UNITED STATES MARITIME COMMISSION

REPORT

TO CONGRESS

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UNITED STATES MARITIME COMMISSION

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LETTER OF TRANSMITTAL

UNITED STATES MARITIME COMMISSION,
Washington, D. C., January 3, 1939.

To the Congress:

I have the honor to present herewith the report of the United States Maritime Commission for the year ending October 25, 1938. There is included also a summary of new construction contracted for up to December 31, 1938.

This report is submitted pursuant to section 208 of the Merchant Marine Act, 1936, as amended, which provides that "The Commission shall, at the beginning of each regular session, make a report to Congress, which shall include the results of its investigations, a summary of its transactions, its recommendations for legislation, a statement of all receipts under this act, and the purposes for which all expenditures were made."

The results of some of the Commission's investigations and its recommendations for legislation, will be transmitted to Congress upon their completion. The accompanying report covers the remaining activities of the Commission for the period under review.

E. S. LAND, *Chairman.*

UNITED STATES MARITIME COMMISSION

INTRODUCTION

The United States Maritime Commission can report this year to the Congress that rehabilitation of the American merchant marine is definitely under way. The long and dangerous decline of our merchant fleet has been checked, the process reversed, and progress forward has begun. Prospects for the return of the American flag to a place upon the seas commensurate with our country's position as a world power are the brightest in many years.

Prior to 1938 the Commission concentrated upon settlement of the ocean mail contracts and a thorough study of the whole merchant marine problem. The Economic Survey of the American Merchant Marine was submitted to the Congress on November 10, 1937. Thereafter the Commission undertook its major task—the construction of additions and replacements for our aging fleet under a long-range program.

On January 3, 1938, the Commission was able to report only one contract signed for construction of new merchant tonnage. The end of the calendar year 1938 found 52 new ships of approximately 425,000 gross tons under construction upon orders of the Commission in conjunction with private operators or for its own account.

The Commission's efforts to improve service on two essential trade routes vital to our foreign commerce culminated in October with the initial sailing of the "good neighbor fleet" to the east coast of South America and the granting of an operating differential subsidy to the American President Lines for the trans-Pacific and round-the-world services operated by the former Dollar Steamship Co.

Improvement in relations between ship operators and their seagoing personnel during the past year marks a forward step in the progress of the American merchant marine. The signing of east coast agreements by members of the American Merchant Marine Institute and representatives of the maritime unions demonstrated a willingness to work out mutual problems in an orderly way. Continued adherence to and strengthening of the policy of settling grievances by voluntary arbitration will remove a serious obstacle to the welfare of the men and investments in the industry.

Training Program.

The Commission is particularly gratified by the response to its program for training merchant marine personnel. This undertaking, authorized at the last Congress, is now well under way at Hoffman Island in New York Harbor, Government Island in San Francisco Bay, and Fort Trumbull, Conn. Rehabilitation of these sites for training stations could not be started until mid-summer. This explains the present enrollment in the United States Maritime Service of only 389 licensed and unlicensed men, as of December 31, 1938. It is anticipated that when full facilities are available, 300 licensed and 3,900 unlicensed personnel will be trained annually.

The Commission has availed itself of the facilities and personnel of the Coast Guard to administer the 90-day training course for men having at least 2 years' experience at sea. The training system was adopted by the Commission after consultation with all interested parties, including representatives of licensed and unlicensed personnel.

In addition to providing opportunities for futher training to experienced maritime personnel, the Commission has revised the cadet training system in cooperation with the subsidized operators. Eligible candidates are selected to fill a limited number of positions on board ship as cadets or cadet officers.

The Commission's report on a comprehensive system for the training of citizens of the United States to serve in our merchant marine will be submitted to the Congress in accordance with section 216 (a) of the Merchant Marine Act, 1936, as amended.

Studies and Investigations.

The Commission, recognizing the existence of many difficult problems in domestic as well as foreign commerce, is making a complete survey of intercoastal and coastwise shipping. This study will be submitted to the Congress within a few weeks.

The problem common to all operators of replacing in today's market vessels purchased at post-war bargain prices is aggravated in the domestic trade by the greater obsolescence there existing and exclusion from the subsidy provisions applicable to ships engaged in foreign commerce.

Removal from service of old or obsolete tonnage is an essential corollary to the problem of new construction. The Commission has previously announced in connection with Government-owned vessels in the laid-up fleet, that these ships will be limited to use as commercial or military auxiliaries in time of emergency. As these ships pass beyond even these potential uses they will be scrapped or otherwise removed from the market.

Privately owned tonnage cannot be disposed of in this fashion. Sale of old vessels for operation in the country's foreign or domestic trade would mean competition with other American ships on a basis detrimental to the industry. It would also defer even further any new construction contemplated by private interests. Permission to obtain a higher price for such tonnage by sale in the world market would conceivably have equally unfortunate results. Even though approval of transfer to foreign registry be conditioned upon exclusion from trade with this country, newer foreign ships might thereby be released for operation in direct competition with American-flag services. Careful study is being given this perplexing problem. The Commission's conclusions will be reported promptly to Congress with such recommendations as may appear necessary.

The Commission is directed by section 213 (c) Merchant Marine Act, 1936, to study and report to Congress as soon as practicable on the relative cost of construction or reconditioning of comparable ocean vessels in shipyards in the various coastal districts of the United States, together with recommendations as to how such shipyards may compete for work on an equalized basis.

The fact that no ocean-going merchant vessels have been built on the Gulf or Pacific coast since the World War makes it impossible to compute relative costs on the basis of contrast prices. Actual work under two recent awards for construction in these areas has not progressed sufficiently to provide a basis of comparison.

Continuing records of the cost of material and labor for shipbuilding purposes are maintained by the Commission. Analysis of data on these major items of cost indicate that Atlantic yards are favored in the purchase of steel, machinery, auxiliaries, and equipment by their proximity to the source of supply. Owing to the resulting freight differential, the delivered price of material is estimated to be 4 percent higher for Pacific coast yards while probably not in excess of 3 percent for yards located on the Gulf.

Using wage rates in repair yards on the Gulf and Pacific coast for comparative purposes due to the dearth of merchant ship construction, there is an estimated labor differential of 7 percent in favor of Atlantic over Pacific shipyards, while Gulf labor costs are approximately 10 percent under those on the Atlantic coast.

Many other factors, including overhead and profit, must be considered in reaching any definite conclusion on relative shipbuilding costs. Plant rehabilitation costs, depreciation charges on equipment used in naval construction work, climatic conditions, efficiency of productive labor and volume of business play an important role in determining the final cost.

The entire problem is receiving the attention of the Commission. As soon as an accurate analysis of relative shipbuilding costs can be

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made, recommendations as to how the various shipyards can compete on an equalized basis will be submitted to Congress.

Legislation.

Many important amendments to the statutes governing the Commission's activities were enacted by the Seventy-fifth Congress in Public, No. 705, approved June 23, 1938, and Public, No. 573, approved June 1, 1938.

The legislative modifications were based in the main upon recommendations of the Commission arising out of its experience in the administration of subsidy agreements. These agreements are discussed in some detail under appropriate headings in the body of this report.

Two new titles were added to the Merchant Marine Act, 1936, one of which, title X, set up a Maritime Labor Board with limited powers of mediation. This Board is directed to submit a comprehensive plan for the establishment of a permanent Federal policy stabilizing maritime labor relations by March 1, 1940.

The Commission was authorized under title XI—Federal Ship Mortgage Insurance—to insure preferred ship mortgages which secured new loans or advances made to aid construction, reconstruction, or reconditioning of almost all types of vessels engaged in the domestic or nearby trades. Although many hundreds of application forms have been issued and numerous conferences and discussions have taken place with potential mortgagors, only one application has been filed with the Commission.

Recommendations for legislation which the Commission is directed to report to Congress, are now being formulated and will shortly be submitted for consideration.

Administrative Organization.

Joseph P. Kennedy resigned as chairman of the Commission on February 17, 1938, to assume his duties as Ambassador to the Court of St. James. Rear Admiral E. S. Land, U. S. Navy (retired), was designated chairman, and the unexpired portion of Mr. Kennedy's term was filled by the appointment of Max O'Rell Truitt, the then general counsel. Commissioner Truitt was reappointed on September 26, 1938.

The staff of the Commission now consists of approximately 1,200 employees, of which number slightly more than one-half are located in the Washington office, the remainder being employed either in district offices of the Commission, in New York, Norfolk, New Orleans, San Francisco, and London, England, or in supervision of the Commission's properties, including terminals and laid-up fleet. The increase during the past year is attributable to the development of the Commission's long-range building program, with the necessary enlargement of the technical staff to prepare plans and specifications for new ships and to supervise the construction in respective domestic ship yards. The number of auditors in the field has also been increased, in connection with the construction program.

