I don't know of a single case where we've pursued this to the end. We do, however, have some power of friendly persuasion.

Q- *(Richard Schille, corporate international transportation manager for International Harvester)* **How do you propose to justify a surcharge to recoup losses from the longshore strike?**

A- *(Hiltzheimer)* Some conferences have met, and are in the process of submitting data to show the impact of the strike on each carrier through a Certified Public Accountant agency...The 10% surcharge now being contemplated will lead only to a partial recovery, in my opinion. While Sea-Land is not a member of all these conferences, we do believe that in all cases the carriers will evaluate reaction and act accordingly. Obviously, my visit here has made it clear that this proposal is of great concern to shippers. It is possible that, as a result of shippers' objections, that the carriers may reconsider the implementation date or the percentage of the increase.

(At this point, Mr. Fabry interjected: "Strikes have been here for many years...but I don't know of any industry which has tried to recoup losses immediately after a strike by price increases." Hiltzheimer replied that he had no exceptions to Mr. Fabry's comments, but "some companies face the prospect of going out of business if there is no recovery of losses within the next year.")

Q- Isn't it a bit preposterous to assess this emergency surcharge in view of the large volume of cargo that shifted to the Canadian gateway during the strike? If you throw 10% on top of what we have to pay now, you're not going to get some of that cargo back.

A- *(Hiltzheimer)* I think there will be some of that, but I don't think all the cargos routed through Canada as a result of the strike necessarily will be moving through Canada. Probably, there will be an increasing amount.

Q- What does the FMC do to promote the U.S. flag merchant marine?

A- *(Daschbach)* ...We're a regulatory agency, not authorized or empowered to promote the U.S. flag merchant marine. However, the Merchant Marine Act of 1936 is the law of the United States, and the FMC is required to enforce the Shipping Act in conformance with antitrust, environmental protection and government-in-the-sunshine laws, among others. I don't think we're obligated to administer our statutes in conformance with a long list of laws while ignoring the 1936 Act. To use the phase that says that the FMC has to be flag blind is to ignore the law of the land. Also, in the Shipping Act of 1916, the phrase "in the public interest" does appear, and I believe it is in the public interest that the U.S. has a U.S. flag merchant fleet.

Q- Do you feel that the frequent Department of Justice interventions before the FMC is a problem, and is there anything that we as shippers can do about it?

A- If I were a shipper, I'd want to see the Antitrust Division continue to play a role as the advocate for competition...The only concern I have comes down to the bottom line of who will make the final decisions on maritime regulatory questions...The problem of lengthy proceedings at the Commission is not strictly a product of the Justice Department's interventions—for example, I think it was unconscionable that it took two years for the Commission to reach the decision to hold hearings on the "A-AA" conference proposal (that would have allowed the Soviet flag Baltatlantic Line to join two North Atlantic conferences as a special status member, able to quote discounted rates). I don't think the Commission ought to be cowed by the Justice Department. They do, after all, have a right to intervene...I don't think we ought to cave in every time they come before us.

Q- What sort of services can we expect to find when the Chicago District Office of the FMC is opened?

A- *(Daschbach)* We hope that you shippers will come to our office and tell us what you think that office ought to try to do—we do not have any hard and fast guidelines yet...I also want to say that I strongly believe in the concept of government espoused by President Carter; in fact, I voted for him in the New Hampshire primary—that government should not be some kind of regal establishment, but should be as accessible as possible. I want you to call me if you've got problems, and I'm very sincere about that. When you write the Commission, write to me, as there is a suspension date affixed to all my correspondence, which means an answer must be readied by a specific date. We have a very capable staff at the Commission, and, with them, you and I should be able to talk about shippers' problems and approach a solution to them. That's the way government is supposed to work, after all.

(The new Chicago office is slated for opening in January, and will be located at the Customs House, at 610 South Canal Street, Chicago.)

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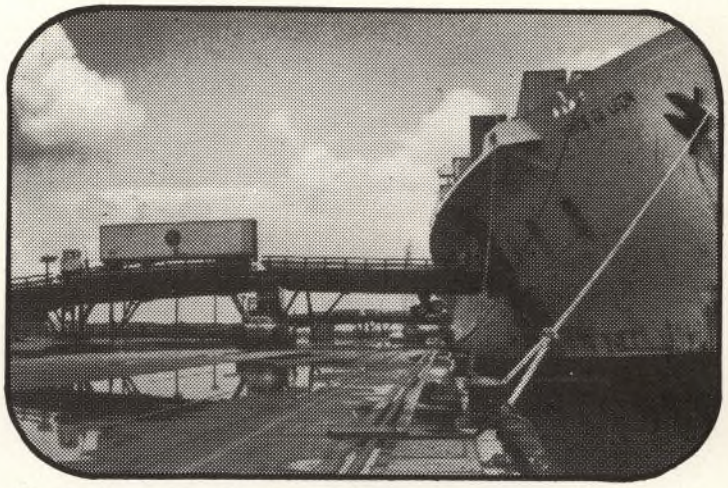

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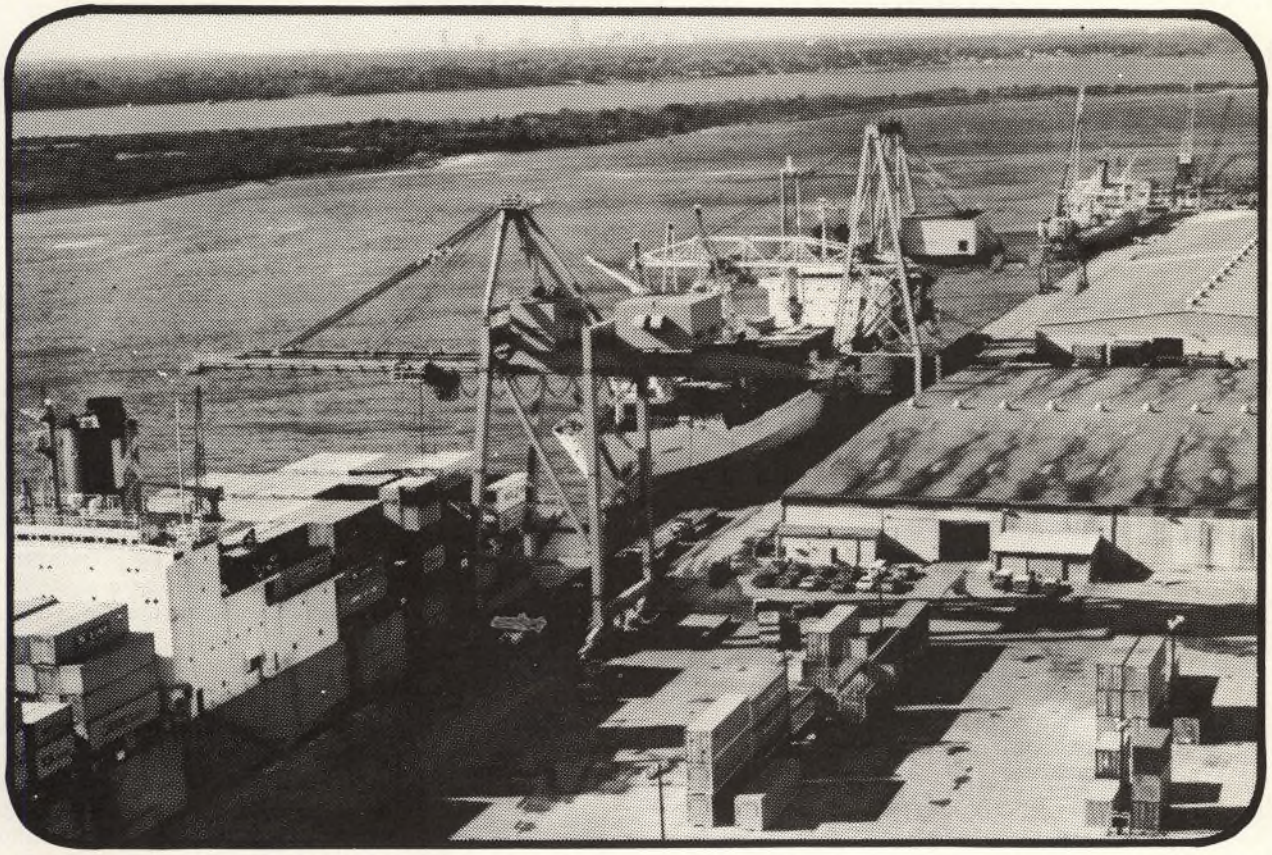

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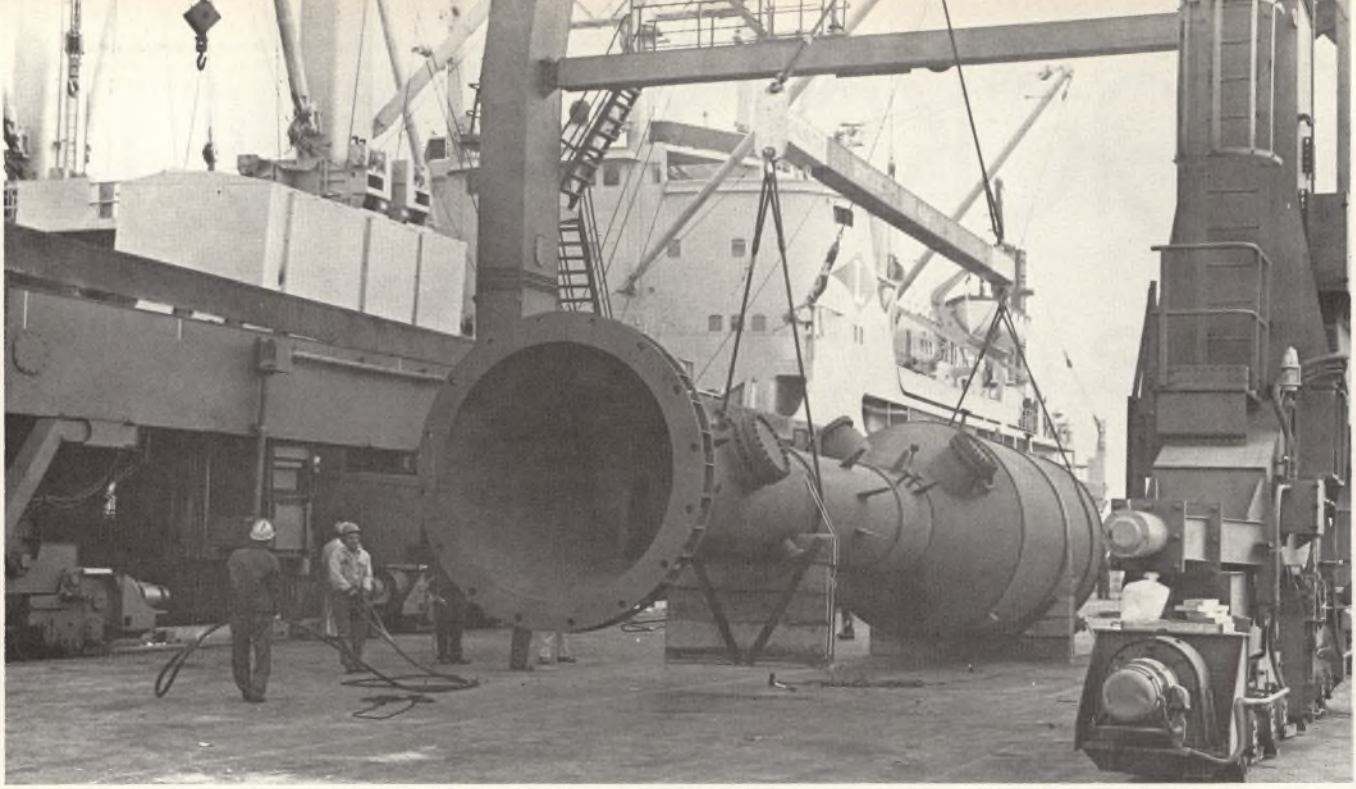

Breakbulk ships such as this Lykes freighter continued working during the selective strike but must contribute to JSP.

WHAT HAPPENS JULY 1?

Cloud Of Uncertainty Hangs Over Docks; Gleason Lost What He Was Looking For But Walked Off With An Even Better Deal

Most Atlantic and Gulf Coast steamship lines have agreed to cargo assessment which will underwrite a Job Security Program for ILA workers from Maine to Texas, but contracts are unclear about handling of ships whose owners refuse to pay the assessment. Discontent is strongest along Gulf Coast; speculate ILA and ILWU may be mapping strategy for a nationwide dock strike in July.

An uneasy calm has settled over the Atlantic and Gulf Coast shipping industry following conclusion of the 2-month dock strike which ILA President Thomas W. (Teddy) Gleason launched October 1 as a selective attack against automated carriers.

Despite Gleason's loud, continuous and convincing statements that he had no argument with anyone except the automated carriers, the contract settlement placed an unexpected burden against bulk and breakbulk carriers. There is sufficient discontent—especially along the Gulf Coast—to blow the issue wide open again after April 1 when the first hard data becomes available on the true impact of Gleason's new Job Security Program (JSP).

It is difficult to conceive that the owner of a 30,000-ton grain ship will run the risk of a strike because of a $600 JSP charge against his ship.

On the other hand, the owner of a 20,000-ton breakbulk carrier hauling steel, for example, from Europe to the United States, making 10 round trips per year, may be more than slightly annoyed at having to fork over $48,000 a year in JSP money to solve someone else's problem.

Deep in his heart, Gleason must realize that he has delivered the breakbulk owner a stab in the back.

There is considerable evidence that bulk and breakbulk carriers may end up paying more in job security assessments than the automated carriers against whom Gleason has waged a 20-year battle. If this happens and some carrier decides to challenge the JSP assessment plan in court, it could cause the entire contract issue to be reopened and a new Atlantic and Gulf Coast strike to be called in late spring or early summer.

Unpleasant Scenario. There is quiet speculation, in fact, that ILA President Gleason would welcome a total shutdown of Atlantic and Gulf Coast ports about July 1 when the International Longshore and Warehousemen's Union (ILWU) dockworker contract on the Pacific Coast comes up for renewal.

It's not a very pleasant scenario for shippers or for carriers, but it is one that fits and is being talked about in quiet tones around New York's Whitehall Club.

Who Must Pay?

Based upon Maritime Administration tonnage reports, following are approximate annual collections which might be anticipated from selected cargo movements for the Job Security Protection (JSP) Fund:

From Containerized Cargo	
New York Harbor	$1,600,000
Other CONASA Ports	666,000
South Atlantic Ports	331,800
Gulf Coast Ports	225,000
From Iron & Steel Exports	$1,019,000
From Certain Bulk Cargos	
Coal Exports	$ 967,000
Wheat Exports	736,000
Corn Exports	648,000
Ore Imports	338,000
Oilseed Exports	276,000
Fertilizer Materials	222,406

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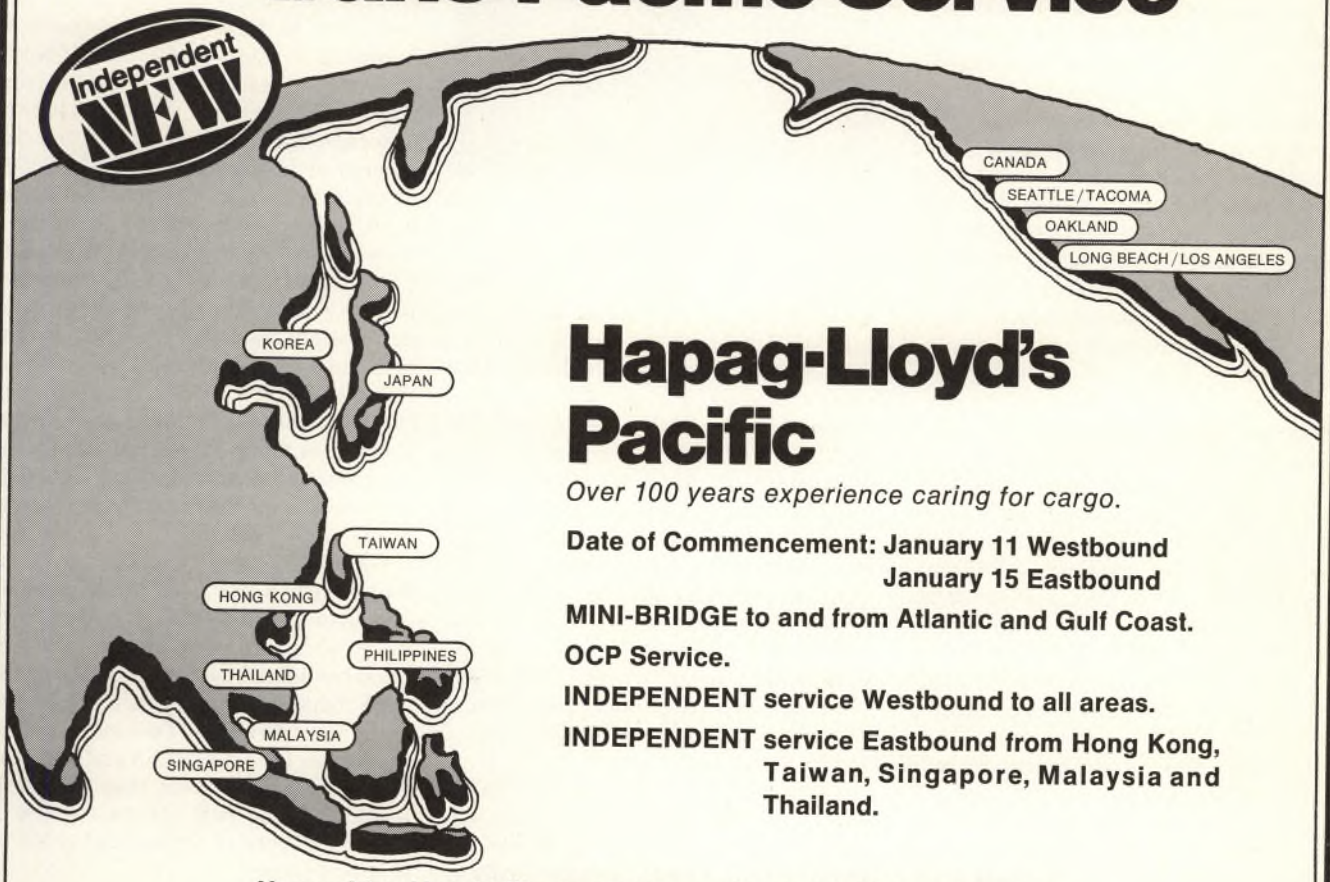

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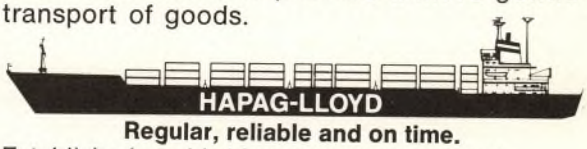

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As a crowning achievement to his career, it is speculated, Gleason would like nothing better than to bring about a unification of Atlantic and Pacific Coast dockworkers in a single AFL-CIO union—the ILA. This was impossible so long as Harry Bridges was leader of the West Coast dockers. But Bridges retired last year, and Gleason has been making overtures of reconciliation to Bridges' successor, Jim Herman.

A nationwide dock strike next July 1 would set a natural stage for the two union leaders to join hands, force a national contract and merge. This would allow Gleason to rule both coasts for a period of time while Herman establishes himself as heir apparent and lines up the votes to take charge of the ILA when Gleason retires. In view of the fact that so many of Gleason's chief lieutenants have problems (one convicted of accepting illegal payments, income tax evasion and racketeering, thus making him ineligible to hold a union post for five years; another with close Mafia connections which make him unacceptable in the eyes of many; and another lacking the charisma and support which he would need from union members), Herman should have an advantage in ascending to the ILA presidency on Gleason's coattails.

10%/Year Pay Increase. In round numbers, the new Atlantic and Gulf Coast dock contract gives longshore workers a 10% per year pay increase in base pay and fringe benefits. Although the figures for the total package will vary slightly from port to port, workers in the North Atlantic will move from $8 per hour (package cost of $10.84) to $10.40 per hour (package cost of $14.15) in the third year of the contract commencing October 1, 1979.

In the New York area where dockworkers are guaranteed pay for 2,080 hours of work each year, this means that dockworkers advance from a pay scale of $16,640 per year (package cost - $22,547) to a base wage of $21,652 per year (package cost - $29,432) during the third year of a the new contract.

While these pay scales seem high, particularly for unskilled workers handling breakbulk cargo, there was no serious argument about them during the contract negotiations. Gleason could have gotten the money over a cup of coffee.

Cost of the JSP Plan. The real problem which precipitated the two-month strike grew out of the high cost of the guaranteed annual income (GAI) agreement which Gleason won for his workers six years ago. While union and management officials in most parts of the

country negotiated local port agreements with which they can live, operators in the Port of New York were extremely generous and agreed to guarantee dockworkers in that area an income equal to 2,080 hours of work per year—that's 40 hours a week, 52 weeks out of the year.

Since containers have been responsible for a substantial reduction in total manhours of work available, the container steamship lines agreed to a $1 per ton royalty (since increased to $2 per ton), which is paid into funds to guarantee income to long-time dockworkers shut out of work. It was thought the workers could be shifted around to areas where work was available, but the dock men found enough loopholes to get their pay and not work.

All these agreements were reached at a time when the shipping industry was completing a move from the Manhattan docks to New Jersey, leaving virtually no work available on the island of Manhattan itself. As a result, the shipping industry still is confronted with a situation where about 700 men who formerly worked on the Chelsea docks along the North River have been drawing full pay of $16,640 a year (plus benefits) despite the fact they have not done a lick of work for a period of six years. Under the new contract, these 700 men will be able to draw $21,652 in their base wages with no prospect of having to do any work for it. Most of the men are holding down full-time jobs elsewhere.

Because of the hugh sums being paid out to men on the Chelsea docks (about $11,600,000 per year) and similar areas, the container royalty funds in New York have fallen far short of being adequate to meet the contract negotiations even in the past.

Other ports along the Atlantic and Gulf Coasts have managed quite well under their old contracts with only small sums being paid out of the GAI trust funds in most areas (with the exception of Sunny Point, North Carolina, an army ammunition depot which built up a large payroll during the Vietnam War). But New York has been a constant worry, and Gleason made a solution to the problem his chief goal in the 1977 contract talks.

Spreading the Burden. To understand how it came about that steel and grain carriers serving the Gulf Coast ports have been asked to help pay for the men along the Chelsea docks in Manhattan, it is necessary to turn the pages back to August 1976 when the Council of North Atlantic Steamship Associations (CONASA) and the ILA sat down to negotiate methods to protect the job security of dockworkers after a June 1976 decision which invalidated the make-work Rules on Containers in the Port of New York. On August 25, 1976, CONASA offered Gleason a job security plan which would protect the pension and welfare funds in all CONASA ports (Norfolk to Maine) from direct reductions in work opoportunities caused by the invalidation of the Rules on Containers. Gleason rejected the offer on the grounds that it was too limited both in its protection of the funds covered and in its geographical scope.

When no other solution could be found, CONASA and ILA reached agreement to undertake a study and to make a census of work opportunities available in the various North Atlantic ports, hoping that this would point them in the right direction. Two months later, in October 1976, CONASA and the union reached an agreement that CONASA would "use its best efforts to seek to extend the scope of bargaining to a Maine to Texas basis."

Turned Down in the South. In support of this understanding, CONASA sent emissaries to the various South Atlantic and Gulf ports during the latter part of 1976 and early part of 1977 urging the creation of an overall employer negotiating group to negotiate with the ILA on a Maine to Texas basis. Despite their best efforts, the CONASA representatives were unable to convince the other employer groups. Last April following a selective five-day strike against containerized carriers, the steamship owners agreed to an increase in the container royalty payments. In addition, they agreed to make any wage increases negotiated in the new contract

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retroactive to June 1, 1977.

When formal contract discussions began last June, Gleason immediately demanded a 20,080 hour guarantee to all workers, Maine to Texas. This plan never got off the ground. Some of Gleason's ILA local presidents, including such men as Myles Billups in Norfolk, Virginia, knew the 2,080-hour guarantee was unrealistic in their ports and refused to go along. Management (except in the New York area) refused to go along either, and Gleason began to shift emphasis to what he described as "a job security program."

As contract discussions proceeded through June and July, it became apparent the ILA was concerned with the impact of increased automation and intermodalism (micro and minibridge operation) on longshore fringe benefit funds. The union adopted a constant position that such changes would affect ILA workers in many ports as various types of cargo shifted from one port to another for a variety of reasons. In mid-summer, Gleason indicated that a Common Feeder Fund, which would provide protection for GAI, pension and welfare funds in the various North Atlantic ports might resolve the issue. This approach was immediately objected to by ports outside of New York.

Meanwhile, the ILA complained constantly that it "was not able to bargain with any group capable of responding to its demands for jobs security on any meaningful or overall basis." In response to this, the New York Shipping Association negotiating committee composed of four stevedore and four carrier representatives was enlarged to include eight carrier and four stevedore representatives. At this time, specific bargaining on job security began.

Taste of Victory. By this time, CONASA had drafted and offered Gleason a proposal which would provide for a method of meeting shortfalls in the pension and welfare funds on a common fund basis. Beginning to taste victory, Gleason rejected the offers, insisting on a protection of all ILA funds on a Maine to Texas basis. Gleason was beginning to get what he wanted from the new NYSA negotiating committee, but talks were complicated by the fact that stevedores in the individual ports (not the carriers) are the direct employers of labor and are parties to the contracts at the individual ports.

On September 22, an informal presentation was made to the ILA which provided that while CONASA could not agree on a Maine to Texas Job Security Fund, the carriers which serve the North Atlantic, South Atlantic and Gulf ports would agree to such a fund subject to certain conditions, including agreement

of the various local ports associations in the various coastal ranges. The ILA rejected the proposal and the stage was set for the selective strike called against container, Ro/Ro, LASH and SEABEE vessels commencing October 1. Gleason made an agreement with ILWU President Herman to extend the selective strike to the West Coast, thereby preventing diversion of Pacific cargos through California, Oregon and Washington ports. A court injunction blocked the West Coast move.

Very little happened until October 22nd when the steamship carriers on the New York Shipping Association negotiating committee presented their Job Security Program to the ILA, which recognized the carriers as the collective

bargaining representatives on the issue of job security from Maine to Texas.

At this juncture, the Job Security Program was one which would have covered shortfalls created only by intermodalism and automation. The ILA insisted that all local GAI plans contain certain provisions which it considered necessary for the protection of its members' interests, but the carriers had no authority to negotiate on the provisions of local GAI port plans. By November 11, all of the local ports in the North Atlantic range had reached substantial agreement on their individual GAI programs.

The taste of victory was becoming even sweeter to Gleason, and during the weekend of November 11-13 he introduced a totally new demand that the Job Security Program cover all shortfalls, in addition to those created by automation and intermodalism. The Job Security Program was amended, therefore, with the agreement of the ILA, from a limited program to be paid entirely by automated cargo to a full program whose cost was to be shared by all cargo handled along the Atlantic and Gulf Coasts.

The reason given for the change was the "mutual understanding of the negotiating parties that shortfalls under the amended Job Security Program could be caused by various reasons (other than strike) such as:

- **Intermodalism,** including minibridge and microbridge, and other new concepts;
- **Increased automation** and mechanization applicable to all modes of cargo movement;
- **Diversion of containerized,** Ro/Ro, LASH, SEABEE or breakbulk commodities now moving from one port to another port;
- **Movement of bulk** commodities from one port to any other port or ports;
- **Economic events** such as recession, international upheavals, trade route dislocations or foreign boycotts;
- **Physical acts** which might impact a port, such as explosions, fire or other physical acts;
- **Any other act of God."**

Working Out the Details. After almost 18 months of talk, the substance of the new dock contract was hammered out actually on Friday, Saturday and Sunday, November 11-13. It was then, at a meeting attended by Gleason and many of his ILA vice presidents, that is was agreed that the automated carriers could not be expected to pay for all shortfalls in view of the ILA's desired change in the JSP program. It was agreed to establish three main categories of cargo which would be assessed to generate funds for the JSP program.

	Per Ton
Automated Cargo	20¢
Breakbulk Cargo	12¢
Bulk Cargo	2¢

It was also agreed that "all carriers present (on the negotiating committee) would agree to support the results of the study so that any changes could be implemented without impairing the industry's obligations under the labor contract."

A rough draft plan was developed during the night of Friday-Saturday, and by late Saturday morning, the conflicting views of the various carriers had been reconciled with the exception that Dagfinn Gunnarshaug of Concordia Line dissented. He stated that he did not disagree with the concept, but only with the tonnage rate of 60% assigned to the breakbulk carriers.

It became clear that future study and possible adjustment of the assessment rates would be necessary and the ILA agreed to this, indicating it would review and acquiesce in such a study if it considered the results fair and equitable among the carriers.

On November 17 the carriers among themselves agreed to establish a study

committee which would analyze the results of the JSP program, to become effective on December 1. To quiet the discontent along the Gulf Coast, the committee agreed that the study committee would be composed of a representative from each of the three main modes of cargo movement. In addition, they agreed that in the event that none of the three representatives included a carrier representing interests in the Gulf range, the committee would be expanded to include a Gulf carrier as a fourth member.

The study committee is charged with the responsibility to analyze the reasonable relationship of the rate of contribution among the automated breakbulk and bulk cargo, to consider any changes or modifications which may be required, and to include in their study other subjects which the group might consider necessary.

They are to complete their study no later than April 1, 1978.

Meanwhile, one-half of all funds collected for the JSP fund between December 1 and March 31, 1978, are to be held in escrow for the purpose of making any adjustments which may result from the study.

The strike thus ended and the Federal Maritime Commission held an emergency hearing December 16, giving its formal approval to the joint agreement among the various steamship lines involved.

The steamship owners quickly created an organization to be known as JSP Agency, Inc., temporarily headquartered adjacent to the NYSA offices at 80 Broad Street, New York, New York, to fulfill obligations of the new contract.

By December 20, most the container, Ro/Ro, LASH and breakbulk carriers operating liner services at Atlantic and Gulf Coast ports had signed the agreement. Owners of bulk cargo ships were absent noticeably from the initial list of signatories to the JSP agreement, however, leaving some doubt as to how they would react. The new dock contract allows the ILA to refuse service to any vessel whose owner has not complied with the agreement, making assessments directly to JSP or through his stevedore to the maritime associations in the individual ports of call.

Case by Case Decisions. The new agreements are ambiguous on the subject of vessels whose owners are not party to the agreement. The JSP agreement provides: "If any carrier does not subscribe to the JSP agreement, the ILA shall have the right not to work on the loading and discharging of its shipments, or any work ancillary thereto." The individual port (management) associations are required to render a report to the JSP Agency, Inc., on "each vessel worked for each non-signatory. This weekly report should include the name of the non-signatory, the name of each of its vessels worked in the port during the period of the report and for each vessel the dates of its arrival and departure, the stevedore of the vessel, the agent of the vessel, the number of breakbulk, automated and breakbulk tons loaded and discharged for that vessel and the name of the association member who provided the information to the association for that vessel."

No where does it say flatly that no non-signatory vessels will be worked, or that the loading or discharging of cargo for a non-signatory vessel will be cause for a strike.

The door is ajar, therefore, for considerable decision-making at the local level between steamship management and ILA local union officials, such as occurred at Miami and other ports in the midst of the 2-month strike.

Despire the fact that Miami is one of the most completely containerized and trailerized ports in the nation, tonnage moved during the strike month of October was 21% higher than during the same month a year ago and remained 17.8% higher in the strike month of November. Similar agreements conceivably can be reached at other ports to permit loading or discharge of bulk and/or breakbulk ships without payment of the JSP assessment.

It is unlikely that anything will happen prior to April 1 when the initial JSP study is complete. There are enough loopholes within the agreement to leave a cloud of uncertainty about the entire program and thus play into the hands of Gleason if he decides that a national strike next July 1 will enhance his plans.