The task of certifying to the Civil Service Commission all satisfactory employees transferred from the former Merchant Fleet Corporation and the Shipping Board Bureau is virtually completed; only 12 positions still await final clearance.

Rules and Regulations.

Under the power granted by section 202 (b) and pursuant to specific instructions in other sections of the act, the Commission has adopted various rules and regulations to carry out the powers, duties, and functions vested in it by the Merchant Marine Act, 1936.

The Commission has also adopted various rulings and interpretations to facilitate effective administration—171 opinions having been issued in the past year with respect to operating differential subsidy agreements alone.

General Order No. 24, adopted by the Commission July 14, 1938, prescribed a formula for the revaluation of all subsidized vessels, on the basis of a 20-year life expectancy. The revaluations are for the purpose of assisting in the determination of "capital necessarily employed in the business" and in connection with the recapture and reserve provisions of the act.

In connection with the foregoing procedure, and in order to simplify the auditing of the books of subsidized operators, the Commission has adopted General Order No. 22—Uniform System of Accounts for Operating Differential Subsidy Contractors.

Following recognized governmental procedure the Commission adopted rules and regulations for admission of persons entitled to practice before it. For the period under review 342 attorneys and 198 other qualified persons have been granted permission to appear before the Commission.

A complete codification of all documents having general applicability and legal effect issued or promulgated by the Commission or its predecessors prior to June 1, 1938, was prepared by the office of the general counsel and forwarded to the Codification Board in accordance with the provisions of the Federal Register Act. The Commission has also brought up to date the codification and revision of shipping and navigation laws authorized by the shipping act and sent to Congress in 1928. Upon completion of this task it will be submitted to the Congress in revised form with recommendation that it be enacted.

VESSEL CONSTRUCTION

Long-range Program.

The development of a long-range program for replacements and additions to the American Merchant Marine is prescribed under section 210 of the Merchant Marine Act, 1936, as amended. The Commission is directed therein to create an adequate and well-balanced merchant fleet providing service on all essential routes. Vessels must be available for conversion into transport and supply ships in times of national emergency. They must be owned and operated by citizens of the United States, insofar as practicable, and designed to afford complete protection for passengers and crew against fire and all other marine perils.

Extensive investigation by the Commission during its first year of office disclosed that roughly 30 percent of the country's dry-cargo trade was carried on American-flag ships. However, the age and rapidly approaching obsolescence of over 80 percent of the vessels bore striking witness to the dangerous weakness of our merchant marine.

A preliminary canvass of requirements for replacement of the 155 vessels in the subsidized fleet indicated need for approximately 95 new vessels of various types and sizes. Analysis of the ability of individual companies to undertake this replacement reduced this estimate to about 60 ships within the next 5 years.

Faced with this definite inability of private business to finance more than a small portion of the necessary replacements and with the threat of disruption of our foreign commerce evidenced by international tension and warlike activities, the Commission determined to proceed with the construction of new tonnage on essential routes.

Working in close cooperation with the Navy Department as to the stated need of at least 500 merchant ships in the next 10 years for national defense purposes, plans were prepared for the replacement of our merchant tonnage. The construction of tanker tonnage was not included, as replacements in this branch of the merchant marine are provided for to a far greater degree than in dry-cargo trades.

Accordingly, on April 29, 1938, the following findings and determinations, previously adopted by the Commission, were approved by the President:

The Commission, having considered the national policy in section 101 of the Merchant Marine Act, 1936, and the objectives set forth in section 210 of the act and the present circumstances relating to new construction required under its long range program previously adopted, does hereby

FIND AND DETERMINE that the national policy declared in section 101 of the Merchant Marine Act, 1936, and the objectives set forth in section 210 of said act cannot with respect to construction of new vessels be fully realized within a reasonable time under the provisions of titles V and VI of said act.

It is not possible to predict accurately the course of commerce over the next 10 years. Internal developments within the United States, such as the shifting of agricultural crops from one region to another, the development of new industries, the tapping or depletion of mineral resources, and various other economic or political factors may seriously dislocate the present channels of our export trade. Prospects in the foreign field are further complicated by possible changes in foreign policy of those countries with whom we are engaged in trade; restriction of imports, barter and trade agreements, banking and exchange controls, and countless other obstacles to the free exchange of goods which may be adopted at any time.

It is difficult, therefore, to specify the exact nature of shipping service which should be furnished on a definite trade route under a long-range program. Frequent changes in construction plans by the operators themselves emphasize the existing uncertainty. Within the limitations mentioned above, however, vessels can be constructed of a type, size, and speed satisfactory to meet the normal requirements of a given trade area.

Present Construction.

The technical staff of the Commission has developed standardized designs for two cargo ships, known as the C-2 and C-3, which incorporate modern principles of cargo vessel construction. Design of these ships was adopted by the Commission after consideration of Navy Department requirements for national defense and after submission to many qualified experts, both technical and commercial, in the field of marine transportation.

These ships, as well as those being constructed for private operators under the construction-differential subsidy plan, are as nearly fireproof as design and engineering resources can make them. Incorporated in the designs are the latest improvement in ship construction, the types and arrangement of machinery, and safety features recommended in Senate Report 184, as well as those required by law.

Twenty C-2 cargo ships, characteristics of which were summarized in the previous annual report to Congress, are presently under construction for the Commission's account. These vessels have been allocated to the following routes:

Service between North Atlantic ports and the west coast of South America	3
Service between North Atlantic ports and the Scandinavian and Baltic ports	6
Service between North Atlantic ports and United Kingdom, and ports in the Bordeaux-Hamburg range	6
Service now operated by the American Pioneer Line between North Atlantic ports, India, Australia, or the Orient	5

The Commission expects to take delivery of the first C-2 design ship in the spring of 1939, thus terminating an 18-year hiatus of cargo-ship construction in American yards.

The 12 C-3 cargo ships, for which the Commission recently awarded construction contracts, are provided with unusually large cargo space for vessels of this type. They will carry about 7,800 tons of dry cargo and 2,000 of liquid. Single-screw propulsion will provide them with a sustained sea speed of 16½ knots. Their characteristics are: Dead-weight tonnage, approximately 11,926; length, 492 feet over all; beam, 69 feet, 6 inches; depth, 42 feet, 6 inches; draft loaded, approximately 27 feet, 3 inches. Design of crew's quarters has been given special attention, and embodies results of the Commission's investigation of living conditions on board ship. Located amidship, the rooms will berth two men in some cases, and in no event provide for more than four-man occupancy.

The Commission is also developing plans and specifications for other types of cargo and passenger vessels to supplement those on which construction has already begun. Of particular importance to the rehabilitation of the American Merchant Marine is the entrance of new ships into Pacific coast services. The Commission has adopted a comprehensive building program of 24 vessels for the important trade routes serving this area.

The details of the ship construction program as of October 31, 1938, are fully set forth in appendix D of this report.

In addition to the 37 vessels on which construction had been started by October 31, 1938, the Commission during November and December, 1938, awarded contracts for the building of 15 more. The Bethlehem Ship Building Corporation submitted the low bid of $3,218,000 for each of three combination passenger and cargo vessels, to be operated by the Mississippi Shipping Co. The remaining 12 comprise the first group of C–3 cargo vessels; 8 of these freighters will be equipped with steam turbine propulsion, 6 by the Federal Ship Building & Dry Dock Co., and 2 by the Moore Dry Dock Co. of Oakland, Calif.; the other 4 will be operated with Diesel-geared drive, upon completion by the Sun Ship Building & Dry Dock Co. The allocation of two vessels to the Moore Dry Dock Co., at a price of $2,857,760 each, marks the first construction to be undertaken by a west coast yard since passage of the Merchant Marine Act, 1936.

In making this award under section 502 (b) of the act the Commission found that existing ship yards, including navy yards, did not provide adequate facilities for purposes of national defense and national emergency.

The estimated cost of these recent awards is $41,000,000, thus increasing to approximately $130,000,000 the contracts let during the calendar year 1938, for the construction of 51 ships.

The eight replacements for the account of privately owned lines consist of the S. S. *America* for the United States Lines Co., four cargo vessels for the American Export Lines, and three combination passenger and cargo ships for the Mississippi Shipping Co.

Construction-Differential Subsidy.

The Commission has already described in some detail in its economic survey the procedure followed in selecting the Netherlands as a principal foreign shipbuilding center that could be availed of by substantial competitors of the United States Line and in determining the fair and reasonable foreign cost of constructing a vessel comparable to the S. S. *America*.