ILA Contract Talks Poorly Managed; Lines Were Divided And Left To Guess What Gleason Wanted; West Coast Next

Hiltzheimer tells Chicago-area shippers what went wrong; ILWU's new President Jim Herman will be tough, but he has told steamship lines what he wants; no more guessing games.

"It was unclear what the demands of the International Longshoremen's Association were until about three days before the end of the (East Coast dockworker's) strike," Sea-Land Service's President Charles Hiltzheimer told the National Maritime Council Midwest region's forum on Regulation of Liner Shipping in Chicago December 8.

Hiltzheimer reported that there were few meetings through the summer before the contract expired September 30.

"Part of the problem was that the ILA's president, Teddy Gleason, thought that he might be able to get a Maine-to-Texas agreement, which the industry cannot legally give him," Hiltzheimer said. "After this was ruled out, we had to guess, and we guessed correctly, that the ILA wanted some sort of job security program."

The Sea-Land president said that throughout the course of the strike, about 80% of Atlantic and Gulf Coast longshoremen were working, since breakbulk and bulk cargos were moving through most of the ports on the two coasts.

"This put all the pressure on automated carriers (the containership operators) and almost none at all on the ILA, since such a large number of ILA workers were able to find work. Settlement of the strike was complicated because the breakbulk carriers and the ports did not want the Job Security Program (JSP) proposed by automated carriers. The strike was unnecessary, in my opinion; it was devastating and unnecessary. And I can tell you, we're not going to let it happen again," Hiltzheimer said.

It is possible that containership operators will demand a larger voice in future ILA contract negotiations, and may go as far as setting up an automated carrier negotiating committee separate from the Council of North Atlantic Shipping Associations; Gulf Coast and South Atlantic Shipping Associations that now negotiate ILA contracts, Hiltzheimer suggested.

"I think you shippers have a right to know and to inquire whether this industry acted responsibly during the longshore contract talks. I know some carriers who did frustrate the talks, and I think ILA demands for things—like the old container rules, that the industry couldn't deliver—also stalled the talks," Hiltzheimer said.

West Coast. "We're not expecting any real problems when the West Coast contract (with the International Longshoremen's and Warehousemen's Union) comes up (July 1). We've already started work on contract proposals to prevent a strike there," Hiltzheimer answered in response to a question from the floor." Of course, the West Coast is a different situation. The ILWU controls all the ports there, and has a coastwise contract with only one management representative (the Pacific Maritime Assciation). You don't have the CONASA-South Atlantic-Gulf Coast type of split. Furthermore, representation on the PMA is proportional to the tonnage moved by a carrier. On the East Coast, the stevedores control our destiny as containership operators in the negotiating room.

"Either we automated carriers will get a sensible vehicle to represent us, or we'll form one," Hiltzheimer added.

Hiltzheimer believes that, despite the fact that there is an unknown quantity on the West Coast, with the new ILWU president, Jim Herman, facing his first contract negotiation for his ILWU dockworkers, the ILWU-PMA contract talks will go fairly smoothly.

"Our company has already made a determination of what the union wants and we did not know what the key issue would be in the East Coast negotiations. On the West Coast, (former ILWU president) Harry Bridges encouraged automation, while (ILA president) Gleason, on the East Coast, did not. The ILWU president may try especially hard for the most he can get with the new contract, but at least we know what we're talking about," Hiltzheimer said.

"Another longshore strike would just devastate this industry," he added.

THE SUBSIDY RACE

USA Is Free World's "Big Spender" In Direct Financial Aid To Shipping But Ranks Low On A Per Capita Basis

Norway ranks No. 1 in per capita assistance to its maritime industry, but most of the aid is in indirect tax and finance assistance which appears to be the wave of the future; programs are diverse, difficult to compare; designed to meet specific national objectives.

Maritime subsidy is one of the most illusive areas of international commerce with many nations competing in many ways to achieve, and perhaps guarantee, their own national objectives.

It is common belief that the Soviet Union bestows the largest total amount of subsidy on its merchant fleet in order to earn hard currency and achieve worldwide political objectives. But the facts are buried as deep in Kremlin budget reports as America's CIA appropriations are lost in other Congressionally approved funds.

The Federation of American Controlled Shipping (FACS) contends the various subsidy programs around the world tend to balance out. (See other story, this issue.) One way or another, steamship owners find ways to compete on a fairly equal basis regardless of their nationality, according to FACS. If this were true, taxpayers around the world might consider scrapping all programs in one move. But there will always be an outsider unwilling to go along, and the gigantic contest is certain to be resumed as nations seek to match subsidy with subsidy.

Some subsidies to help shipyards.

Many studies have been conducted in an effort to compare subsidy programs around the world. Latest of these is a lengthy report compiled by the Temple, Barker & Sloane research firm of Wellesley Hills, Mass., under contract to the Maritime Administration. The TBS report examines the forms of assistance given the maritime industry by six leading maritime nations—all friendly to the United States. They are Japan, Britain, Norway, West Germany, France and Sweden.

Subsidy Per Capita. Although the TBS report was concerned only with the six nations, it is possible to lay the figures alongside those of the United States and see how all the programs differ.

Such comparison quickly reveals the United States to be the "Big Spender" in terms of total dollars of direct aid.

When the figures are translated to a per capita basis, however, the United States comes off in an entirely different light. Norway is the "Big Spender" now, with "assistance," as contrasted to direct aid, equal to about $76.86 per capita—a fact which reflects Norway's heavy reliance on maritime earnings to maintain its high standard of living. Sweden is second among the seven nations, spending about $15.90 per capita, and Britain is third at $5.81 per capita in total assistance and aid.

The United States is giving the maritime industry about $2.47 a year per capita in total assistance and aid through Operating Differential Subsidy (ODS), Construction Differential Subsidy (CDS) and financing assistance. France is close behind at $2.38, while West Germany trails at $1.63.

Summary of Benefits to National Flag Merchant Fleets (Average 1971-75)

	Investment Financing Assistance *(low interest loans, interest subsidies, loan guarantees)*	Tax Allowances	Direct Subsidies	Cargo Preference	Government Ownership
Japan	$101 million	$ 83 million	minor, coastal operating subsidies		
Britain	$ 28 million	$101 million	$191 million		
Norway	newly initiated program, no data yet	$269 million	coastal subsidies		
Sweden	$ 4 million	$125 million		cabotage	
Germany	$ 2 million	$ 32 million	$ 64 million	cabotage	
France	$ 64 million	$ 36 million	$ 21 million	yes- 2/3 oil import and cabotage.	yes
U.S.A./1976	$202 million	yes, figures not available	$301 million	cabotage and government-controlled cargo	

Beware of Juggling Numbers or Comparing Apples & Oranges

Based upon the available data, the United States is the big spender in direct maritime subsidies. No other nation, with the possible exception of Russia, lays out $301,000,000 a year in direct aid. On the other hand, Norway appears to be the big spender on the basis of tax allowances—but little or nothing in direct aid. The reader is invited to take his pick among any of the following comparisons—which prove nothing.

Maritime Subsidies, Per Capita

	Total Aid	Direct Aid
Japan	$ 1.79	-nil-
Britain	5.81	3.45
Norway	76.86	-nil-
Sweden	15.90	-nil-
West Germany	1.63	1.06
France	2.38	.41
United States*	**2.47***	**1.47***

Maritime Subsidy as % of Total Trade

	Total Aid	Direct Aid
Japan	.139%	-nil-
Britain	.312%	.187%
Norway	1.414%	-nil-
Sweden	.314%	-nil-
West Germany	.051%	.034%
France	.1 %	.017%
United States*	**.207%**	**.124%**

* Tax benefits allowed in USA are not reported.

All of the figures are meaningless, however, without a close look at the way aids are structured and the objective each government seeks to achieve. The picture is a massive brier patch nourished by good intentions of many governments and concealing numerous elusive rabbits.

5-Year Averages. Japan's financial aids to its merchant fleet over the years 1971-75 averaged $208 million, reaching a high point of $357 million; Great Britain's aid averaged $320 million, reaching a high point of $381 million; Norway's an average of $269 million, reaching a high of $333 million; Sweden's aid averaged $128 million, reaching a high point of $300 million; Germany's, an average of $99 million, and reaching a high point of $145 million; and France's aid averaged $121 million, reaching $142 million.

In 1976, according to the Maritime Administration's Annual Report, U.S. financial aids included $301 million for direct operating differential subsidy payments, $202 million of Federally guaranteed mortgages under the Title XI program, plus an as yet undeterminable amount of tax deferral assistance under the Capital Construction and Capital Reserve Funds programs.

More Aid in the Future. According to the

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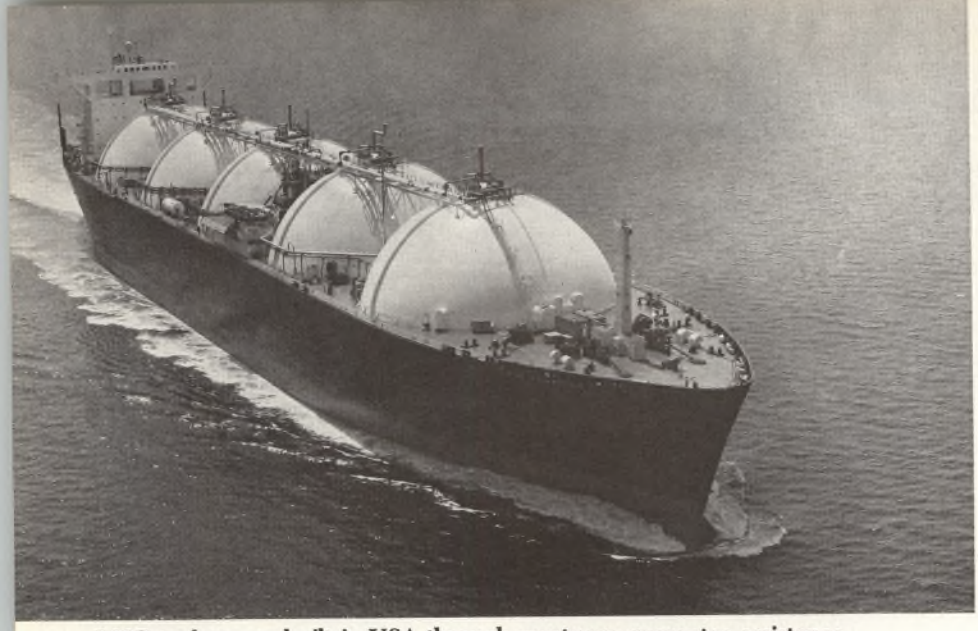

LNG tankers are built in USA through mortgage guarantee assistance.

Maritime aids report, all six of the major maritime countries, with the exception of France, will be decreasing financial assistance to their merchant fleets over the next several years, while Great Britain, Norway, Sweden, and West Germany will be increasing assistance to their beleaguered shipbuilding industries.

On the other hand, according to the Fiscal Year 1978 Federal Budget, Operating Differential Subsidy outlays will be increasing from $277.7 million in 1976 to $361 million in 1977 and down to $324 million in 1978; the Construction Differential Subsidy program, which benefits shipyards, will be fairly constant at between $220 to $205 million, decreasing slightly by 1978.

Objectives. Among the emphases of the six maritime countries' government assistance programs that emerge from the report are: on maintaining employment in shipyards, on increasing shipowners' liquidity through various tax benefits, on diversifying national flag fleets, and on promoting cross-trading activity through cooperative shipping and shipbuilding activities with the developing nations.

"Nearly all the nations faced serious challenges to the competitive positions of their fleets," the report noted. "Primarily citing high labor costs, owners have asked for and received consideration and permission to 'flag aboard', charter, or otherwise move some portion of operations to nations under whose flags lower costs may be incurred. The governments of developed nations with key interests in cross-trading recently have eased restrictions on joint ventures abroad so as to insure the continued utilization of their fleets in cross-trades."

The major programs that all of the six maritime countries utilize include investment financing assistance (low interest loans, interest payments subsidies, and loan guarantees) and tax allowances. Direct subsidy payments, comparable to the U.S. Maritime Administration's Operating Differential Subsidy, play a less significant role. Only the British, Germans and French have a direct subsidy program, and only the French plan to increase assistance under this program. (The French merchant fleet, like the U.S. flag fleet, does not participate extensively in cross-trades).

"While the use of indirect aids generally has proven effective in extending benefits to fleets, the use of direct aids to shipbuilders has become increasingly common," said the report. "Given the inability of even extensive subsidies to keep yards occupied, restrictions on aid to owners ordering abroad and increased export programs to facilitate the financing of export orders will see development in the coming decade. Assistance to less developed countries and emerging national fleets and shipbuilding industries also have become areas of increased interests."

Competition. It seems clear that the six maritime countries, to say nothing of countries developing a shipbuilding industry (including South Korea, Taiwan, and Brazil) will be continuing the fierce bidding for new orders that has characterized the last few years. To a certain extent, this aid will be directed at improving construction capability for specialized vessels, such as Roll-On/Roll-Off ships, containerships, chemical tankers, and heavy lift vessels—decreasing the modest competitive advantage now enjoyed by the U.S. shipbuilding industry in these fields.

It is also clear, that this race to maintain national shipbuilding industries will make it even more difficult to secure a balance between the supply and demand for ships in the immediate future. The impact on the over-tonnaged U.S. trades, on the move towards shipping protectionism in the developing world, and on the U.S. bulk shipping promotion program can only be negative. Pressure from lines in the U.S. trades seeking further extension of antitrust immunity under the Shipping Act of 1916 almost certainly will increase.

"The three largest fleet operators have supported their fleets in distinctly different ways.

Japan, with the largest fleet, utilized extensive investment financing assistance during the 1960s. The U.K. fleet expanded rapidly in the 1970s as the result of heavy expenditures through a grant program. The Norwegian fleet benefited primarily through indirect tax allowance programs. The three other study nations benefited primarily from indirect tax allowances (Sweden), equipment grants (Germany and France), and interest subsidies (France," the report said.

Trends To Indirect Assistance. Recently, the Japanese government has begun to de-emphasize investment financing assistance, opting for extension of tax allowance programs, as lower growth goals were established for the Japanese merchant marine. In Britain, grants have begun to be phased out, again, in favor of tax allowances, and more recently, for investment guarantees. Germany and France both seem inclined to maintain or increase their grants programs, while Sweden and Norway are likely to continue with a tax allowances-oriented assistance programs.

Tax allowances in Japan, Sweden, Norway, and to a lesser extent in Britain, apparently accompany a new government interest in flag of convenience fleets, which allow for easier access to protected shipping trades, particularly in the less developed countries, as well as lower operating costs.

"(Tax allowance) programs are the most broadly used form of assistance given to ship owners," said the report. "These programs provide large cash flows and support the establishment of large reserves during periods of high profitability, and through the high levels of liquidity achieved and long loss carry forwards, indirectly provide benefits during shipping recessions." In addition, these programs have acted as a brake on vessel replacement, particularly in Britain, and have encouraged the participation of banks in the shipping business, making a larger capital market available to the industry.

(Limited capital markets have been an especially acute problem in Norway and Sweden.)

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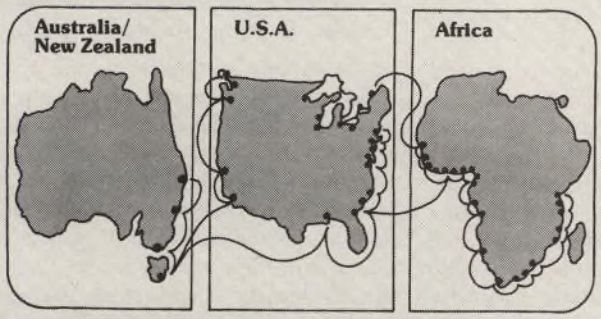

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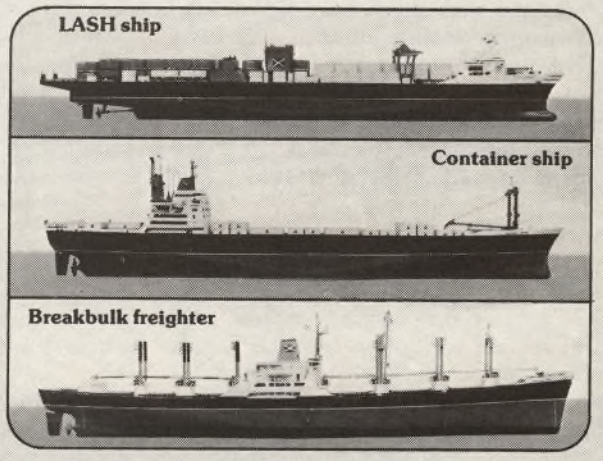

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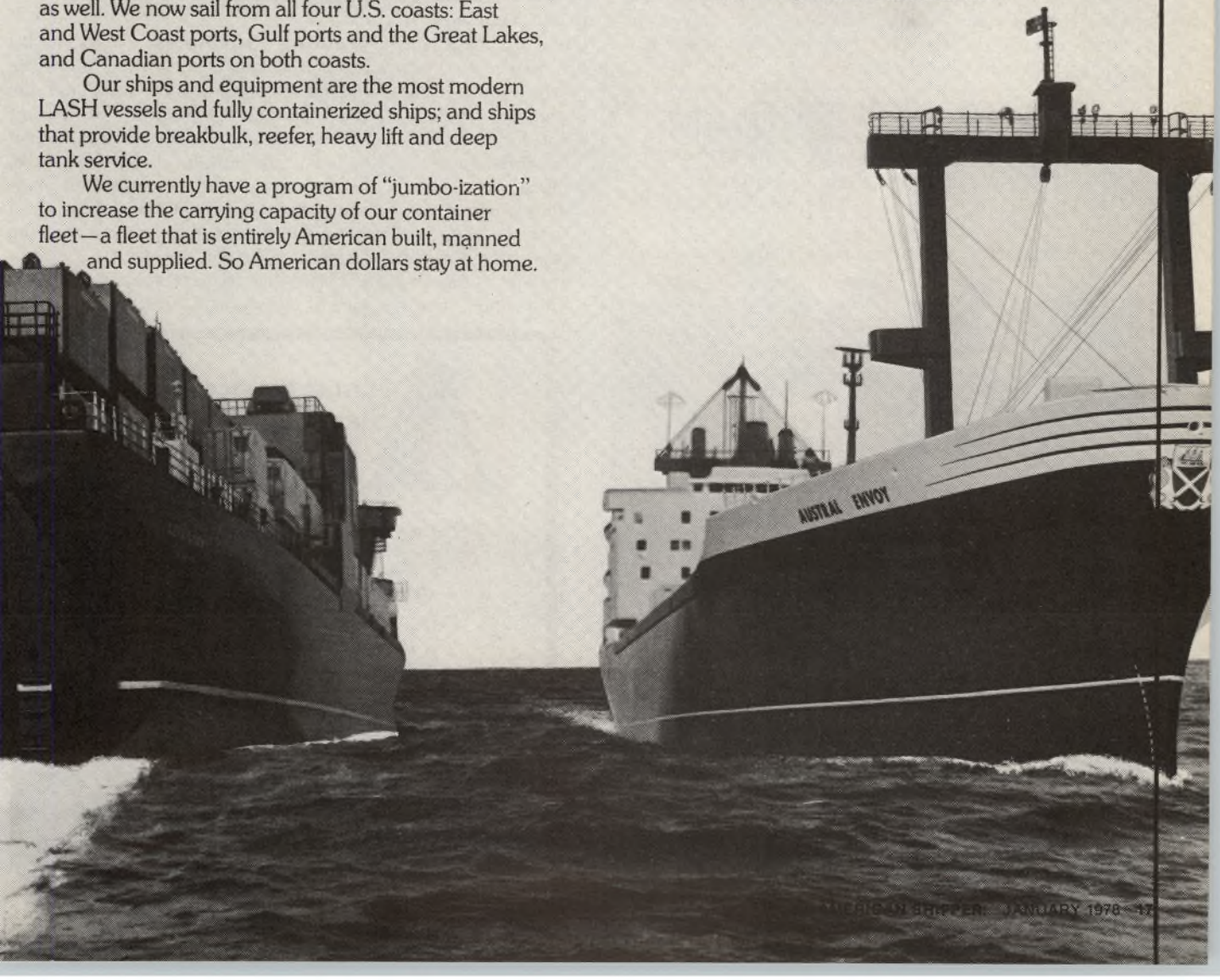

Image Of Cozy Relations Between Carter And Maritime Unions Must Change, Maine Academy Chief Says

Says "massive subsidies" have done little to reverse decline of U.S. flag merchant fleet; that public image must be changed before another attempt is made to secure corrective legislation; jobs are plentiful for recent graduates of school at Castine.

"Massive subsidies over the past 20 years have done much to promote the welfare of special interests and little to reverse the tide of decline of our merchant marine since World War II," according to Rear Admiral E.A. Rodgers, superintendent of the Marine Maritime Academy.

Admiral Rodgers expresses his concern over the subsidy program as "a taxpayer and citizen" rather than his role as superintendent of the Marine academy, where he takes an agressive stand to promote the U.S. flag on merchant ships.

His principal immediate concern is the question of indirect subsidy to union operated schools such as the Calhoon School operated by the Marine Engineers Beneficial Association at Baltimore. The school is named after MEBA President Jesse Calhoon.

The admiral feels that a letter which presidential candidate Jimmy Carter wrote to Calhoon in the midst of the 1976 presidential campaign "brought the cargo preference bill to an untimely end" in Congress last year.

In that letter, Carter asserted support for the U.S. flag merchant marine and hinted strong support of cargo preference and union-operated training programs such as the Calhoon School.)

Maine Maritime Academy campus.

Change the Image. "I am convinced that one prerequisite to another attempt at cargo preference legislation should be a determined effort on the part of ship operators, the Congress and the Administration to make our U.S. flag operations as efficient and competitive as possible," Rodgers told *American Shipper*. "Although training contributions to unions, high fringe benefits, featherbedding and very high salaries are only a part of the high cost of operating under the U.S. flag, this would be a good place to start trimming sails, since it would go a long way in countering the image of continuing political payoffs to labor and thus start a movement toward restoring confidence in our merchant marine."

Admiral Rodgers also expresses concern over a Government Accounting Office (GAO) report released last year which raised questions about the relative cost of training personnel at state-supported academies such as the Maine Maritime Academy at Castine, the federally supported maritime academy at King's Point, N.Y., and the Calhoon School.

Training Subsidies. "Taken by categories, the GAO report shows the federal cost for King's Point and the state academies, but does not account for the indirect subisides to the Calhoon School," the admiral said. "Likewise, the Rooney report of a couple of years ago spoke of difficulty in getting good information on taxpayer input into the Calhoon School.

"Since the indirect subisides form a part of Operating Differential Subsidies

Training ship S/S Maine moored at Castine berth.

(ODS) paid to shipping companies, the information is available in the Maritime Administration. In addition to these indirect subsidies, even the unsubsidized operators under contract with Calhoon are required to make substantial contributions to his union for trianing and these are deductible expenses for income tax purposes.

"Furthermore, the King's Point and Calhoon School cadets get their sea time on commercial ships and the companies are required to pay these students the cadet wage. The state academies are required to operate training ships at considerable expense and in some cases (Maine and New York) we are obligated to have the ships in a ready condition for national emergencies.

"While the fees at the state academies vary, it costs the students at these schools about $4,000 per year on the average. King's Point, being a national academy, provides a free education to students, and the Calhoon School students actually are paid during the entire three years that they are in attendance. Contrary to what the GAO reports, I believe that it would not be difficult to make a relative cost analysis of federal cost per graduate for each of the three systems."

Jobs Plentiful. Admiral Rodgers does not take issue with the quality of training at any of the schools. All fill a very real need under the present circumstances. As of last November, "senior students with six months to go before graduation already are getting job offers. We have no way of getting accurate information from the unions on unionized companies for future job prospects, but I can say that all the unions have opened up their procedures for membership. Also, we have been getting calls from the unions looking for graduates to meet shortages that exist today.

"The latest MarAd officer supply and demand study predicts a shortage by 1980, and from where we sit it appears that a shortage already has started to show." For a few years, it was "fashionable and convenient" to blame the maritime academies for the fact that their graduates did not always go to sea or stay at sea for a lifetime career. Admiral Rodgers suggests that their failure to become a part of the maritime service may have been due to "a combination of union policies and economic conditions" more than anything else.

From Maine Maritime Academy's 1977 graduating class, a total of 79 left school to take merchant marine jobs at sea, 9 joined various branches of the U.S. Government, 7 took maritime jobs ashore, 5 took non-maritime jobs ashore (with equipment manufacturers) and 7 went into non-related activity upon leaving Castine.

A Straight From The Shoulder Message To The American Merchant Shipping Community

Frank Rabb

Gentlemen:

Since its founding in 1902, the Navy League has been the civilian watchdog over Congress to insure a Naval force strong enough to deter attack upon this nation or upon the sea lanes that supply us. It has also given its support to the U.S. maritime industry, knowing full well that as an island nation our naval sea power and our merchant marine sea power are the two key links in the chain of American *economic* power.

As effective as the Navy League is, acting as individuals, it has never been a lobby group. It has no legislative arm. Its members are educated, vigilant, dedicated and articulate men and women who constantly strive to (1) guarantee American industry and shippers free, safe access to import-export sea lanes, and (2) provide our maritime industry with a fleet of modern ships that can compete efficiently and profitably with those of any other country in the world. For these urgent causes there is a solid partnership between the National Maritime Council and the Navy League.

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FOR U.S.-OWNED SHIPS

FACS Opposes Kreps' Idea To Repeal Income Tax Deferral But Will Support Major Recommendation Of Hyannis Meet

About 40% of earnings and profits from U.S.-owned, foreign flag ships are paid back to parent firms in USA as taxable dividends; Federation supports Hyannis recommendation that method be worked out to allow companies to obtain U.S. subsidy without having to make commitment to phase our foreign flag operations.

The Federation of American Controlled Shipping (FACS) can be expected to put up a strong fight in Congress if the Carter Administration pursues a suggestion from Secretary of Commerce Juanita Kreps to repeal U.S. income tax deferral provisions relating to shipping income received by foreign subsidiaries of U.S. corporations.

He believes there are much more effective methods to induce American corporations to build and operate ships under the American flag. FACS does, in fact, support several proposals which have been made during the past two years.

The so-called Subpart F income exclusion "constitutes a tax subsidy to U.S. owned foreign flag shipping estimated at $90 million to $140 million per year," according to a memorandum Mrs. Kreps wrote to the President during consideration of the cargo preference bill (HR 1037) last year.

Eugene A. Yourch, executive secretary of FACS, takes strong exception to Mrs. Kreps' viewpoint. "Far from being a subsidy, the provision permits American shipping capital to compete internationally on the same tax basis as both foreign-owned foreign flag shipping and U.S. flag shipping," he says.

"Both the essentially total deferral that existed prior to the Tax Reduction Act of 1975 and the current reinvestment deferral were specifically provided by Congress with the nation's benefit in mind," Yourch said. FACS also points out that the Senate Finance Committee in 1962 reported that "this exception was provided by your committee primarily in the interests of national defense." The House Ways & Means Committee in 1974 stated, "The interests of the United States are best served if we have a significant U.S. owned maritime fleet."

FACS disputes the belief expressed by Mrs. Kreps that income earned by American individuals or corporations from foreign flag ship operations remain tax deferred. "A Treasury Department report indicates that in 1973 foreign shipping subsidiaries paid taxable dividends to their U.S. parent corporations amounting to $250 million, about 40% of the subsidiaries' total earnings and profits. More than one U.S. flag operator has told us that it was the earnings and profits generated by their foreign flag operations which made it possible for them to continue to operate U.S. flag vessels during times when the profitability of the latter was at a low ebb," according to Yourch. He contends that Section 607 of the Merchant Marine Act provides a similar tax deferral to American flag owners through capital construction funds. "At latest report, upwards of $500 million of U.S. flag earnings and profits have been deposited in such funds."

"We believe that tax proposals intended to drive American companies out of ownership of foreign flag vessels or to drive such vessels out of the U.S.

foreign trade are detrimental to the national interest and do nothing to bolster the U.S. flag merchant marine. We do support legislative and regulatory initiatives to improve the internationally competitive position of the U.S. flag fleet," the FACS official said.

Things FACS Supports. Principal among the proposals FACS will support is the recommendation which came out of the National Assessment and Planning Conference on Bulk Shipping in Hyannis, Mass., in July, 1976, that the Merchant Marine Act of 1970 be amended to eliminate the so-called "Grandfather Clause" requirement in Section 804 of the Act which, according to FACS, "simply operates to prevent several American shipping enterprises from qualifying for operating differential subsidies under the 1970 maritime program."

The Hyannis conference report stated that "Section 804 of the Merchant Marine Act, 1976, restricts a company receiving ODS from owning, chartering, acting as broker for or operating any foreign flag vessel which competes with an American flag service. The Section provides for certain temporary waivers and for the Maritime Administration to grant waiver, which to date have been

temporary as well. However, the long-term effect is that a company must agree to phase out its operations and ownership of foreign flag vessels prior to receiving ODS and testing the waters of U.S. flag operation.

"This policy is perhaps the most important issue discussed. Many conferees pointed out during the conference that there will be little or no activity in U.S. flag dry bulk shipping unless consideration is given to the maintenance of foreign flag vessels by U.S. flag subsidized operators.

"Existing U.S. owned foreign flag operators are established companies with successful foreign flag fleets. These companies have established relationships with foreign shipyards, regulatory agencies, maritime unions, and the companies which provide crews for their vessels. Both the Grandfather Clause and current MarAd administrative action under Section 804 require that a company, even if successful in these areas, agree to give it all up before trying to operate U.S. flag subsidized vessels. According to the potential U.S. flag operators at the conference, given their successful foreign flag bulk operations, this is too high a price to "try" operating under the U.S. flag."

A New Form of Business. The Hyannis report recommended that a study be conducted of possible methods to achieve a form of business organization or an entity with both U.S.-owned foreign flag and U.S. flag vessels (subsidized in the fleet). In addition, the conference recommended that restrictions within Section 804 of the Merchant Marine Act, 1936, should be modified to permit operation of foreign flag vessels by U.S. subsidized operators. "Many large operators and shippers have some foreign flag involvement or will need the ability to someday develop this involvement," the report said.

Waterman's new LASH ships will be built at the Avondale Shipyard in New Orleans.

FIRST SINCE 1971

Waterman Contracts For 3 New LASH Ships In Gulf Coast/Far East Trade; MarAd Resumes Payment of ODS Subsidy

Payments which had been withheld since last May also are paid over to Waterman after contract is signed with Avondale Shipyards; MarAd extends deadline for decision on Mideast vessels.

Waterman Steamship Corporation will build two intermodal barge-carrying LASH vessels to fulfill its vessel replacement obligation for the Operating Differential Subsidy (ODS) contract the company had signed with the U.S. Maritime Administration for the Gulf Coast/Far East trade.

Last May, Waterman passed an already extended deadline for signing a construction contract for replacement vessels in the line's Far East service. Since that time, the Mobile-based firm has been operating without subsidy to and from the Far East.

The line suffered large second quarter losses in the Far East service, "chiefly as the result of losing federal operating subsidies," according to Transway International Corporation, which owns half of the line.

"The combination of sharply escalating U.S. construction costs and inadequate Construction Differential Subsidies (CDS) for the vessels would not provide a satisfactory return on investment," Transway reported to its shareholders last Summer.

A Transway announcement of the award of operating subsidy to Waterman for the Far East attributes Waterman's decision to go ahead with construction of the replacement vessels to lowered construction costs and an improved construction subsidy contract offered by the Maritime Administration. Avondale Shipyards in New Orleans will build the two Waterman LASH vessels under a fixed-price contract of $69.8 million apiece. Construction will start next year, with delivery scheduled for 1980.