In the case of the Export ships, Italy was selected as a principal foreign shipbuilding center, not only because of its competitive position in the trade served by this company, but also because intensification of shipbuilding and rearmament programs in other countries shut out all construction for foreign accounts. The material sifted by the Commission in arriving at a foreign cost of construction was voluminous. Data assembled by the operator included affidavits from its foreign representatives concerning actual bids of Italian yards. Much assistance was offered by the various consular offices of the State Department, as well as the Commission's own European representative in reaching a figure of approximately $1,400,000 as the fair and reasonable foreign cost.

With some modifications due to the inclusion of passenger accommodations, the same evidence was utilized in the case of the Mississippi Shipping Co. vessels.

Determinations of a like nature will be made by the Commission with respect to the cargo ships being constructed for its own account, in order that prospective purchasers may be apprized of the extent of construction subsidy afforded them. Consideration is also being given to a recommendation that construction differentials applicable to various types of ships be determined on an annual basis by the Commission. This would facilitate the formulation of new construction plans by the various companies desiring to carry out replacement programs.

OPERATING-DIFFERENTIAL SUBSIDY AGREEMENTS

On July 1, 1937, the Commission entered into temporary operating subsidy agreements with 16 steamship companies. Subsequently contracts were executed with 2 others for a period of 6 months. At present 13 companies are receiving Government aid in the operation of 148 vessels with a gross tonnage of 1,028,398.

Subsidy agreements extend for varying periods of time, depending upon the age of the vessels concerned and the requirements for their replacement in a long-range program. The nature and extent of the service operated by each company, as well as the provisions for new construction, will be briefly summarized.

The circumstances leading to the withdrawal from the subsidy program of those companies which were granted temporary agreements upon the termination of their ocean mail contracts is outlined thereafter.

Lines Presently Subsidized.

American Export Lines

This company operates 18 ships on 4 services between North Atlantic United States ports and ports in the Mediterranean area. In accordance with the replacement provisions of the subsidy agreement 10 new ships must be constructed to replace the cargo vessels which operate on 3 of these subsidized routes. The Alexandria Express service is maintained by 4 passenger and cargo vessels completed in 1930 and 1931. On August 11, 1938, the initial construction requirements of this company were complied with by the execution of contracts with the Bethlehem Shipbuilding Corporation, Ltd., for the construction of 4 new cargo vessels.

American President Lines, Ltd.

(Formerly Dollar Steamship Lines, Inc., Ltd.)

One of the most serious problems facing the Commission during the latter part of 1937 was the matter of reestablishing the important trans-Pacific and round-the-world services operated by the Dollar Steamship Line, Inc., Ltd. The company was indebted to the Commission in the sum of approximately $13,000,000, secured by preferred ship mortgages on the vessels in the fleet. This amount was later reduced to $7,500,000 by application of the insurance payments on the S. S. *President Hoover.*

Despite the constant endeavor of the Commission, which included sending members of the staff on several occasions to confer with officials of the company in San Francisco, no satisfactory solution had been reached by the end of the year. The then chairman of the Commission, accompanied by the general counsel and other members of the staff, proceeded to the west coast in January 1938 and instigated extensive financial readjustments in the various companies controlled by the Dollar interests, in order that the line might qualify for a temporary operating differential subsidy agreement. The documents executed in connection with the financial readjustment of the Dollar Steamship Line, Inc., Ltd., were subsequently compiled and printed by the Commission under date of February 17, 1938.

It was recognized at the time that the action taken would merely alleviate the more urgent difficulties of the company, without providing an adequate long-term solution. The financial condition of the line deteriorated during the period of the subsidy agreement so that by

August 1938 most of its vessels were laid up and the company could no longer meet accruing obligations.

In view of the virtual cessation of service by the only American-flag passenger line operating these highly essential trade routes, the Commission was faced with the alternative of permitting the company to slip into bankruptcy or arranging for the infusion of much needed working capital and funds required to repair the company's vessels in accordance with standards of the Bureau of Marine Inspection and Navigation.

On August 15, 1938, an agreement for reorganization was approved whereby the Commission acquired about 90 percent of the outstanding common stock of the Dollar Line, in consideration for releasing R. Stanley Dollar and the Dollar Steamship Co. of California from their liabilities as endorsers or comakers on the ship mortgage notes held by the Commission.

This adjustment plan was consummated in October 1938 and the Commission as majority stockholder obtained complete control in the selection of the management. The Reconstruction Finance Corporation advanced $2,500,000 for working capital and the Commission loaned an additional $2,000,000 restricted to vessel repairs which were necessary to protect the value of the property underlying the Government mortgages. These loans were secured by a joint blanket preferred ship mortgage covering the entire Dollar fleet of 13 vessels.

The operating subsidy contract dated October 6, 1938, extends for a period of 5 years. The routes to be served by the operator include one from California ports to Japan, China, Philippine Islands via the Hawaiian Islands, and a round-the-world service from New York via the Panama Canal, returning via the Mediterranean. With the exception of the S. S. *President Coolidge*, which was built in 1931, the 13 combination passenger-cargo vessels which comprise the fleet were completed in 1920 and 1921. In the provisions for new construction the operator agrees to develop a replacement program satisfactory to the Commission beginning January 1, 1940.

Grace Line, Inc.

This company operates a fleet of six combination cargo and passenger vessels constructed within the last 10 years on a service between North Atlantic ports to the west coast of South America via the Panama Canal Zone. As the contract expires on December 31, 1942, which is well within the 20-year age limitation on subsidized vessels, no requirement has been made for the replacement of these vessels. The operator has submitted for the consideration of the Commission an application for an operating-differential subsidy on its New York-Venezuela and Colombia service, which was initiated in January 1938 by transfer of three vessels formerly operated by the Panama Mail Line in the intercoastal trade. The Atlantic and Caribbean Steam Navigation Co. had operated for many years in this service until it was purchased by Grace Line, Inc., in October 1937, at which time the temporary operating-differential subsidy agreement was assigned to the buyer with the understanding that the Commission would not give immediate consideration to a long-term subsidy contract on the vessels to be placed on this route in view of the payment made by the Government in settlement of the ocean mail contract held by the Panama Mail Line.

Lykes Bros. Steamship Co., Inc.

Although the operating-differential subsidy agreement lists 5 services operated by this company from the Gulf ports to the West Indies, European ports both on the Atlantic and on the Mediterranean, and to the Far East, conditions in the past year have compelled considerable curtailment of the service by the 45 vessels which comprise this subsidized fleet. As these vessels were constructed as part of the Government's wartime program, the subsidy agreement provided for a comprehensive replacement program over the next 5 years, with the condition that failure to execute construction contracts for the first group of 5 vessels by December 1, 1938, would place the contractor in default. The date for complying with the replacement provision of the subsidy agreement was subsequently extended to January 31, 1939.

Mississippi Shipping Co.

This company operates a service known as the Delta Line between New Orleans and other Gulf ports and ports on the East Coast of South America. The subsidy agreement covers five cargo vessels and four combination vessels for a period of 12 years and requires construction of three combination vessels and three cargo vessels to replace the present fleet. The Commission issued invitations for bids for construction of three combination vessels and awards were made in December to the Bethlehem Steel Co. at $3,218,000 each.

Moore & McCormack Lines, Inc.

(Operator of the American Scantic Line)

The American Scantic Line operates between North Atlantic ports and ports in Scandinavia, Baltic Sea countries, and the U. S. S. R. Seven vessels, of which four are combination cargo and passenger, are presently engaged in this trade under the provisions of a temporary operating-differential subsidy agreement, which has been extended from time to time in view of the operator being involved in plans for operating the American Republics Line to South America. The most recent addendum to the temporary agreement extends to June 30, 1939, at which time the contractor shall have taken the necessary steps to work out a replacement program satisfactory to the Commission under title V or section 714 of the Merchant Marine Act, 1936, as amended, under penalty of relinquishing its charter agreement with respect to the American Republics Line or forfeiting 25 percent of all subsidy payments accruing during the period covered by the extension of the temporary agreement from September 30, 1938, to June 30, 1939.

Moore & McCormack Lines, Inc.

(Operator of the American Republics Line)

The successive steps followed by the Commission leading up to the initiation of service on the "Good Neighbor Fleet" of the American Republics Line is treated in the section on Government-owned lines.

Commencing January 1, 1939, the 3 passenger vessels and 10 cargo vessels engaged in this service will be operated under a charter party agreement for a period of 3 years by Moore & McCormack South America Lines, Inc., a wholly owned subsidiary of Moore & McCormack Lines. The 3 passenger vessels sail on a fortnightly express schedule from New York to Brazil, Uruguay, and the Argentine. The outports, both North and South America, are served by the cargo ships. In the event that new cargo vessels are constructed by the Commission for substitution of the old tonnage now engaged in the trade, they shall be included in the charter party agreement at a rate of hire satisfactory to the Commission.

New York & Cuba Mail Steamship Company

This company operates six vessels of varying age and capacity between New York and Havana, New York and Vera Cruz, and New York, Progreso, Tampico, and Puerto Mexico. The operating subsidy agreement lasts for 5 years on line "A," which is served by the S. S. *Oriente*, a combination passenger-cargo vessel constructed in 1930. With respect to the remaining lines, the contract was extended to April 1, 1939, from December 31, 1938, for the construction of replacement tonnage or purchase of suitable passenger vessels. This was due largely to the unsettled conditions in Mexico which have reduced the volume of this operator's business.

Oceanic Steamship Co.

One sailing every 4 weeks is made by the S. S. *Mariposa* or S. S. *Monterey* on the route from San Francisco to Australia, via Honolulu, Samoa, Fiji, and New Zealand. As these express passenger steamers were constructed in 1931 and 1932, the 5-year operating differential subsidy agreement did not provide for any construction.

Pacific Argentine Brazil Line

This company operates five war-time cargo vessels between Pacific coast ports and the east coast of South America, via the Panama Canal or the Straits of Magellan. The temporary subsidy agreement was extended from time to time while negotiations were being conducted for a long-term agreement by the terms of which the contractor would agree to construct two vessels under title V and two under title VII and furnish the additional working capital necessary to finance this replacement of its present fleet. Although the Commission has authorized execution of a 12-year operating-differential subsidy agreement upon compliance with these conditions, the pending contract has not yet been executed.

Seas Shipping Co.

On October 14, 1938, the Commission executed a 6 months' agreement with this company, which operates four cargo vessels between North Atlantic ports and south and east Africa, with provision for an extension to 12 years in the event that contracts for the construction of three new cargo vessels of a type satisfactory to the Commission are executed prior to April 14, 1939. The company was also required to obtain the additional financing requisite to carry out its undertakings.

South Atlantic Steamship Co.

This company operates six 19-year-old cargo vessels in its service between South Atlantic ports, United Kingdom, Ireland, and Channel ports. Although the operating differential subsidy agreement provides for execution of contracts for the construction of five new vessels, three of which are to be signed by December 1, 1938, the operator contends that the trade does not justify building new vessels at present-day construction costs. The date for complying with the replacement provision of the subsidy contract was extended by the Commission to April 1, 1939.

United States Lines Co.

This company presently has under construction a new express passenger vessel to supplement the service between New York and Germany, via Channel ports, now being covered by the S. S. *Manhattan*, S. S. *Washington*, S. S. *President Harding*, and S. S. *President Roosevelt*. The subsidy contract on this line extends for 12 years. The two remaining routes, to Liverpool and London, respectively, are served by seven "merchant" vessels which were built in 1920. No definite plans for the replacement of tonnage on these latter routes have been agreed upon as yet. The contract for the London service will be in effect for 5 years in the event that provision is not made for the substitution of new vessels, and the contract on the Liverpool route will expire on December 31, 1939.

States Steamship Co.

The Commission has devoted considerable effort to the reestablishment of steamship services from ports in the Pacific northwest. At the present time the only immediate prospect is the States Steamship Co. and its cargo service from Portland to the Orient. As the company has signified that it would not be able to undertake the immediate replacement of old tonnage the projected subsidy agreement would extend for a limited period of 15 months, during which time the Commission would prepare plans for maintaining this route, including the building of new ships, whether by the present operator or by the Commission itself.

The following tabulation sets forth the approximate operating-differential subsidies for the period July 1, 1937, to October 31, 1938:

Accrued operating-differential subsidy July 1, 1937, to Oct. 31, 1938

Company	Voyages and inactive periods					
	July 1, 1937, to June 30, 1938		July 1, 1938, to Oct. 31, 1938		Total	
	Number of voyages	Accrued subsidy	Number of voyages	Accrued subsidy	Number of voyages	Accrued subsidy
American Diamond Lines, Inc.	36	$195, 127. 53			36	$195, 127. 53
American Export Lines, Inc.	66	970, 035. 23	30	$436, 769. 82	96	1, 406, 805. 05
American Mail Line, Ltd.	18	428, 515. 66	3	79, 863. 92	21	508, 379. 58
American South African Line, Inc.	9	146, 073. 62	4	65, 848. 84	13	211, 922. 46
Atlantic & Caribbean Steam Navigation Co.	21	68, 670. 00			21	68, 670. 00
Baltimore Mail Steamship Co.	47	395, 710. 77			47	395, 710. 77
Dollar Steamship Lines, Inc., Ltd.	12	438, 150. 77	8	297, 880. 09	20	736, 030. 86
Grace Line, Inc. (successor to Atlantic & Caribbean Steam Navigation Co.)	8	26, 160. 00			8	26, 160. 00
Grace Line, Inc.	45	969, 554. 30	18	341, 020. 41	63	1, 310, 574. 71
Lykes Bros. Steamship Co., Inc.	219	1, 308, 162. 61	75	768, 391. 14	294	2, 076, 553. 75
Mississippi Shipping Co., Inc.	30	321, 752. 40	13	133, 469. 75	43	455, 222. 15
Moore-McCormack Lines, Inc. (formerly American Scantic Line, Inc.)	44	368, 405. 33	16	163, 212. 35	60	531, 617. 68
New York & Cuba Mail Steamship *Co., Inc.*	74	344, 175. 73	32	90, 042. 75	106	434, 218. 48
Oceanic Steamship Co.	11	541, 091. 81	4	191, 787. 19	15	732, 879. 00
Pacific Argentine Brazil Line, Inc.	6	127, 119. 92	4	72, 266. 64	10	199, 386. 56
South Atlantic Steamship Co. of Delaware	27	184, 009. 23	10	87, 490. 08	37	271, 499. 31
United States Lines Co.	119	1, 921, 054. 11	45	715, 312. 72	164	2, 636, 366. 83
Total	792	8, 753, 769. 02	262	3, 443, 355. 70	1, 054	12, 197, 124. 72

Audits of the accounts of each contractor whose temporary agreement has expired are presently being made, to determine the exact amount of subsidy due that has not heretofore been paid, as well as the amount of profit each made that is subject to recapture by the Commission. The majority of these audits will be completed early in 1939.

Discontinued Subsidy Agreements.

In the Commission's economic survey of the American Merchant Marine, which was transmitted to Congress November 10, 1937, forecast was made that it would not be possible to include all of the lines then enjoying temporary operating-differential subsidy agreements in a long-term program. There follows a brief résumé of the factors which led to the withdrawal of six companies from the subsidized portion of the foreign-trade fleet.

American Diamond Lines

This company advised the Commission in November 1937, that until it could straighten out its internal affairs it was "advisable, both from the standpoint of the Maritime Commission and ourselves that we operate without a subsidy following the expiration of the temporary subsidy agreement, until the rearrangement of our affairs shall have been fully completed." The eight cargo vessels engaged in a service between North Atlantic ports and Belgium and Holland were thus eliminated from the subsidy program.

American Mail Line

During the course of negotiations with the Dollar Steamship Lines, Inc., Ltd., in the summer of 1937, it was found expedient to consider the American Mail Line service, operating four vessels of the "President" type, from Puget Sound ports to the Far East, apart from the complexities of the Dollar situation. The Commission, therefore, entered into a 6-month temporary operating-differential subsidy agreement on September 26. At the expiration of this period a 90-day extension was granted in order that the company might have the opportunity to work out a long-term program satisfactory to the Commission. In June 1938 the Commission was notified by the president of the company that it would not seek a long-term agreement as operating results indicated that the subsidy allowed by the statute would not be adequate to maintain the company on a profitable basis. Since that time the Commission has conducted extended negotiations with representatives of various interests in the Puget Sound area with a view toward the reestablishment of a service to the Orient. Consultations have been held with civic, industrial, and banking groups. A number of steamship companies have investigated the possibilities of transferring their ships to this trade. Up to the present time none of the various proposals suggested has been satisfactory to the Commission.

American South African Line

The application of the American South African Line for a long-term operating-differential subsidy agreement stated that the company would undertake at once the construction of an additional passenger cargo vessel "on condition that no other American line was given a subsidy in the south and east African trade." This company operated three cargo vessels purchased from the Shipping Board in 1925 and one passenger-cargo vessel constructed in 1931 in its service between New York and south and east Africa. The company also furnished, without subsidy, a service from Gulf ports to the same destination. An application covering the first route was subsequently received from the Seas Shipping Co. The Commission determined that it would be necessary to conduct a public hearing on the adequacy of the service maintained by these two companies before any long-term subsidy agreement could be entered into. Considerable effort was made by the Commission to bring about a merger between these two companies but certain legal problems appeared to offer an insurmountable barrier.