The new contract will be the first for construction of barge-carrying vessels in the United States since 1971, when Waterman and Avondale signed a contract for construction of three LASH ships. The total price for the three in 1971 was $84.7 million, with a construction subsidy of 44.2%. (The subsidy rate for the new ships will be 47%.)

Also, the Maritime Administration agreed to resume payment of operating subsidy for the Far East trades as of November 22, and to refund to Waterman the subsidies withheld from the line since May 17, 1977, the date of the original vessel replacement deadline. Waterman will be allowed also to sell eight of its Marine Class vessels to the Maritime Administration's reserve fleet. Five of the Mariners will be leased back by the line until the new LASH vessels are delivered. Also, MarAd postponed the November 1977 deadline for a contract signing for a LASH vessel for the line's Middle East service.

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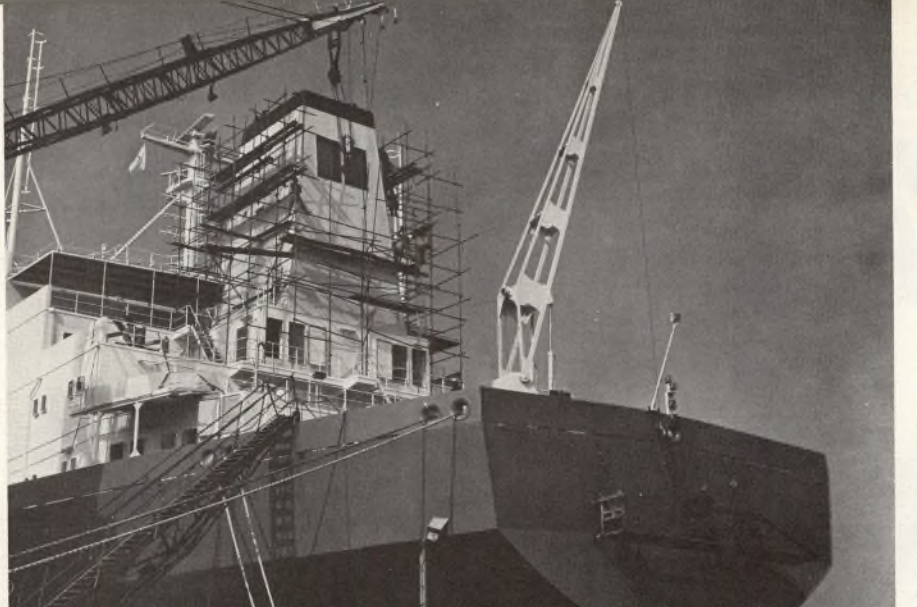


HEAVY LOSSES

Troubled Swedes Begin Selling Ships To OPEC Nations To Avoid Bankruptcy; Work Out Joint Management Deals

Flags of convenience, government mortgage guarantees look more attractive; companies have modernized their fleets only to find themselves saddled with heavy mortgage payments and low revenues.

The Swedish merchant fleet is in trouble, plagued by the world slump in tanker and dry bulk carrier markets, according to the Sveriges Redareforening (the Swedish shipowners' national association.)

"Swedish shipping is in the middle of a crisis which, instead of gradually disappearing, appears to be intensifying," said shipowners' association President Sven Hampus Salen. "The combination of rapidly increasing transport capacity and stagnating world trade has created an imbalance in many shipping markets that will take years to rectify. It is reasonable to assume that almost half of the Swedish merchant navy will have to be sold within a relatively short period of time, if the market should not improve."

Losses realized by Swedish shipowners reportedly have totaled Kr 100 million (approximately $21 million) in 1975, Kr 500 million (approximately $105 million) in 1976, while the 1977 figures are expected to be even worse.

Reports indicate that Sweden's two largest shipowners, Brostrom and Salen, already have started to sell some of their ships, while other companies are contemplating ship sales.

The Swedish government already has approved a special Kr 500 million ($105 million) State Credit Guarantee to help keep Swedish shipping companies solvent, but the Redareforening has requested that this be increased to Kr 1.25 billion (approximately $265 million).

"The statement that the Swedish merchant navy would be halved within a short period if no loan guarantees should be granted could be right if you look to the deadweight tonnage, as more than 50% of total Swedish deadweight tonnage is represented by 25 Very Large Crude Carriers," commented Thorsten Rinman, of the Redareforening.

"Those companies contemplating selling ships are those with big tankers," Rinman continued, "but nobody wants to sell on today's depressed secondhand market."

Swedish shipowners believe tha Sweden has been affected severely muc more than others by the world shippin recession (75% of the Swedish flag tanke fleet is laid up now.) "Swedis companies have been affected more tha others because they have the highes unsubsidized manning costs in th world," said Rinman.

"The Swedish merchant navy ha undergone a steady but rapid renewa which is partly the result of necessity t compensate the industry's cos disadvantage with more efficien techniques," said Salen. "As a result, th Swedish merchant navy is not onl young, but also heavily mortgaged. Th means that the operating surpluses hav had to be able to cover interest an amortization payments, and that th industry's self-financing level ha dropped with weakening resistance t the type of economic situation we no are experiencing, as a result."

Among the proposals that are bein suggested now by the Swedish shippin industry are: debt moritori encouragement of flag of convenienc operation, and the credit guarante expansion.

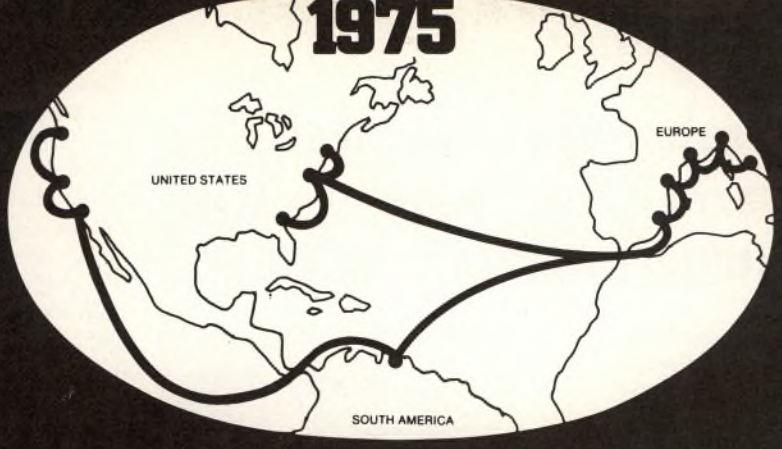
"The credit guarantee question has, several respects, become a touchstone the relationship between shipping an the Government," said Salen. "The credi guarantees offer the opportunity preventing capital exports from Swede in the form of unfavorable sales due financial reasons. This line of reasonin was followed during the preparato work on the decision made last spring set up credit guarantees. In our opinio the administrative handling of th guarantee system does not meet the intentions."

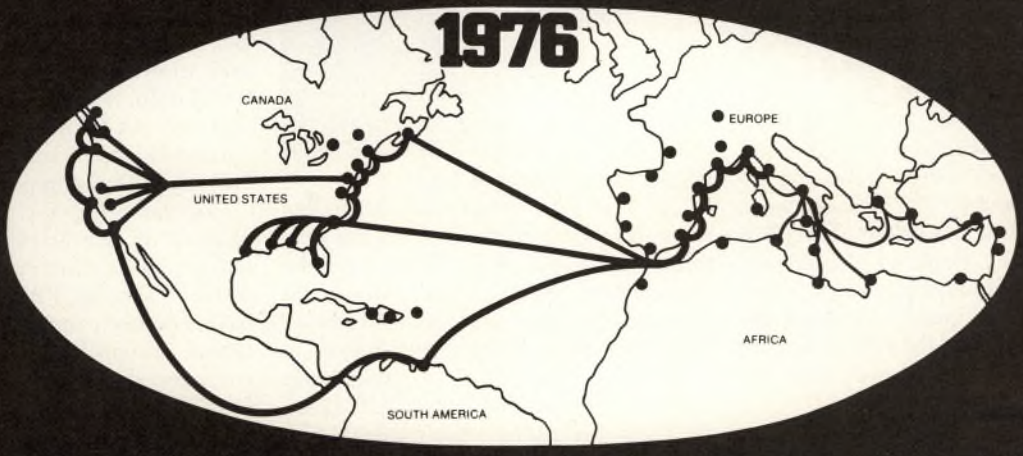
"It is no secret that members of th association are struggling with more less acute liquidity problems," Sal commented also. "In the last resort, th solution to these problems is to sell ships

Despite "strong opposition" from th trade unions, Swedish shipowners a looking seriously at flag of convenienc operations, Rinman reported, addin that "Swedish companies are considerin (and, in fact, have already done s selling their vessels to oil producin countries with joint manageme agreements."

However, Rinman added, "Carg preference legislation absolutely impossible in Sweden."

Salen warns that "Swedish shippin must have its competitiveness restored find itself reduced to having its activiti limited and protected as has been th case earlier in certain high cost countrie such as the U.S.A. and Canada."





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EXCEPTION FILED

PWC Says Waste Paper Rate Decision By Judge Glazner Was "Akin" To ICC Or "Public Utility Type Rate Making"

Five year old case involves basic issue of how rates are to be made; Pacific Westbound Conference says the "potential for mischief" transcends the specific cargos involved; says it is unlikely steamship conferences could survive an extension of logic used by ALJ in initial decision for FMC.

Shippers of waste paper had been feeling that the rates they were assessed fo of their product to the Far East via the Pacific Westbound Conference were excessively high, and in an October, 1976, decision, the Federal Maritime Commission's Administrative Law Judge Seymour Glanzer agreed with them. He ordered suspension of the PWC's Section 15 authority to promulgate rates for waste paper.

Last month, in an over 200 page exception to this ruling, the PWC raised a red flag for the reader: "The Initial Decision (of Judge Glanzer) presents real and serious problems, with potential for mischief that far transcends this case...The decision abandons this Commission's statutory and decisional structure of international rate regulations and substitutes one more closely akin to Interstate Commerce Commission or public utility type rate making. The normal operation of competitive and other economic forces are ignored. Novel principles of law and policy are introduced which would change the entire thrust and direction of the Shipping Act of 1916, both in its economic and its remedial aspects. Under such theories, if affirmed, it is doubtful that the common carrier commodity rate system would survive and highly likely that the conference system would not."

Judge Glanzer's decision found that shippers of waste paper had been harmed by the conference's rate making practice of assessing rates for waste paper substantially higher than those assessed woodpulp, (generally in the region of two times as high).

The rate differential, said the Judge, seemed to be a holdover from the time when breakbulk ships dominated the transpacific trades, and woodpulp demanded a significant rate differential. Now that most waste paper moves in containers, while 30% of woodpulp exports now move on a breakbulk basis, the costs of handling waste paper should, if anything, be lower than the cost of, and hence the price for, handling woodpulp, the Judge felt.

Because the PWC carries about 98% of waste paper exports, and is able to hold exporters by means of dual rate contracts, the conference effectively has shippers over a barrel, with little choice or opportunity to opt for the services of independent shipping competitors, shippers claim.

"It is inescapable that containerized waste paper would have yielded a profit to PWC carriers at $18 per short ton (the woodpulp rate)," said Judge Glanzer. "Nonetheless, the waste paper rates in October, 1972, exceeded that $18 profit margin by 166 to 200% and exceeded cost by an ever greater margin."

The Judge added that competition influenced the PWC's waste paper rate" only by its absence" while fierce competition for woodpulp exports, by carriers specializing in bulk movements of that commodity tended to hold pulp rates down.

Conference Reply. "The Initial Decision (of Judge Glanzer) erroneously finds that waste paper dealers have been harmed by PWC freight rates," the conference contends. "The clear and longstanding decisional authority of this Commission and its predecessors requires a concrete showing of harm; mere speculation must fail. The National Association of Re-Cycling Industries' (opponents to the PWC waste paper rate) speculations do not even resemble such a concrete showing. To the contrary, PWC ha shown that the spectacular increases i the PWC waste paper movemer preclude a finding that waste pape traders have been harmed. In additior the Initial Decision commits a clear erro of law when it holds that the substantia non-conference competition for woo pulp, clearly demonstrated in the record and also found by the presiding officer, i not a legitimate rate making factor."

"The PWC's attorneys continued: "Th Initial Decision erroneously finds PWC waste paper rates to be unreasonable This finding is rooted in the incorrec belief that waste paper competes wit and therefore should be treated lik wood pulp." PWC said that its data show that the waste paper and wood pul carried by the conference lines do no "meaningfully" compete.

"Furthermore, the Initial Decision' analysis of rate making is both flawed and simplistic. Contrary to the presidin officer's finding, PWC woodpulp rate have not been shown to be profitable Ocean freight rate making is a very complex process. Neither the Initia Decision's public utilities approach, no its freight rate-to-commodity valu analysis (comparing the freight rate as a percentage of the sale price of the product) nor its promotion of a single factor Freight-All-Kinds rate are appropriate in this proceeding...The Indecision fails to recognize a number of transportation conditions, including the carrier competition discussed earlier each of which justifies the difference in rates for the two commodities."

Finally, PWC said that its rate actions did not violate Section 15, nor should they cause any loss of antitrust immunity

Sentiment Developing. While the five Commissioners of the FMC begin consideration of PWC Exceptions to Judge Glanzer's ruling, a sentiment is developing among shippers that rates on containerized cargos should be assessed primarily on the basis of the cost o carriage. It seems clear that, particularly in a situation where, as in the Far Eas waste paper trade, the conference ha almost monopolistic power, a highly differentiated commodity based tarif for containerized cargos can lead to rate making abuses. Also, it is clear that in such a near monopoly situation, the FMC has a special responsibility to regulate so that such abuses do not occur, whether o not this means regulation on a pattern closer to that of the Interstate Commerce Commission. If the Commission does no do so, it is very likely that shippers wil begin to seek other remedies—perhaps in court proceedings with the assistance o the Department of Justice's Antitrus Division.

Sal Tarantino

Bernard Orsi

NEW SLEEK LOOK

"Lid" On Pacific Cargo Rates Leads PFEL Into Cost-Cutting, Sales Drive To Fill 1,930 TEU Ships Every 10 Days

Alioto team happy to be rid of LASH system, expects last of four conversions to be completed early next Spring; Russia offered to buy surplus barges for its ships, but Alioto turned them down.

The Pacific Bear has a sleek look to it now that its LASH barge and on-board container cranes are gone. The absence of the bulky machinery and barges makes room for containers, and they stretch from bridge to stern-a contrast to the normal layout of containerships.

The converted vessel is the first out of the yard and in service and welcome news for San Francisco-based Pacific Far East Line. When the fourth and final vessel is in service this spring the company will begin an earnest effort to turn around well over $18 milion in losses suffered last year.

A loss was contemplated when the conversion was undertaken but it turned out higher than expected due to skimpy cargo volume in the firm's Middle East Ro/Ro service.