In the spring of 1938 a public hearing on this question was held in Washington. This was followed by oral argument before the Commission and on August 5, 1938, the Commission issued its report on this matter, denying the request of the American South African Line for an exclusive subsidy and granting applications of both companies for long-term agreements, provided that construction plans were completed within 6 months and additional financing obtained. The Commission also stipulated that a cooperative arrangement should be agreed upon between the lines in regard to sailings, pooling of return cargo and the maintenance of a similar rate structure. The American South African Line subsequently notified the Commission that it would not accept a subsidy on these terms.

Baltimore Mail Steamship Co.

The application of this company for a long-term subsidy, covering five ships on a service between Baltimore and other bay ports and Hamburg, via Channel ports, was denied by the Commission in December 1937. In view of the many protests received from shippers and other maritime interests in the ports served, the Commission held a hearing at which the protestants were given an opportunity to state their case. It developed that the company had consistently lost money, even with the annual payment of over a million dollars in mail pay. Under the terms of the Merchant Marine Act, 1936, the Commission could not grant a subsidy which would amount to more than $450,000 a year. The company signified that it was willing to risk further impairment of its capital for a short period in order to provide an opportunity for the realignment of the Government-owned services operating in this area and for the disposal of its ships. The Commission, therefore, granted a 9-month extension to the temporary agreement, during the course of which arrangements were completed by the Baltimore Mail Steamship Co. for the transfer of its vessels to the intercoastal trade. Financial reports received from the company indicate that the new service operated by this company has met with considerable success. The realignment of the Government-owned lines in the bay area to take care of the withdrawal of the Baltimore Mail Steamship Co. fleet is discussed elsewhere.

Colombian Steamship Co.

One of the major problems to which the Commission directed its early efforts was the simplification of American-flag services in the Caribbean area. Negotiations were conducted with the interested lines for many months, resulting in the sale by the Colombian Line of its good will to Grace Line, Inc., and of its two vessels to subsidiaries of the Agwilines for operation in the Puerto Rico and Mexico trades. As matters were still pending in December 1937, the Colombian Steamship Co. exercised its right of rescinding the ocean-mail contract settlement and filed suit in the Court of Claims for $2,261,379, thus forfeiting all subsidy which had accrued during the period of its 6-month temporary operating-differential subsidy agreement. By the terms of a settlement agreement dated February 29, 1938, the Colombian Steamship Co. agreed to dismiss its suit in the Court of Claims with prejudice. The Commission agreed to pay $700,000 to the company as unamortized excess cost of constructing the S. S. *Colombia* and the S. S. *Haiti* in American yards, said amount to be applied to the mortgage indebtedness of the company to the Commission. The Commission further agreed to release the ocean-mail pay from February 1, 1937, to June 30, 1937, which had been withheld in the amount of $261,379.

Eastern Steamship Co.

Under the terms of the agreement between the Commission and Eastern Steamship Co., Inc., in settlement of the ocean-mail contracts on routes 15 and 52, the company was given the right to rescind the agreement in the event that the Commission did not grant the company a long-term operating-differential subsidy agreement. As the operating-differential subsidy permissible under the Merchant Marine Act was restricted by the nature of foreign-flag competition, the company chose to repay the mail pay for the period February 1, 1937, to June 30, 1937, which has been released by the Commission, and to file suit in the Court of Claims for $3,194,842.59. In the course of subsequent negotiations with this company an agreement was reached whereby the suit pending in the Court of Claims was dismissed with prejudice. The company agreed to maintain an unsubsidized service satisfactory to the Commission on its routes from New York and Boston to Nova Scotia and New Brunswick until June 30, 1940. The Commission on its part released the withheld mail pay and paid the company $800,000, including $129,000 earned during the period of the temporary subsidy agreement.

This company filed an application for an operating-differential subsidy on the New York-Bermuda service, but subsequently requested the Commission to defer action.

Supplemental Applications.

Eighty-three supplemental applications have been approved by the Commission for waivers, exceptions, and consents of various kinds under sections 803, 804, 805, and other provisions of the act. A great number of these applications involved changes in sailing schedules, elimination of ports of call, and reduction or increase in the number of voyages to be performed during the current year. The remaining applications granted by the Commission involved exemption from statutory limitations upon such matters as the performance of stevedoring or terminal operations by an affiliated company; the association with foreign-flag ships through agency agreements; the rental of office space from a subsidiary, and other matters found by the Commission to promote economy or efficiency of service without detriment to the Merchant Marine.

In all cases involving performance of services by affiliated companies, to which the Commission gave its approbation, provisos were inserted to ensure that all revenues obtained from such operations be included in the operator's general funds, thus becoming subject to recapture.

Additional Items of Subsidy.

During the course of negotiations with the operators, for long-term contracts, many of the companies contended for the inclusion in the subsidy computation of certain factors other than those specifically mentioned in section 603, Merchant Marine Act, 1936. Requests were made also for a countervailing subsidy.

The Commission reserved for decision during 1938 its determination on such matters as subsidy granted by foreign governments; indirect competition; depreciation allowance based on the higher cost of construction in the United States; administrative and overhead expenses, and passenger subsistence. In making its determination of "cost" as an element of capital employed under the Merchant Marine Act, 1936, the Commission ruled that for purposes of computing depreciation on subsidized ships no consideration would be given to the higher cost of construction in the United States. With respect to the other items, only one company has submitted sufficient data to enable a decision to be reached, and this line recently requested that final consideration be postponed.

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Labor Standards.

Section 301 (a) Merchant Marine Act, 1936, directs the Commission to investigate employment and wage conditions in ocean-going shipping and to establish, after appropriate hearings, minimum wage and manning scales and minimum working conditions for all officers and crews employed on all types of vessels receiving an operating-differential subsidy. Minimum wage scales for all subsidized vessels were set forth in the Commission's general order No. 15, dated October 21, 1937, in which it was also stated that it was impracticable to adopt minimum manning scales and uniform working conditions applicable to all ships.

A committee was designated to survey the condition and requirements of each vessel in the subsidized fleet. Commencing with the steamship lines operating on the Atlantic coast, the committee proceeded to the Gulf and is presently concluding its activities on the Pacific coast. Based on its recommendations, the Commission has issued minimum manning scales applicable to eight companies, and has virtually completed the remaining five.

The Commission early recognized that the improvement of crew quarters was an integral factor in the maintenance of satisfactory working conditions on board ship. Although the standards for new construction could not be met in all cases because of the age and other limitations of the ships, the Commission has insisted that all justifiable commitments be incurred. During the period covered by this report the quarters on 68 vessels of 11 steamship companies have been reconditioned at a cost of $790,494.44. The amounts for individual ships range from $334 to over $48,000.

Aid to Vessels Over 20 Years of Age.

Negotiations with a number of steamship companies for long-term operating-differential subsidy agreements revealed that certain vessels of these operators would soon become 20 years of age, which is the limit prescribed by the Merchant Marine Act, 1936, for subsidizing the operation of a vessel, except under special circumstances.

It was apparent that it would be impossible to replace such vessels in the short time remaining before they reached this age and that the operators would neither be willing to undertake proposed new construction nor able to maintain the service pending replacement unless these old ships were subsidized. The Commission therefore, pursuant to section 605 (b), found it in the public interest to grant aid to the vessels of six contractors, during the period of their respective operating subsidy agreements, upon terms and conditions contained in each respective contract relating to the replacement of these ships.

A number of vessels attained the 20-year limit during the year 1938. These vessels were operated, however, by companies which have not as yet complied with the requirements of the long-term construction provisions in their respective subsidy contracts. The Commission has therefore withheld the payment of any subsidy claimed for the operation of these vessels subsequent to the date upon which they become 20 years of age.

INSURANCE

The determination of the operating-differential subsidy with respect to the difference in the fair and reasonable cost of insurance on ships operated under the American and foreign flags involves many difficult problems. As the insurance market is an international one and coverage is obtained throughout the world on ships of all flags, the difference in cost to the American operator and his foreign competitor resolves largely into a difference in the initial cost of construction. Other important factors which must be considered, however, are the varying terms and conditions of the policies in effect, the relative cost of ship repairs and extraordinary conditions which may prevail in a specific trade.

Increase in the cost of ship repairs during the past year has been a matter of grave concern to insurance companies as well as to the Commission. The Commission's annual survey of marine insurance in the United States indicates that rates remained steady but increases in hull valuations were made in practically all 1938 renewals. The same situation has prevailed in foreign countries where a parallel or greater increase in the cost of repairs has taken place.

In the beginning of 1938 the American Marine Insurance Syndicate, acting on the Commission's request, increased its capacity from $2,500,000 to $4,000,000 on any one vessel. This step was urged by the Commission in view of the prospective launching of an extensive shipbuilding program.

In order to increase further its participation in the American market, the syndicate added 16 companies to its membership, which now totals 93, including 37 foreign companies licensed to do business in the United States.

The Commission agreed to permit a reasonable amount of reinsurance to prevent the accumulation of top-heavy lines, provided that the participation of strictly American companies not be reduced below two-thirds of the capacity of the syndicate. The following tabulation shows the participation of the insurance on mortgaged vessels placed in different markets:

	Fund	American	Foreign
	Percent	*Percent*	*Percent*
June 30, 1935	6.897	45.38	47.73
Oct. 26, 1936	5.72	43.78	50.5
Oct. 25, 1937	5.1	41.5	53.4
Oct. 25, 1938	5.2	46.5	48.3

The General Insurance Fund of the Commission, which was established by authority of the Merchant Marine Act, 1928, to insure the Government's legal or equitable interest in privately owned vessels, underwrote a total coverage of $14,774,000 during the fiscal year 1938, $6,832,000 applied to 22 privately owned vessels and the remainder to 37 vessels in the Government-owned fleet. This represents a reduction of over $6,000,000 from the amount covered as of June 30, 1937.

Although the Commission has a 5 percent participation in vessels on which it holds mortgages, this figure represents less than 2 percent of total hull insurance, which is divided at the present time approximately evenly between the American and foreign market. Replies to the Commission's annual questionnaire, sent to 162 American shipowners, indicate that approximately 33 percent of their protection and indemnity insurance was placed in the foreign market. The distribution of this business has been relatively constant for the past several years.

In addition to participating in the underwriting of insurance to a limited extent, the Commission examined commercial insurance policies deposited by mortgagors and operators of Government-owned vessels and certificates of insurance including P. & I. and builders' risk furnished by subsidized operators, to a total of $461,059,606 during the period under review.

LITIGATION AND CLAIMS

In addition to its many duties in connection with the administration of subsidy agreements, the office of the general counsel is charged with the investigation of all claims by and against the Commission, and, subject to the supervision of the Attorney General, with conducting all litigation in which the Commission is involved.

During the period under review, 87 cases in litigation involving over $44,000,000 were disposed of, while 90 cases involving approximately $30,000,000 were added to the docket, thus bringing about a net increase in the number of cases, but a reduction in the amounts involved, of approximately $15,000,000.

Included in this number are several important cases involving foreclosure of the Government's preferred mortgages on vessels; cases under the amendment to the Bankruptcy Act; admiralty cases arising out of vessel operation or as insurer, and a case arising out of wartime construction contracts. Claims and counterclaims in this latter case total $20,000,000. Although no final decision has been reached, the Government has been successful in defeating a large claim for interest.

Continued progress has been made in the past year with respect to whittling down the number of claims against the Government which have accrued over a 20-year period. They were reduced from

40 to 25 for the year ending October 25, 1938, with a net reduction of $1,383,156.84.

In its first annual report to the Congress, the Commission presented a résumé of the ocean-mail contract settlements effected prior to July 1, 1937, and stated that the remaining contracts not adjusted by the Commission were held by the Dollar Steamship Lines, Inc., Ltd.; Munson Steamship Line; Gulf Mail Line; United Fruit Co.; and the American Line Steamship Corporation.

Although progress was made toward a settlement of a number of these contracts, no final agreement had been reached by the end of December 1937, with the result that these contractors filed suits in the United States Court of Claims prior to January 1, 1938, in accordance with the provisions of section 401 (c) of the Merchant Marine Act, 1936. At the same time, two steamship companies, the Colombia Steamship Co., Inc., and the Eastern Steamship Line, Inc., invoked their right to rescind the settlement agreements previously executed, and file suit in the Court of Claims for payment of damages. The total amount of the claims asserted by all the above companies exceeded $25,000,000. The Commission has subsequently brought about dismissal with prejudice of all of these suits at a cost of approximately $6,000,000, as noted below.

The American Line Steamship Corporation agreed to dismiss its suit with prejudice in connection with the transfer of its three vessels to the Commission.

Payments made by the Commission to the Colombian Steamship Co. and the Eastern Steamship Lines are set forth under the section of this report dealing with operating differential subsidy agreements.

The claims of the Dollar Steamship Line, Inc., Ltd., in the amount of approximately $6,000,000, were dismissed with prejudice upon completion of negotiations with the operator for a temporary operating differential subsidy agreement in January 1938.

The United Fruit Co., holder of contracts on F. O. M. routes 39 and 40, had constructed six vessels in American shipyards under the 1928 Merchant Marine Act. In negotiating with representatives of the Commission's staff for settlement of its claims arising from termination of ocean-mail contracts, the company contended that it was entitled to the unamortized portion of the excess cost of constructing the six vessels referred to above in an American yard.

Much evidence was presented by the operator in support of the differential in shipbuilding costs alleged to exist at the time the ships were constructed. On December 21, the company filed suit in the Court of Claims for $10,000,000 damages. As the result of further conferences during the early part of 1938, mutual agreement was reached by the company and the Commission for dismissal with prejudice of the suit in the Court of Claims and payment by the

Commission of $3,814,448.52, which sum represented the Commission's best estimate of the unamortized portion of the excess cost of constructing the company's six vessels in American, as opposed to foreign, yards.

The settlement of all the claims set forth above have been reviewed by the Attorney General of the United States, who has not expressed dissatisfaction with the terms of such agreements and the findings thereon made by the Commission. The only settlement reached by the Commission which has not yet been cleared by the Attorney General pertains to the Munson Steamship Line and its subsidiary, the Gulf Mail Line, holders of contracts on F. O. M. routes 4 and 22.

The Munson Steamship Line operated four passenger and cargo vessels of approximately 14,000 gross tons each, in a service to the east coast of South America. The company went into voluntary bankruptcy in June 1934, since which time it has been operated by trustees appointed by the United States District Court for the Southern District of New York. As the terms of a plan of reorganization, submitted under date of February 2, 1937, were deemed unsatisfactory, negotiations were conducted over many months in an effort to attain an equitable solution. Because of sustained operating losses, the Bankruptcy Court ordered the service terminated in June 1938.

The Commission immediately instituted foreclosure proceedings to protect the mortgages held on these four vessels, on which the unpaid principal amounted to $2,500,000 and accrued interest approximately $525,000. Steps were taken to maintain the service until the three Panama Pacific ships would be available.

As a result of a series of conferences between representatives of the Munson interests and the Commission, the terms of a settlement agreement were approved whereby, among other provisions, the company agreed to interpose no obstacle to the operation of its four ships by an admiralty receiver pending their sale under forclosure proceedings, at which time the Commission would acquire clear title to the vessels; the suit in the Court of Claims was dismissed with prejudice; and the Commission paid the company approximately $652,000, of which sum $315,000 represented withheld mail pay.

EXERCISE OF REGULATORY FUNCTIONS

The regulatory powers, duties, and functions embodied in previous shipping acts, which were vested in the Commission under the Merchant Marine Act, 1936, were strengthened by the last Congress through addition of section 4 and the amplification of section 5, Intercoastal Shipping Act, 1933. The provisions of this act were thus extended to cover every common carrier by water in interstate commerce as defined in section 1 of the Shipping Act, 1916. This has the effect of automatically requiring all interstate carriers to file actual rates on 30 days notice, instead of their maximum rates only.

Under section 4 the Commission was granted authority to prescribe either maximum or minimum rates upon finding that prevailing charges are unjust or unreasonable. Common carriers on the Great Lakes were exempted from this new minimum rate provision.

During the period under review several investigations were instituted by the Commission on its own motion. These included proceedings to determine the lawfulness of rates, fares, and charges for transportation between points in the Territory of Hawaii; the practices of Pacific coast-European Conference carriers; refunds through stock dividends, in connection with rates for automobile transportation on the Great Lakes; practices of two Japanese lines making drastic and unwarranted reductions in their rates on coffee and other commodities in the Brazil-west coast of United States trade, and an agreement between the Dollar Steamship Co. and the Matson Navigation Co.

Many of these investigations, particularly in connection with the Inter-Island Steam Navigation Co. case, required extensive accounting and economic studies. In the latter case the physical valuation of the company's properties, of its investment return thereon and other factors important in determining value for rate-making purposes were carefully examined.

In Docket No. 507, the Commission instituted an investigation of the practices of the Y. K. K. K. Line and O. S. K. K. Line in slashing rates established by the conference on coffee and other commodities transported from Brazil to the United States Pacific coast.

After a hearing before the entire Commission, it was found that rate stability was necessary in the trade; that the respondent Japanese lines were undercutting to 50 cents a rate of 90 cents per bag on coffee, which rate was not shown to be unreasonable; that such tactics influenced other carriers in the trade to grant respondents a part of the revenue from transporting coffee, not based on actual earnings, and that such practices created conditions detrimental to shipping and our foreign commerce.