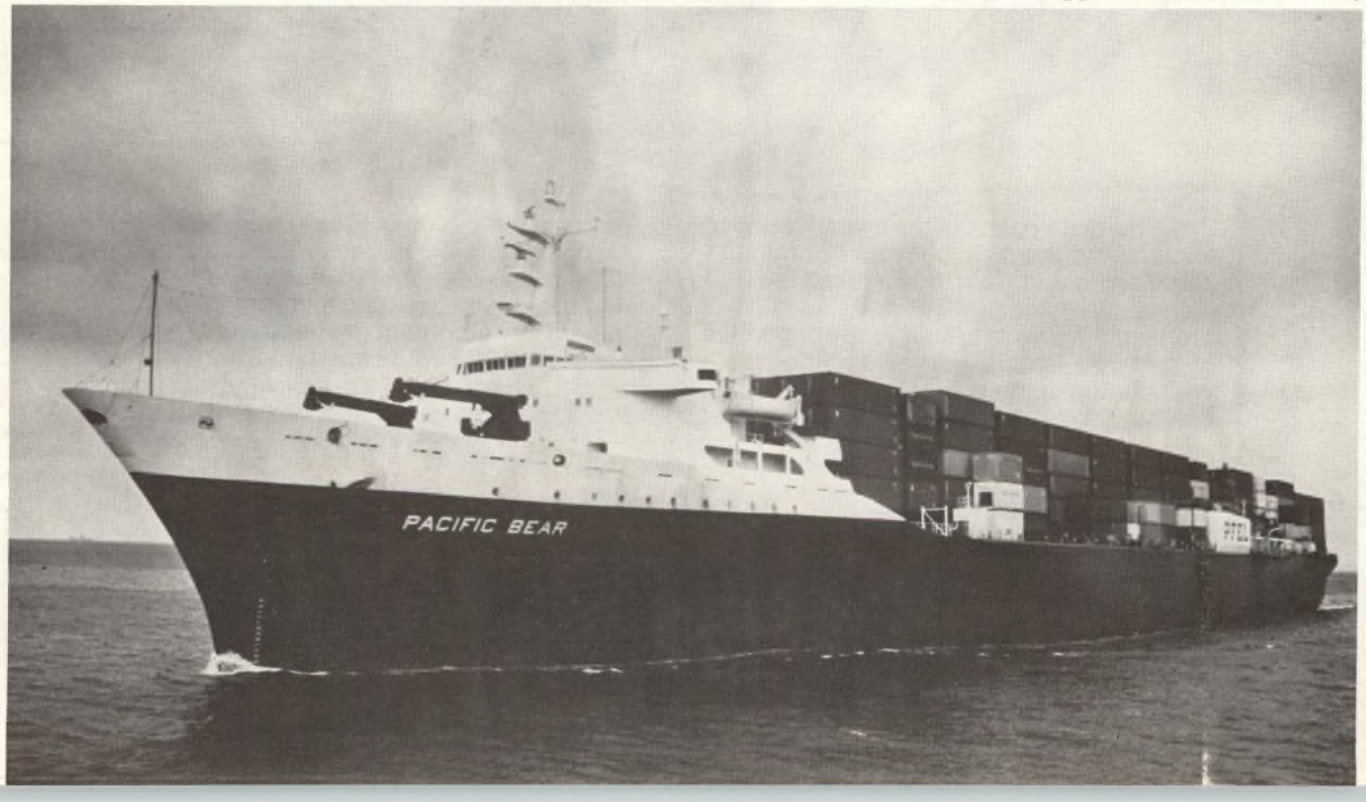
The Alioto management is changing the corporation as well as its ships. Cost cutting is stressed. The sales force has been improved and management is seeking to get more control over the company.

Several new management appointments have been made.

Bernard Orsi, a protege and campaign manager for former Mayor Joseph Alioto (now board chairman) has taken over a newly created shipping "profit center." Orsi is instituting budget cuts and stressing the need for more research and preplanning in the corporation.

Sal Tarantino, who has been executive vice president since Alioto purchase PFEL in 1974, has been named chief operating officer and commands the equipment leasing, Pier 96 terminal, passenger service as well as shipping profit centers.

Tarantino's appointment raised rumors that PFEL President John Alioto is losing power in the corporation. Spokesman Robert Trost denies this, saying the appointment, as with others,



nly is "putting the numbers on the niforms." Nevertheless, PFEL nnounced Tarantino's appointment a ull month after the fact.

Orsi's Moves. The company is oncentrating mostly on saving money. Orsi says the profit center concept will ell "who's responsible for what." Orsi, who was director of the San Francisco ivil service, is a novice to the industry nd his only previous experience was when he served as interim port director or a brief period of time.

But Orsi is skilled in understanding ssues and making decisions quickly. Spokesman Trost likes to tell how Orsi, while showing people around a ship's ngine room, punched the control panel utton explaining the operation as a 60,000 a year engineer stood watching.)

Orsi's first action at PFEL was to move ll but the executive offices from the wank and expensive Embarcadero ffice complex down to Pier 96 on the vaterfront.

Orsi says the company must be perated on a "cost effective basis" since we don't necessarily see rates going up." Cost must be curtailed, he says, since here is a "lid" on cargo production and reight rates.

Orsi does not have dollar figures on the avings he is reaching for, but he stimates that two-thirds of PFEL's xpenses are variable and so open to eduction. Of that two-thirds, Orsi hopes o trim off 10 to 15%.

As for the costs that cannot be cut, Orsi eeks to have the operation pay at least he cost of inflation. He says the ompany's Pier 96 maintenance and epair station (which was started in a nion agreement to reduce manning on hips) is making money now. He says FEL has been able to increase the olume of work at the facility and at the ame time reduce the cost.

Pier 96 is not as healthy. Orsi does not pecify but he indicates it will take a while longer to pay for the $3 million plus n annual rent. The pier has two other hipping customers besides PFEL and vill gain Grancolombiana Line as a enant when the coffee-carrying line egins containership service.

The Ship Conversions. One of the big avings, of course, will be the full ontainerships. The more Alioto anagement uses LASH the less they like . Although the company sought to omplain not of the problem before, it ow says LASH was impossible to keep n schedule because of the loading-nloading problems.

The barge cranes could not take the alt air and often broke down. The ontainers were loaded in a "left-handed" fashion which is half as fast as a conventional container vessel.

Heavy competition in the Pacific trade has helped hold rates down.

Orsi will be glad to see LASH go. He says the conversion was a "difficult" move to take, but the right one. He says he wonders how PFEL has any credibility left with the shippers because of all the scheduling problems. He is confident the containerships will lick this problem.

Two goals have been set for the new ships, Orsi says, cost effectiveness and dependability. Sailings will go from the present one ship every 14 days to one every 10 days. Orsi has no illusions about the job his sales force will face in filling the ships. Annual capacity (in each direction) will be boosted from 17,500 to 67,500 TEU containers on PFEL-a total of 135,000 container slots to be filled in Pacific trade each year.

Orsi says more companies intend to put more ships in the Pacific. "This thing is getting competitive as hell," he says of the Pacific shipping scene. But he says he has a strategy to intensify the sales effort and he believes there are "several unexplored sales areas" with potential.

Tarantino. PFEL's sales force comes in for particular attention by Tarantino. When he joined the company, he said he found it the least sales oriented ever of any organization with which he had been asociated.

Tarantino, a 46-year old former marine insurance executive and distant cousin to John Alioto, says the change from the old management's emphasis on operations to sales has been slow. He says the sales force was the least listened to group in the company but now its views are known.

The company has added to its sales force in New York, Chicago, and Long Beach and opened new offices in Atlanta, Dallas and New Orleans.

Not the least of Tarantino's new responsibilities will be to decrease the skyrocketing losses PFEL once again is experiencing, losses that may exceed even those of the former management ($18 million) in 1973. The company last year lost $14 million in the first three quarters. Losses due to the East Coast longshore strike which idled two Atlantic-Persian Gulf Ro/Ro ships are still to be counted.

President John Alioto had expected losses as a result of undertaking the conversion but was counting on better business in the Persian Gulf. Construction and project work have slowed and contracts that were imminent dragged unsigned.

Tarantino cannot estimate what the year's losses may total. He expects to stem the losses in the first quarter of this year and turn a profit by April or May. He says he is "confident and optimistic" of doing this and he calls 1978 a "turn around year."

As for other profit centers, Tarantino expects that container leasing will decrease. He foresees no more capital investment in container leasing for a while. Tarantino says now the company will need those containers it leases. He says the exact requirements cannot be determined until all four ships are in service.

Barges For Sale. The company will continue its efforts to sell or lease the excess barges (which were purchased at a price from $40,000 to $65,000.) the surplus barge cranes also will be sold once the Navy, which has a strategic interest in their disposal, gives its approval. Tarantino said the Soviet Union even offered to buy the cranes, apparently for use on LASH ships they are building. But he says the offer was rejected; John Alioto has waged a wide advertising campaign against the growing Russian merchant fleet.

The last profit center, the passenger ships, likely will be out of business within several years. The government is not interested in renewing subsidies for the passenger ships.

SECTION 19

FMC Lowers the Boom on Guatemala Cargo Policy; Imposes 50% Penalty On Goods to Secret List of 600 Firms

Dow Chemical was fined more than $12,000 by Guatemala government and joined Delta Steamship Line in drive to tear down cargo preference policies which favored select group of Guatemala-flag carriers and "associated carriers," including certain U.S.-owned lines. Decision affirms that the right to participate in U.S. commerce is "a privilege which may be terminated, conditioned or limited."

The longstanding difficulties faced by U.S. flag steamship companies attempting imports to Guatemala from the United States have become the target for the Federal Maritime Commission's first action since 1964 under Section 19 of the 1920 Merchant Marine Act.

Section 19 grants the Commission the authority to take measures designed to end discriminatory shipping practices instituted by foreign governments.

In the Guatemalan case, the target is Guatemalan Decree 41-71, which assesses a 50% surcharge of ocean freight charges on any goods imported into that country which are duty-free, under the provisions of the Industrial Development Laws or the Central American Agreement on Tax Incentives for Industrial Carriers, on non-Guatemalan flag vessels.

"More than 600 importing industrties, accounting for the vast preponderance of Guatemalan imports from the United States, qualify for such duty free status for their imports" under these laws, the Commission noted. Moreover, the reluctance of the Guatemalan government to specify what goods are or are not subject to duty free treatment, means that American shippers often do not know the customs duty status of their exports until landing at Guatemala, so that sometimes, the same commodity would be subject to duty free treatment and the Decree surcharge one time, and assessed a duty at other times, according to the Transportation Institute.

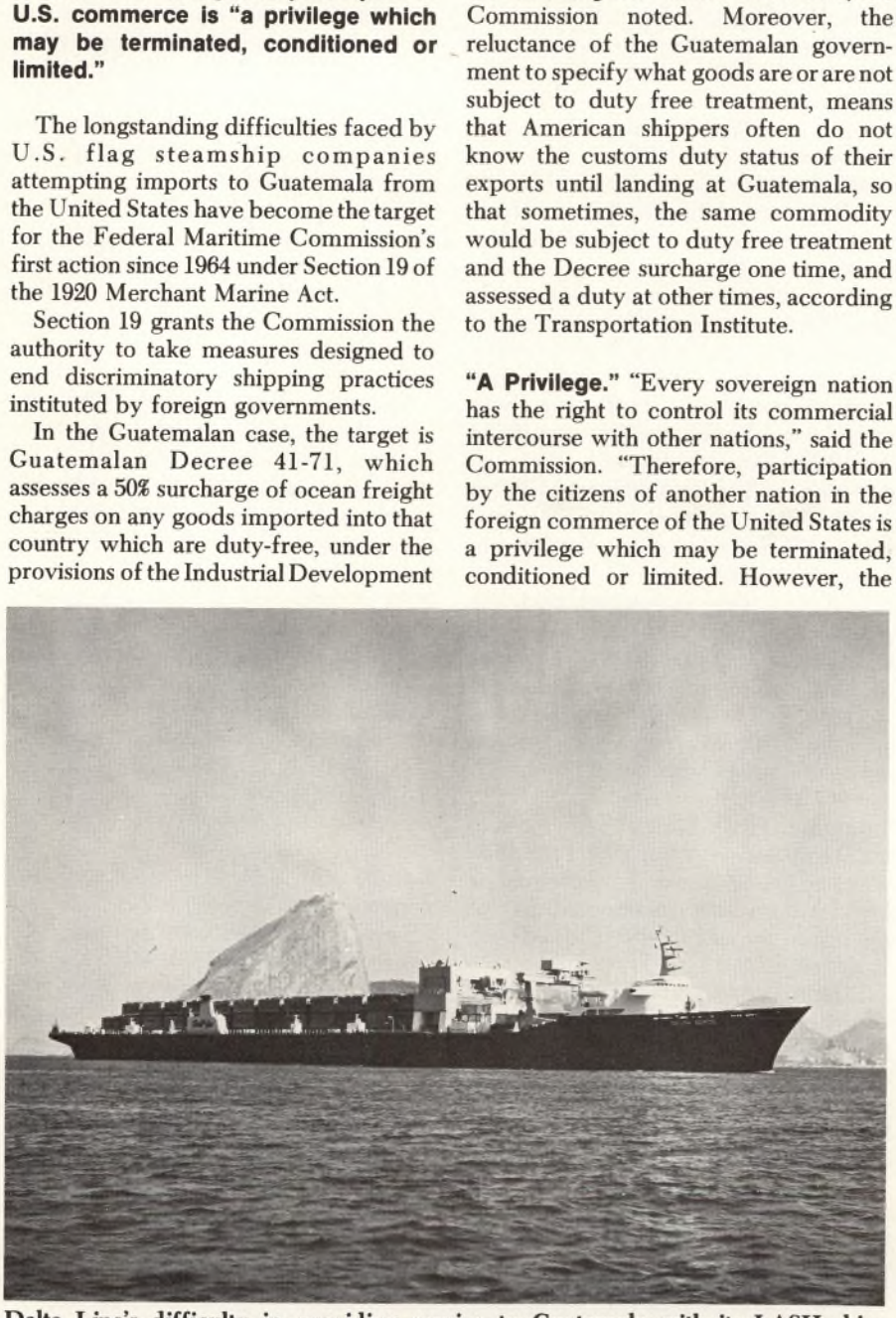
"A Privilege." "Every sovereign nation has the right to control its commercial intercourse with other nations," said the Commission. "Therefore, participation by the citizens of another nation in the foreign commerce of the United States is a privilege which may be terminated, conditioned or limited. However, the United States does not generally exercis such power because it recognizes tha reciprocal privileges of commercia participation are preconditions to an substantial commercial intercourse. Th United States is committed to the genera idea that unrestricted participation i international trade is in the best interes of the United States and her tradin partners...This commitment to the idea that all persons should be allowed t compete in the internationa marketplace, does not, however constitute an abandonment of the powe of the United States over its ow commerce. Quite to the contrary, th power to control commercial interactio with other nations is a power which mus be preserved for use whenever the good and services of the United States and he citizens are unnaturally handicapped i the international marketplace by the act of other nations."

Back in July, 1975, Delta Steamshi Lines petitioned the FMC for relief unde Section 19 from Decree 41-71's effects filing at the same time a complaint wit the Special Representative for Trad Negotiations under Section 301 of th 1974 Trade Act. An FMC fact findin investigation and hearings by the STF demonstrated that Decree 41-71, in both its language and its implementation discriminated against U.S. flag carriers including Delta, Crowley Maritime' subsidiaries Gulf Caribbean Marin Lines and Trailer Marine Transport, an Sea-Land Service, and discouraged, i not precluded, entry by carrier interested in serving the U.S./ Guatemalan trade.

By the end of 1975, the Commissio felt it had enough evidence to request th Secretary of State to seek a solution to th problem through diplomatic channels, a is specified in FMC General Order 33 The Guatemalan earthquake o February, 1976 led the Department o State to ask for a postponement o contemplated Commission action unde Section 19, and a proposed rule, to b appended to Title 46 of the Federa Statutes was not drafted until August 1976.

After the rule was proposed, th Embassy of Guatemala told th Commission that new decree, No. 26-77 was pending Presidential approval, an would eliminate objections t Guatemalan cargo preference practice The new decree, however, would asses duty to normally duty free goods carrie on U.S. flag vessels—a practice that th Commission still believes would b discriminatory.