After the hearing the two companies agreed to abandon their practices, join the conference, and conform to the established conference rates.

Formal Docket.

Sixteen formal complaints were filed and 22 investigations instituted upon the Commission's own motion, in addition to the 249 cases pending on October 26, 1937. Hearings were held in 49 cases and 29 proposed reports issued.

In 12 cases the parties appeared before the Commission in oral argument. Of the 256 cases pending on October 25, 1938, 220 concerned complaints respecting assembling and distributing charges of carriers engaged in both intercoastal and foreign commerce. Hearings in all except 7 of these cases have been concluded, consolidated proposed reports issued thereon and exceptions thereto are presently receiving consideration.

Final reports containing the Commission's conclusions and orders promulgated to carry out the findings reached have been issued in 22 cases and 10 cases were disposed of by order without report.

Carriers and terminal operators have modified a number of their practices as a result of the Commission's decisions in the past year. The practice of allowing excessive free storage of import property at the Port of New York was found to be unreasonable and in violation of section 17 of the Shipping Act, 1916. In another case the Commission found that the common carrier engaged in transporting green coffee to North Atlantic ports charged rates unduly preferential to New York and prejudicial to the other ports served.

Informal Docket.

The Commission maintains an informal docket to adjust controversies involving transportation matters and to obviate the filing of a formal complaint. There were 11 informal complaints during the period under review. Six were adjusted by withdrawal, satisfaction, or abandonment following the informal expression of the Commission's views on the merits; 1 was transferred to the special docket and 4 were pending on October 25, 1938.

Special Docket.

In instances where carriers believe that the charges collected for transportation are unlawful and they do not desire to defend the unlawful rates, they may establish reasonable rates for future shipments and may make application on the special docket for authority to make reparation to a reasonable basis.

Applications for such authority must admit that the rate charged was unreasonable and are considered the equivalent of informal complaints and answer thereto admitting the matters complained of. They require careful consideration in order to avoid the possibility of, in effect, granting rebates to favored shippers.

Four special docket applications were on hand at the beginning of the period covered by this report. Consideration was given to these and 76 additional applications. Reparation was ordered in 2 cases and denied in 4 others, and in 1 case the collection of undercharge was waived. Fifty-nine of the 76 applications filed related to the collection of legally applicable tariff rates on shipments booked and received by a Gulf intercoastal carrier prior to a rate increase, but on which actual shipments did not take place until the increase became effective.

Agreements Under Section 15, Shipping Act, 1916.

Under section 15 of the Shipping Act, 1916, common carriers by water and other persons subject to the act are required to file, for approval by the Commission, a true copy or, if oral, a true and complete memorandum of every agreement with any other such carrier or other person subject to the act to which it may be a party, fixing or regulating rates or controlling, regulating, preventing, or destroying competition; allocating ports or restricting or otherwise regulating sailings; or in any manner providing for a cooperative working arrangement. If such agreements contain provisions which appear to be unjustly discriminatory or unfair or to operate to the detriment of the commerce of the United States or to be in violation of the act, the Commission is authorized to disapprove, cancel, or modify them. When approved, such agreements are exempt from the provisions of the antitrust acts.

Careful attention has been given to agreements filed for approval. Conference agreements, in particular, have been scrutinized more closely to ascertain if the interests of the shippers and the carriers are being duly recognized. In many instances informal negotiations have resulted in carriers removing objectionable provisions from the proposed agreements. Failing settlement in this fashion, formal action has been initiated by the Commission in a number of cases. The Commission instituted an investigation on its own motion into new agreements of the Pacific Coast Conference.

Similar procedure has been adopted in regard to the practices established by conference agreements hitherto approved. Investigations were undertaken into the activities of carriers under five or six conference or pooling agreements wherein it appeared that certain practices were opposed to the public interest. A number of these matters have been adjusted informally. Others required formal action to terminate the particular activities which the Commission found injurious.

During the period under review, 1,819 new agreements were filed. This number includes modifications and cancelations of approved agreements. At the end of the period there were on file 2,228 effective agreements, 127 of which were conference agreements.

Interstate Tariffs.

Common carriers by water in interstate commerce, pursuant to the provisions of section 5 of the Intercoastal Shipping Act, 1933, as amended by Public No. 705, approved June 3, 1938, are now required to file their actual rates. Proposed new tariff regulations were submitted to the industry and comments and suggestions of the carriers and public were invited at conferences held by the Commission. The final revision is under consideration and will be issued shortly.

During the period 11,689 tariff schedules were rece ved and examined, 6 of which were rejected for failure to comply with the law or with the Commission's rules governing the construction and filing of tariffs. Owing to the above-mentioned change in the law, a number of carriers did not fully meet the new requirements in submitting their schedules.

Over 400 letters were sent out relating to errors in the form employed or in the schedules submitted. In most of these cases the errors were rectified. Under authority granted by the Shipping Acts of 1916 and 1933, 200 special permission applications requesting authority to make rate changes on short notice or to depart from the Commission's tariff requirements were granted, 4 were denied, 5 were granted in part and denied in part, and 9 were withdrawn.

Of the 10 special permission applications remaining out of a total of 228 considered during the past year, 6 are presently pending, 3 were passed to the files without action and 1 was disposed of by modifying the order in Docket No. 459. Thirty-one rate adjustments proposed by common carriers, including 1 on hand, were protested. The Commission has disposed of all but 1 of these cases. Three schedules were suspended upon the Commission's own initiative.

Foreign Tariffs.

Under a regulation dated July 12, 1935, common carriers by water in foreign commerce are required to file with the Commission schedules showing the rates and charges for or in connection with transportation of property, except cargo loaded and carried in bulk without mark or count, from points in the continental United States, not including Alaska or the Canal Zone to foreign ports, such schedules to be filed within 30 days from the date they become effective.

During the period 10,461 rate filings were made pursuant to the above order. In addition, 1,931 filings were made by conference carriers covering homeward and other trades.

Examination of the foreign rate schedules referred to above has revealed practices and charges which might be discriminatory or prejudicial to the shipping public. In most cases carriers have voluntarily made the necessary corrections upon informal notification by the Commission. Among the matters handled in this fashion are the assessing of charges for the issuance of bills of lading, the establishment of prima facie excessive rates and charges and the insertion of too stringent provisions in contracts. Although this practice is not applicable in all cases, it is felt that further progress can be made by the intercession of the Commission's regulatory staff as an intermediary.

TRANSFER OF VESSEL REGISTRY AND SALES TO ALIENS

Section 9 of the 1916 Shipping Act requires the approval of the Commission for the transfer to alien ownership, registry, and flag of all vessels documented in the United States. This power enables the Commission to prevent the depletion of the American Merchant Marine or the transfer of a domestic vessel to foreign ownership for use in illicit trade or in any manner detrimental to the best interests of our commerce. This authority was strengthened by amendment to section 9 of the Shipping Act, 1916, which was adopted by the Seventy-fifth Congress in Public, No. 705, June 3, 1938.

The marked increase in the number of applications for transfer to foreign registry and ownership which was noted in the previous annual report of the Commission did not continue during the period under review. Apart from the sale of the S. S. *Leviathan* to British interests for scrapping, and the abandonment of the hulk of the S. S. *President Hoover*, which two vessels account for approximately 35 percent of the total gross tonnage transferred, other withdrawals from United States registry consisted of obsolete cargo ships, together with a number of small yachts, motorboats, and sailing vessels. The following table contains the summary of transfers approved during the past year:

Statement showing type, number, gross tonnage, average age of vessels approved by U. S. Maritime Commission for transfer to alien ownership or registry under sec. 9, Shipping Act, 1916, as amended, during period from Oct. 26, 1937, to Oct. 25, 1938, inclusive

Type	Number	Total gross tonnage	Average age
Sailing vessels	7	9,199	29.7
Yachts and motorboats	27	6,070	15.9
Tugs and barges	1	194	34.0
Cargo vessels	24	80,216	23.6
Passenger vessels [1]	2	70,878	15.5
Tankers	5	26,073	25.0
Charters to aliens—1 voyage	1	7,311	17.0
Total	67	199,941	21.0

[1] Consists of hulk of S. S. *President Hoover* and S. S. *Leviathan*, both of which were sold for scrapping.