Crowley, Delta, and a major shipper Dow Chemical, reported that numerou requests for waivers of the 50% surcharg imposed under Decree 41-17, have bee



Delta Line's difficulty in providing service to Guatemala with its LASH ships precipitated the complaints which eventually led to invoking Section 19. LASH Delta Norte is pictured above in harbor at Rio de Janeiro.

enied by the Government of uatemala.

ow Chemical's Struggle. "To date, ow cargo routed to Guatemala on U.S. ag vessels has been fined more than 2,000 by the Guatemalan government," ow reported to the Commission. "To void such fines, Dow has been required ship on vessels of Guatemala flag lines, e., Flomerca and Armagua. These lines ffer relatively poor sailing schedules ue to their shortage of vessels and the ct that their existing vessels are mparatively old. This poor service has aused us to lose business due to our ability to ship our products on a timely asis. Dow has suffered severe economic ss due to the fact that these lines are enerally restricted to break-bulk ervice. We have consistently sought ontainerized service from these lines so at our losses and damages could be ontrolled and, hopefully, reduced. To ate, Flomerca still does not offer ontainer service. Armagua began to ffer containers in limited numbers to anto Tomas. This limited service hardly adequate to cover Dow's needs, much ss other U.S. shippers...While Dow and s customers continually have sought aivers so that Dow could better service he Guatemalan market through a variety f carriers, these requests have **always** een denied."

ingled Out the USA. Shippers from ther countries, Dow noted, were not bject to the Guatemalan cargo reference decree.

pplication of Fee. The Commission ecided to impose an Equalization Fee n all Guatemalan flag vessels, and on all ssociated" vessels—those of another ag that are granted exemption from ecree 41-71's surcharge. The fee would e refundable for those goods not ranted duty free treatment by the dustrial development laws. The fee will e set at 50% of freight charges assessed oods imported to Guatemala from the nited States. Carriers subject to the qualization Fee must submit a financial uarantee or surety bond with the ommission, as well as regular reports of argo carryings.

"The Equalization Fee is expected to e passed through the carrier to the ipper," the Commission commented. The Commission recognizes that avored carriers' may attempt to absorb he Equalization Fee, but does not expect ny such an absorption to occur...If, owever, it appers that the Equalization ee, by itself, does not stem the artificial iversion of cargo, further measures will e taken."

The "favored carriers" subject to the Equalization Fee are: Armagua Line, Flota Mercante Gran Centroamericana (Flomerca), Lineas Maritimas Guatemala, Pan American Mail Line, and Coordinated Caribbean Transport.

Pan American Mail Line has informed FMC that it is no longer a "favored carrier" to Guatemala and was allowed until January 3 to make its case to the Commission. Pan American Mail formerly operated a joint service with Flomerca under the trade identity of "Flomerca Trailer Service" but discontinued the arrangement last June and began operating its own service, the line informed FMC. In mid-1977, Pan American Mail Line began advertising its own service from Miami to Guatemala, discontinuing the identity of Flomerca Trailer Service.

INVOKES PENALTIES

Section 19 Is Seldom Used Part Of FMC Law; Invoked Only Twice Since 1961; Value Is Questioned

Threatened use of Section 19 has usually been sufficient to cause foreign nations to change position; Chairman Daschbach questions its value in Guatemala case despite decision to invoke provisions of the law.

The Merchant Marine Act of 1920 was the first attempt by Congress after World War I to deal with the problem of promoting the U.S. flag merchant marine after the 19th century mail contract subsidy program became unfeasible politically following a series of scandals.

Among the provisions designed to foster shipping under the U.S. flag, the 1920 Act included Section 19, which has been interpreted since 1961 as allowing the Federal Maritime Commission the authority to impose sanctions on the national flag lines of countries that have enacted laws, regulations or decrees deemed to be harmful to U.S. foreign commercial shipping.

Now that flag preference laws of several foreign countries are an issue in FMC proceedings on the legality of equal access cargo pooling agreements, Commission action under Section 19 has also become an issue.

During the hearings on the Brazilian cargo pooling agreement in the southbound U.S. Atlantic Coast/Brazil trade, Commission Chairman Richard J. Daschbach commented that "Section 19 is a remedy which I think is not worth much...I'm not very sanguine about Section 19, and I don't think it's going to do us any good in Guatemala (where the FMC has been attempting to ameliorate a rigorous flag preference decree). We have got shippers who tell us it's not going to do us any good in Guatemala...."

In its petition for reconsideration of the Commission's 1977 decision rejecting an equal access cargo pooling agreement in the U.S. Pacific Coast/Argentine trade, Prudential Lines noted: "With occasional exceptions, responding to unique circumstances, the Commission has approved such (equal access) agreements under Section 15, finding them to serve a serious transportation need and to be in the public interest. Just as consistently, the Commission has rejected contentions such as Westfal Larsen made here (in the Argentine pooling case)...that the law compelled it to disapprove such agreements under Section 15, and to proceed instead to enact 'countervailing' rules and regulations under Section 19, Merchant Marine Act of 1920, to penalize foreign national flag lines and shippers which might use their services, to force the foreign governments to change their national policies. Wisely not abandoning

the possibility of resort to Section 19 powers, the Commission nevertheless has withheld their actual use, where acceptable alternatives were possible, in accordance with its traditional criteria for approvability of agreements under Section 15. In such matters, as has been well known to the Commission in the past, the very prospect of invocation of Section 19 authority has been of assistance in securing equal access for U.S. vessels, but actual issuance of Section 19 regulations has been infrequent."

Invoked Twice. Since formation of the FMC as an independent regulatory agency in 1961, Section 19 has been invoked only twice, once in the Uruguayian trade, and once in the Guatemalan trade. (See a report on this case in this month's issue of *American Shipper*).

In the Uruguay case, the FMC issued an order promulgating countervailing rules in December 1964. In January 1965, after the Uruguayian government acted to revoke its restrictive decrees, FMC postponed the date these rules would take effect indefinitely.

Since that time, possible use of Section 19 has been raised by the Commission, but the offending foreign laws were always withdrawn upon State Department negotiation.

In the Administrative Law Judge's findings on the Argentine pooling and equal access agreement involving Prudential, it was noted that "whenever Section 19 has been invoked in the past, it has resulted almost always in a commercial agreement between the national flag lines involved."

Finally, in General Order 33 of the Commission, which promulgates detailed procedures of invocation of Section 19, the Commission declared that "the new rule is not intended in any way to replace, modify, or limit the traditional criteria considered in connection with applications under Section 15."

In that General Order, issued in 1975, the Commission declared that both governmental and private actions or competitive methods that imposed fees, charges, requirements or other restrictions that discriminate between carriers, laws that reserve "substantial cargos" to national flag or other vessels and that fail to provide for equal access, or that otherwise discriminate between carriers, shippers, or ports in U.S. foreign commerce and are harmful to U.S. foreign commerce, are subject to countervailing measures under Section 19.

In the Federal Register notice of General Order 33, the Commission pointed out that, following the

recommendations of a number o commentators on the proposed Sectio 19 rule, the Commission had th discretion to invoke or to refuse to invok Section 19 in any given case.

European Practice. The Europea Communities Commission reports tha six of the eight E.E.C. maritime countrie have some sort of legislation designed t counteract flag-discrimination by othe countries. Some are part of the countrie shipping laws; others are part of genera international trade or customs law Generally, discriminatory action is "very loosely defined," the E.C. Commissio notes, but in two E.E.C. states (Wes Germany and Great Britain) "the mer proposal or threat of such provisions o practices is considered sufficien provocation to justify application of th defensive measures." Each Europea country, however, reserves the discretio to the governmental agency charge with enforcing these anti-discriminator laws not to invoke countervailin measures.

The Ultimate Issue. Part of the debat before the Commission on Section 1 centers on the question of whethe discrimination against third flag carrier cross trading between the United State and another country is harmful to U.S shipping trades; that is, whether Sectio 19 is supposed to function as part of th package of promotional legislation t stimulate development of a U.S. fla fleet, or as part of the regulatory packag that is designed to insure open access t U.S. foreign trades for all carrier regardless of what flag they fly.

Those who say Section 19 i promotional in nature point to th preamble of the 1920 Merchant Marin Act, which states that the Act's purpose i to promote the U.S. flag fleet, while thos who say Section 19 was intended t insure open access contend that th Congress, in placing enforcement o Section 19 within the bailiwick of th FMC intended no such promotiona function.

Ultimately, the question comes dow to the basic issue of whether the libera open access policy of U.S. shipping law i still a viable posture, given the worl shipping situation. This is a polic question that only the Congress ca answer.

U.S./Brazil Equal Access Compact Extended 3 Yrs.

The only inter-government equal access accord negotiated by the U.S. Maritime Administration with a Western nation has been extended for another 3 years, following an exchange of letters of implementation with the Brazilian Superintendency of the Merchant Marine. The U.S. has a similar agreement with Russia.

"Basically, the equal access agreement already in existence by the 1970 U.S./Brazil accord has been extended with only some housekeeping changes," said the Maritime Administration's Reginald Borden, director of the agency's Office of International Affairs.

The agreement covers only government-controlled cargos and so far has been implemented by a series of cargo pooling agreements filed with the Federal Maritime Commission, as is required by the 1916 Shipping Act.

The Maritime Commission recently has approved the extension of one of these Section 15 cargo pooling agreements, between Moore-McCormack Lines (U.S. flag), Netumar and Lloyd Brasiliero (both Brazilian flag) lines, in the U.S. Atlantic Coast/Brazil (southbound) trade. Sea-Land Service had protested the agreement as anti-competitive and discriminatory to Sea-Land's proposed entry into that trade. (See a report on this decision elsewhere in this issue of *American Shipper*.)

Stability. "Both the U.S. government and the government of Brazil have generally been quite satisfied with the way the trade has developed following signing of the first equal access agreement," said Borden. "There has been stability in the trade, proper carriage by U.S. flag vessels, and the Brazilians are now carrying a substantial share of their own trade. Service has been good, and rates have been held fairly well, considering the inflation we've seen since 1970."

Borden added that a recent Department of State letter to the Federal Maritime Commission reported that in the U.S./Peruvian trades, where equal access is guaranteed through commercial Section 15 agreements, rates have increased by an average of 3% per annum, far below the general inflation rate in either country.

"Approval or disapproval of an application for a Section 15 agreement is strictly an FMC decision, one which must be made by the Commission's own determination as to the public interest. The Maritime Administration tries to assist wherever possible in assuring that there is adequate U.S. flag participation in any given trade," said Borden. "The Maritime Administration is certainly aware of existing decisions of the FMC, and is generally familiar with the regulatory policies established by the Commission. Obviously, we are not oblivious to existing regulatory policy."

The Commission's regulatory policy with regard to equal access agreements is, however, somewhat in flux, with one decision, in the Argentine/U.S. Pacific Coast pooling and equal access agreement that would seem to indicatee a harder line on what the Commission requires in terms of justification of equal access agreements, and a more recent (but not unanimous) decision in the Brazil/U.S. Atlantic Coast southbound equal access and pooling agreement that would seem to indicat a return to the Commission's old pattern of accepting such agreements as a remedy to rigorous foreign cargo preference laws and decrees.

The Commission does not normally participate in the negotiation of an inter-governmental equal access agreement.

The Maritime Administration, in consultation with other Executive Branch agencies, begins evaluation of the need for an inter-governmental equal access agreement when confronted with a cargo preference law, or set of laws, which would restrict or exclude altogether participation by U.S. flag carriers in a given trade. Basically, the MarAd role is to guarantee that the national flag lines of a country shall have equal access to U.S. government controlled cargos moving in that country's trade in exchange for a similar guarantee from the government of the other country.

Part of the difficulty that some Commissioners of the FMC have with such an agreement, however, is that other country's definitions of government controlled cargos are far broader than the U.S. government's definition, encompassing, in some cases, a substantial majority of all cargos moving in the trade.

Commercially negotiated equal access agreements do not contain a guarantee of equal access to U.S. government controlled cargos, as that guarantee can be made only by the Maritime Administration.

"I don't think that the Brazilian accord, for example, excludes cross trading third flag lines," said Borden, "because what it does is to concern itself strictly with government controlled cargos. What the Maritime Administration is doing is merely attempting to protect the American industry from what could be considered an exaggerated claim to government cargos on one side...An intergovernmental equal access accord is only one way of dealing with this primary function of the Maritime Administration."

NEW POLICY?

1-Year Extension of Brazilian Pool Hints FMC to Accept Cargo Preference Laws as Justification to OK Pools

Sea-Land objects to container rules attached to agreement; Bakke files strong dissent to decision; implication that the FMC will give quick approval to commercial pools worked out in response to preference laws and decrees of other nations.

Despite protests from Sea-Land Service, the Federal Maritime Commission voted to approve extensions of two equal access cargo pooling agreements in the U.S. Atlantic Coast/Brazil trade through the end of 1978, with former Commission Chairman Karl E. Bakke dissenting in part.

"Sea-Land alleges that it is contrary to the public interest to extend the subject agreement for such a long period of time when substantial changes in the competitive circumstances of the trade are imminent," the Commission majority said. "Because Sea-Land intends to enter the Brazil trade with full containerships, it fears that it will not be able to participate meaningfully in that trade if no provision is made for its admission into the pooling agreement.

"However, due to recent developments," the Commissioners continued, "it now appears that Sea-Land may not be able to commence operations in the Brazilian trades until sometime in the middle or latter part of 1978. In light of this, we shall approve (the Agreements) through December 31, 1978, in order to preserve the status quo and give us an opportunity to re-evaluate the Agreement(s) on the basis of Sea-Land's status at that time."

At issue, in addition to the proposed extension of the two agreements, are new container rules that have been appended to the Agreements' texts. These "could create impossible hurdles for Sea-Land or any other U.S. flag operator of cellular containerships to apply, join and meaningfully participate in" the trade, according to a Sea-Land letter addressed to the Commission in late March, 1977.

Sea-Land has been preparin throughout 1977 to enter the Brazilian U.S. Atlantic Coast, Commissione Bakke commented in his dissen "Membership in (the Agreements) essential to this purpose sinc approximately 85% of the cargo movin in the southbound trade, and 'most' of th cargo moving in the northbound trade i by Brazilian law, reserved to carriers tha are parties to the subject Agreement(s), he said.

The decision to extend th Agreements' lives "will, I fear, be seize upon by the parties to the agreement a license to hold Sea-Land further at ba until year-end. In my view, the Commi sion should have facilitated a sense o urgency on the matter of Sea-Land's mid year entry to the trade," said Bakke.

Bakke's Dissent. Sea-Land's claim "is serious charge, going to the very heart o the mandate in Section 15 of the Shippin Act," said Bakke, who added that "th record lends credence to Sea-Land concern."

Bakke noted that a letter to the Com mission from Moore-McCormack Line a party to the agreements along wit Netumar and Lloyd Brasilier acknowledged that the container amend ments would make Sea-Land's entry int the Brazilian trade "more difficult."

"In my opinion, both equity an responsible regulatory policy dictate tha the Commission not be a party to suc fundamental and admittedl discriminatory changes in terms of th basic agreement on the eve of Sea-Land

lesired accession to membership, as a **ine qua non** for entering the trade nvolved," said Bakke.

Bakke also protested the Commission's efusal to institute an investigation under ection 19 of the 1920 Merchant Marine Act, commenting that "the Commission as an affirmative duty, whether in esponse to a complaint or upon its own notion, to investigate circumstances that nay trigger its **statutory obligations** to act nder Section 19."

Two Issues. The former chairman said hat he was concerned about two issues: 1) whether the underlying Brazilian argo prefrence law or the Agreements hemselves have been or will be imple-nented in a manner that would preclude hird flag entry into the trade, and (2) vhether Sea-Land's difficulties in its fforts to enter the Brazilian trade are due o the sort of discriminatory foreign hipping practice that Section 19 directs he Commission to act upon.

Section 19 directs the Commission to nitiate countervailing rules, regulations r surcharges to compensate for iscriminatory foreign shipping ractices. Moreover, said Bakke, these ctions are mandated irrespective of vhether or not the shipping companies uffering from discriminatory practices appen to fly the U.S. flag.

While the Brazilian equal access agreements are based on a 1970 Memorandum, extended in 1977, between the Maritime Administration and the Brazilian Superintendency of the Merchant Marine, "I do not believe that the Commission can abdicate its regulatory mandate," said Bakke.

In short, Bakke said, just because the Maritime Administration may have felt that the promotion and protection of the U.S. flag merchant fleet supercedes the Section 19 question of foreign discriminatory shipping practice, the Commission is not obligated to concur in that belief.

"I fail to see how the 1970 Memorandum should or can be regarded as either pre-empting the Commission's responsibility under Section 19 or foreclosing pursuit of that responsibility," said Bakke. "This is particularly so because in the most recent negotiations for extension of the 1970 Memorandum, concluded last month, the Commission was not invited to participate, nor were its views or proposals on additional liner policy issues even solicited."

The majority decision, approving the agreements, did not address the question of Section 19 hearings, and, it may be assumed, this gap reflects the majority's opinion that equal access guarantees negotiated on a government-to-government basis are inherently in the public interest, and so are legitimately

exempted from the antitrust laws under the Shipping Act's Section 15.

The Implications. What this also implies is that the precedent established in the Argentine/U.S. Pacific Coast pooling and equal access agreement (where the Commission, under Bakke's chairmanship, disapproved the agreement as insufficiently justified for a Section 15 antitrust immunity) has been overturned. Since the Commission's majority apparently believes that the existence of foreign cargo preference laws in itself is sufficient justification for a pooling agreement, it is likely that, as more of these agreements come before the Commission for extension, and as more new equal access and cargo pooling agreements are submitted to the Commission, this sort of market division will become a more common practice.

QUORUM CHALLENGED

Prudential Asks New FMC Majority To Reconsider '77 Vote on Argentine Pool; Claims Bakke Was Prejudiced

Says new Commission should make its own decision on bi-lateral agreements and revenue pools which are made in compliance with laws of other nations; contends pool agreement helps U.S. flag shipping and does not restrict competition; cites court decisions.

The Federal Maritime Commission's first ruling in 1977 rejecting an equal access cargo pooling agreement on the basis of insufficient justification has been challenged by Prudential Lines, in a Petition for Re-consideration.

Prudential is, along with Empresa Lineas Maritimas Argentinas, a party to the rejected agreement, which established a revenue pool and sharing mechanism to facilitate equal access for Prudential to cargos that, under Argentine law, would otherwise be reserved to Argentine flag vessels.

The Commission in 1977 argued that such an agreement constituted the ultimate in anti-competitive shipping agreements, and that, for it to be approved for immunity from antitrust laws under Section 15 of the Shipping Act, the agreement would be subject to a rigorous test of justification as specified in the Svenska case.

Among other things, Svenska requires proponents of shipping agreements to demonstrate a serious transportation need for an anti-competitive agreement, which would otherwise be a "per se" violation of the Sherman Antitrust Act. In the decision on the Prudential-Empresa cargo pooling agreement, the Commission determined, for the first time, that the existence of foreign cargo preference laws and an intergovernmental agreement guaranteeing equal access for U.S. flag carriers to reserved cargos does not in itself necessarily constitute a serious transportation need.

The Commission's decision in the Argentine-Pacific Coast pooling agreement "expressly repudiates the Commission's prior decisional law on equal access agreements," said Prudential Lines. Though unmentioned in (the Commission's) Report, it also departs from judicial precedent in the same area."

"Proceeding from a basic misunderstanding of the agreement itself, and disregarding its own underlying Findings, the Commission embraces an exceedingly rigid and erroneous interpretation of the antitrust laws, and Supreme Court decisions applying those laws, and moves to an ultimate conclusion which is illogical, self-contradictory, and, on the record, indefensible," said Prudential.

First, however, Prudential argues that with a new Commission Chairman, Commission majority, and upper leve staff, "The new commission should mak its own decisions as to whether to chang long standing policy" and that the fac that Commissioners Karl E. Bakke an Bob Casey were not appointed to th Commission until a year after ora arguments first were heard means tha these two Commissioners lack authorit to vote on the agreement, and that ther was no quorum as a result.

Bakke Prejudiced? The attorneys fo Prudential also contend tha Commissioner Bakke, the forme chairman of the Commission, may hav been prejudiced as regards equal acces agreements, because of a November 8 1976 speech he made, in which Bakk said, "In essence, an equal acces agreement is a cargo-sharin arrangement, and its only purpose is t implement the restrictive provisions of cargo preference law...I came t preceive the fundamental question not t be whether the terms of the equal acces agreement are reasonable in light of th cargo preference law, but rathe whether that law itself exceeds th justifiable limits in its restrictive effect i the U.S. foreign trades."

(The same allegation abou Commissioner Bakke has come up in th Lykes-Compania Peruana de Vapore cargo pooling case, and seem likely to b raised in other pooling cases soon to b placed on the Commission's agenda.)

The meat of Prudential's argument not found in these procedural questio or allegations of prejudice, however.

The Revenue Pool. The Commissio "refers to the agreement as an 'agreemer

to divide the U.S. Pacific Coast/Argentine market'," says Prudential. "That premise simply is not correct. The only thing the agreement divides is a portion of the revenue earned by Prudential and Empresa and even that division is pursuant to a formula which greatly minimizes the possibility of any division whatever—as the Commission's own findings elsewhere acknowledge. And those pooling provisions in turn are only ancillary to the most important provisions of the agreement (which are)...the equal access provision, whereby Prudential and Empresa each acquire the right to cargo already reserved to one or the other by the laws of the United States and Argentina."

Instead of restricting competition, says Prudential, the agreement "Operating in the context of governmental requirements which themselves reserve cargo to national flag lines, (the equal access provisions) merely broaden the number of carriers entitled to participate...under the respective national laws."

The pooling provisions of the agreement "merely divide a portion of the revenue earned by Prudential and Empresa, if in a given period one of them is an 'over-carrier' by an amount exceeding certain deductibles. Major commodities, including woodpulp, the leading commodity in the southbound trade, are excluded" said Prudential.

The U.S. Supreme Court, in the so-called "Noerr-Pennington" doctrine, said that "joint activity in soliciting governmental action even when, unlike (the Argentine-Pacific Coast pool) the action sought is intended to and would produce a monopoly or have anti-competitive ramifications, does not violate the U.S. antitrust laws," according to Prudential. "Moreover, this reading of the Noerr-Pennington cases is in full accord with the Department of Justice's interpretation, as expressed in the Department's "Antitrust Guide for International Operations'," Prudential continued.

In short, there is a basic difference of opinion here—with the agreements' proponents (and the proponents of other pooling and equal access agreements) contending that equal access agreements filed before the Commission are remedial in nature, while the Commission, at least in the Argentine pooling agreement case, contending that such agreements are tools for the implementation of anti-competitive foreign laws.

"The question is what conduct is proscribed by those (antitrust) laws, and the answer clearly is that agreements for concerted action seeking governmental action within the context of existing laws or policies, and ancillary provisions, even if they have anti-competitive impact, are not in violation of U.S. antitrust laws. Ultimately, the action here complained of is governmental action by the United States Maritime Administration and the Argentine government in lifting the cargo restrictions on the parties. That action is governmentally sanctioned under Argentine law and MarAd's policy under Public Resolution 17, and as such the antitrust laws are inapplicable," said Prudential.

Other U.S. Policies. Prudential also contends that the Commission's decision that the agreement has no remedial effect and that there are no unfavorable conditions in the trade is contradicted by the accepted judicial findings in the case, that the Commission erred in not considering the pooling agreement's potential for avoiding conflict as an argument for approval of the agreement, and that the Commission's decision ignores other policies of the U.S. government, including: (1) removing foreign governments' discrimination against U.S. flag vessels, (2) reciprocal treatment of national flag lines in the carriage of government controlled cargo, and (3) the mandate of the 1920 Merchant Marine Act that the Shipping Act be administered to the primary end of development and maintenance of a U.S. flag merchant marine.

JANUARY 10 & 28

Sea-Land Bows Out Of Its Domestic All-Water Coastwise And Intercoastal Operation; Continues The Minibridge

Inadequate earnings to show profit and replace equipment; spokesman makes it clear decision was not influenced by possible increase in Panama Canal tolls.

Sea-Land bows gracefully out of the all-water domestic transportation business in January, making exception only for Alaska, Puerto Rico and the Virgin Islands which demand all-water service to survive.

The company will rely upon transcontinental and Pacific/Gulf Coast railroads rather than the Panama Canal to get containers across the country between U.S. Atlantic and Pacific Coast ports.

The decision has no bearing on Sea-Land's foreign service, except that the line will depend entirely upon minibridge and landbridge rail service in lieu of the Panama Canal.

Officials made clear the decision had nothing to do with anticipated hike in Panama Canal toll charges. Neither was it due to the recent strike of East Coast longshore workers. The company said it was not making enough on the all-water domestic business to show a profit and replace vessels. Furthermore, it could rely upon the overland rail services and maintain its services "at competitive rate levels and comparable or improved transit times and service frequencies."

The all-water intercoastal service will be the first of the domestic services to be eliminated via the Panama Canal, which will be suspended after January 10. Next in line will be the Atlantic and Gulf Coastwise service linking New York to Florida and Texas. Sea-Land withdraws from the coastwise trade January 28, abandoning the business to rail and/or truck competitors.

(In bowing out of the New York/Florida/Texas run, Sea-Land is dropping the service with which it pioneered container shipping 20 years ago. Success of the operation led Sea-Land and others into huge conversion and shipbuilding programs which have totally transformed breakbulk shipping in the past two decades.)

Reasons. "This is strictly a decision based upon earnings being inadequate in the trade for quite a long time," said a Sea-Land spokesman. "With the competition we faced from railroads for intercoastal traffic, our earnings were not adequate even to replace the vessels we had operating in the trade."

As a result of this cancellation of service, Sea-Land's Japan-Puerto Rico and U.S. Virgin Islands service will be shifted to a landbridge. Sea-Land had offered an all-water service, with transshipment from the SL-7 containerships of the Trans-Pacific service to the intercoastal service vessels. Now, cargos moving between Japan and the U.S. Caribbean territories will be transferred to a rail carrier, shipped to the Gulf Coast, and transshipped via Sea-Land's Gulf-Caribbean service.

Sea-Land's Puerto Rico-U.S. Mainland service will continue, with the single change that the line no longer will offer an all-water service between the U.S. Pacific Coast and Puerto Rico. A general rate increase of 24% had been proposed for that service, and a proceeding is now underway at the Federal Maritime Commission, but Sea-Land has filed a request that the docket be mooted.

"What we've done is to institute a redeployment of our vessels," says Sea-Land. "We've taken several of our old T-3's that now serve the Europe-Middle East route into Japanese shipyards for new bows, sterns, and power plants—essentially making them over into new ships—and we'll be transferring the vessels we use in the intercoastal service to the Europe-Mid East route. The modernization of the T-3s should be completed by the middle of 1978, but the redeployment of the intercoastal service vessels after that point is still uncertain.

The spokesman for the giant containership operator said that Sea-Land's move out of the intercoastal trade "absolutely is not" related to any bid for Maritime Administration subsidy programs. (MarAd will not subsidize domestic offshore or intercoastal services).

"There's no way—we have not contemplated changing our longstanding policy of operating without federal subsidy," the Sea-Land spokesman said.

Also, Sea-Land denied rumors that the termination of intercoastal service was related to the Panama Canal treaty and the toll increases that have been forecast by a number of Congressmen and shipping organizations.

"Panama Canal costs simply were not a motivating cost factor in reaching this decision," said the line. "It was mainly a question of inadequate earnings and prospective earnings."

Containership operators pointed out earlier, when the Canal Treaty and its annexes first were proposed, that projected toll increases measured on a per-container basis, essentially would be insignificant. Carriers estimate that 35% toll hikes would add at most $10 to $15 per container to the cost of shipping general cargo through the Canal.

In any case, Sea-Land apparently does not believe the elimination of its intercoastal service, and initiation of a landbridge for West Coast/Puerto Rico and Far East-Puerto Rico trades marks the sort of significant move to circumvent the Canal.

$50,000 Bond Proposal Draws Mixed Reaction

A number of small freight forwarders have submitted negative comments on the Federal Maritime Commission's Proposed Rulemaking Procedure to increase the ocean freight forwarder bond from $10,000 to $50,000.

"We feel that should this regulation be enacted it would create undue hardship on the smaller independent ocean freight forwarders. The present bond in the amount of $10,000 should be sufficient to protect interested parties under the law," said Jay Helstern, general manager of Berry & McCarthey Shipping Co. of San Francisco, in comments that were echoed by several other forwarders.

But some freight forwarders told the Commission that they would favor a bond increase.

"Please be advised that I am strongly in favor of increasing the bonding amount," said F. Robert Black, the president of the J.F. Moran Company of Providence, R.I. "In an economy, wherein a longshoreman can earn $25,000 per annum, it is difficult for me to be sympathetic to the echoes of my colleagues that $50,000 is excessive. It is the Commission's obligation to assure the general public, as best it can, that there be a healthy foreign freight forwarding industry. Furthermore, the Commission should seek a device to protect the shipping public on high value freight shipments, on a shipment by shipment basis, such as is done by U.S. Customs by utility of the single entry bond."

Need More Than $50,000. This feeling was echoed by David G. Moring, of the Foreign Trade Export Packing Co. of Houston, who said, "In our opinion the services provided to the shipping public can reach their highest plane when these vital services are provided in as professional manner as is possible. Essential to this professionalism is financial solidarity, commitment and adequate capital to deliver the services required properly. To this end we feel that the bonding requirements should be increased far beyond the $50,000 proposed level. We will endorse any procedure which will prevent the unreliable and 'fly by night' operators from blackening the name of the independent ocean freight forwarder and harming the shipping public."

Moran and Foreign Trade Export, were, however, in a decided minority of those who bothered to comment on the proposed bond increase.

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Editorial—

Thank You, Mr. Daschbach; You Said It For Us

The speech delivered by FMC Chairman Richard J. Daschbach at the National Maritime Council function in Chicago on December 8 reminded us that we never explained to our readers how *American Shipper* came into being.

It began when we decided our *Florida Journal of Commerce* needed a new name, a new perspective, and a broader interest base. The plan was to expand it into a Southeast regional magazine and perhaps to call it *Southern Shipper*. We were bouncing the idea around to test the reaction when an official with a major steamship line replied: "Don't stop halfway. There's need for a good national magazine in this field. I believe you can do it."

We were dubious, but intrigued by the compliment, and pursued the subject.

This carrier official was involved deeply at that time in conference activities and impressed us with what he described as "a total lack of communication and understanding between carriers and shippers." Checking further, we concluded that he was right and decided to move into the breach and see what could be accomplished. Many good friends urged us to make the magazine "strictly American;" others, to orient the content to carrier interests. We rejected both suggestions, preferring to maintain a neutral position and "write it as we see it." We've made mistakes, but that was not one of them. Looking back over the past two years, we are quite proud of what the magazine has achieved.

That explains how we came into being, but does not explain why shippers were so willing to accept this new (on the national scene) magazine. FMC Chairman Richard J. Daschbach really explained this (albeit unintentionally) when he addressed the 200 Midwest shippers who braved a snowstorm to attend a National Maritime Council meeting in Chicago December 8. (See story on Page 2-4.)

He said:

"Unfortunately, many shippers, including some of the giants of the industry, do not realize the role they can and should play in Commission affairs. They view Washington as a place where their complaints go to be buried in paperwork, and they choose to turn elsewhere for solutions to their problems.

"Many shippers still are unfamiliar with Commission policies and procedures. Considering the role we play in their affairs, this lack of knowledge should be remedied....

"In our capacity as a regulator of the United States foreign trade, we are aware of the pivotal role that shippers play in this trade. Shippers are responsible for our exports, and the impact of their activities on our domestic employment, balance of payments and all other aspects of our national economy cannot be overemphasized.

"When shippers do not involve themselves in Commission activities, and ignore general policy issues they are being cheated, we are being cheated, and the regulatory process suffers as a result.

"I am not trying to turn shippers into governmen policy-makers; that is the role we share with other federal agencies. But I would like to stress again the value of their input in the formulation of national maritime policy.

"A small exporter cannot be expected to familiarize himself with all aspects of international trade and maritime law. But shippers in general should be aware of major issues pending before the FMC and other U.S. maritime agencies, legislation under consideration in the Congress, and recent judicial decisions affecting the ocean transportation industry.

Thank you, Mr. Daschbach. You said it better than we, and you wrapped it up neatly in those final paragraphs. There are many fine publications in the maritime industry, but the unique role of *American Shipper* has been to make it possible for shippers to be more aware and able to communicate more effectively not only with FMC, MarAd and the Congress but also with the carriers and conferences with which they do business.

David A. Howard, Publish

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