Undocumented cargo vessels of the U. S. Maritime Commission sold and approved for transfer to foreign registry and flag

Nationality	Number	Total gross tonnage	Average age
British	14	80,768	19.0
German	1	6,207	19.0
Greek	5	27,403	18.5
Total	20	114,378	18.9
Grand total	87	314,319	20.5

Statement showing nationality, number, and tonnage of vessels approved by U. S. Maritime Commission for transfer to alien ownership, registry and flag under sec. 9, Shipping Act, 1916, as amended, during period from Oct. 26, 1937, to Oct. 25, 1938, inclusive

Nationality	Number of vessels	Gross tonnage	Nationality	Number of vessels	Gross tonnage
British	11	[1] 72,291	Philippine	2	1,207
Canadian	7	9,189	Portuguese	2	1,563
Colombian	1	48	Turkish	1	4,646
Costa Rican	5	315	Union of Soviet Socialist Republics	1	2,689
Cuban	3	86			
Greek	1	6,735	Venezuelan	1	59
Honduran	2	91	Yugoslavian	1	3,252
Italian	10	46,521			
Mexican	6	2,331	Total	64	170,685
Netherland	5	190	Sales alien without transfer	2	[2] 21,945
Nicaraguan	2	2,247	Charters to aliens	1	7,311
Norwegian	1	5,496			
Panamanian	2	11,700	Total	67	199,941

[1] Includes S. S. *Leviathan*
[2] Includes S. S. *President Hoover* hulk.

Under section 300 (a), Merchant Marine Act, 1920, the approval of the Commission is also required for the surrender of the marine document of a vessel of the United States covered by a preferred mortgage, whenever a change in ownership, or the home port, or the vessel's name or other cause necessitates such surrender. During this same period the Commission has approved the surrender of the marine documents of 92 vessels.

GOVERNMENT-OWNED LINES

During the past year the Commission has continued the operation of five steamship lines under a form of managing agency agreement providing for temporary operation for the Commission's account on an actual cost basis.

The Commission is required by section 704 of the Merchant Marine Act, 1936, as amended, to dispose of these lines as soon as possible. However, conditions during 1938 did not warrant a readvertisement of any but the American Republics Line.

The cessation of service by the Baltimore Mail Steamship Co. from Chesapeake Bay ports to North Atlantic European ports necessitated rearrangement of the American Hampton Roads Yankee Line in order to afford shippers adequate facilities pending the replacement of these vessels by new cargo ships with a higher speed. In order to maintain a weekly schedule of sailings from Baltimore, two additional vessels were transferred from the America France Line service and a third was withdrawn from the laid-up fleet.

The tabulation of operating results from the fiscal year 1938 set forth in appendix C indicates marked improvement over the previous year. The principal contributing factor was a substantial increase in average voyage revenue. Despite the high standard maintained by the Commission with respect to ship personnel and upkeep of the fleet, economies in operation have been effected during the past year by requiring the managing agents to adhere to a definite sailing schedule, thus minimizing turn-arounds and decreasing port charges. Further savings were obtained through close supervision of all administrative expenses, the consummation of favorable stevedoring contracts, and more recently, the berthing of Government-owned vessels at the Commission's piers in Hoboken.

As recounted hereafter, the American Republics Line, which formerly consisted of a 10-knot cargo service from North and South Atlantic ports to the east coast of South America, under the operation of C. H. Sprague & Son, Inc., has been transformed into a passenger and cargo service by addition of the three former Panama Pacific vessels now named S. S. *Brazil*, S. S. *Uruguay*, and S. S. *Argentina*. The remaining Government-owned lines will be offered for sale or charter by the Commission during the early part of 1939.

American Republics Line

The sailing of the S. S. *Brazil* on October 8, 1938, marked the inauguration of the "good neighbor fleet" to the east coast of South America and brought to fruition the expressed desire of the Administration and the efforts of the Commission to provide a first-class service to Brazil, Uruguay, and the Argentine.

The lack of adequate passenger service to this important trade area has been a matter of official concern for a number of years. Believing that the time element could not be ignored and that construcción of new ships would delay too long the fulfillment of frequent promises, the Commission began seeking a remedy for this problem more than a year ago.

In November 1937 the United States Lines Co. notified the Commission that the three Panama Pacific Line vessels could not remain in the intercoastal trade because of the loss of ocean-mail revenue and increased canal tolls, and proposed to place these three ships in subsidized service to the east coast of South America. At that time the trustees of the Munson Steamship Line were maintaining this service with four combination vessels and the Commission had been unable to reach any accord with the various participants in the Munson Line reorganization on settlement of the ocean-mail contract held by this company.

Extensive investigations and consultations with representatives of the United States Lines Co. and the Munson Reorganization Committee were carried on over a period of months. Various proposals were advanced by these groups for operating a service either independently or jointly, but the merits of each proposal were outweighed in the mind of the Commission by inherent disadvantages.

It was felt that the United States Lines Co. should give undivided attention to its transatlantic routes, particularly in view of the need for replacement of existing tonnage. In regard to the Munson Line, the chief obstacle presented was the company's status in reorganization under section 77B, and the remote possibility that all parties involved in the proposed plan of reorganization would agree to make the necessary commitments. The Commission determined, therefore, to acquire the three Panama Pacific vessels by transfer from the American Line Steamship Corporation.

Details of the transfer were worked out with representatives of the company, in connection with the settlement of its suit in the Court of Claims for $1,980,728.25 damages arising from termination of its ocean mail contract on route F. O. M. 32. By terms of the agreement, dated June 9, 1938, the Commission, on the basis of mutual release of all claims and dismissal of the company's pending suit, acquired the three vessels of the American Line Steamship Corporation, namely, the S. S. *Virginia*, S. S. *California*, and S.S. *Pennsylvania*, upon granting a credit to that company and the United States Lines Co. in the amount of $9,889,900. This sum represents mortgage indebtedness of approximately $5,000,100, and the owners' equity in the vessels, which had a book value on April 1, 1938, of approximately $10,250,000, based on a 20-year life expectancy.

The higher valuation placed on these ships by competent appraisers and the known rise in construction costs convinced the Commission that the transfer price was fair.

The Commission immediately issued invitations to sell or charter these vessels along with the 10 cargo vessels then operated by a managing agent for the east coast of South America service. Bids were also obtained and contracts let for reconditioning the ships in accordance with the needs of the service. Among the improvements made were the enlargement and redecoration of numerous staterooms; the installation of a built-in swimming pool on the after-deck; improvement of crew's quarters, and other features and facilities provided for modern steamship travel.

Bids were received from two companies for the charter of these vessels, one to begin with the first sailing and the other on January 1, 1939. Until that date operation was to be for the Commission's account. After consideration of the merits of the two bids submitted, the Commission awarded the charter to Moore-McCormack Lines, Inc., the high bidder, at a basic charter hire of $36,600 per month. As this operator had a number of 13-knot cargo vessels available, the Commission agreed to permit the substitution of these ships in the service and at the same time made arrangements to speed up a number of the Commission's 10-knot cargo vessels in order that the service might be maintained with fewer ships. An operating differential subsidy agreement covering the cargo service was signed on September 30, 1938.

LAID-UP FLEET

Following a survey and reclassification of the vessels comprising the Commission's laid-up fleet, 83 ships were disposed of during the calendar year 1937. The Commission determined that the remaining 113 vessels should be removed from the market as a possible deterrent to new construction but retained in a satisfactory state of preservation for use in a commercial or a national emergency.

Steps were taken to concentrate the fleet at Fort Eustis on the James River, and New Orleans, with a consequent saving in maintenance charges. As the cost of transferring the two freighters located in Seattle to New Orleans would have been excessive, the Commission offered to sell these ships for restricted operation. A satisfactory bid for one vessel was received.

During the past year three vessels were withdrawn from lay-up; one vessel was sold for $55,000. with a restriction upon engaging in the foreign commerce of the United States for a period of 10 years; a second was selected by the Commission for conversion into a merchant marine training ship; and a third was placed in operation on one of the Government-owned lines.

In the period under review the Commission also resold a vessel returned to the Commission through failure of the purchaser to comply with the terms of the purchase agreement. The main propeller and machinery of this vessel having been removed several years ago, the Commission place no restrictions upon its use in selling this vessel for $3,800.

With the exception of the four ex-German passenger vessels moored at Solomons Island, Md., the laid-up fleet comprises wartime cargo tonnage which is classified and located as follows:

	Class I	Class II	Total
Solomons, Md.		4	4
Fort Eustis, Va.	16	45	61
New Orleans, La.	6	38	44
Seattle, Wash.		1	1
Grand total	22	88	110

TERMINALS

A thorough examination of the properties acquired by the Commission from the Merchant Fleet Corporation and the Shipping Board Bureau revealed that the terminals under the Commission's jurisdiction had not been adequately surveyed for some time. Accordingly, an independent expert was employed to determine the repairs and maintenance charges necessary for the ensuing 5-year period. As a result of estimates submitted to the Commission, a 5-year maintenance program was approved, involving a total expenditure of approximately $1,200,000. The allocation of repair expenditures for the first 3 years being somewhat heavy, the net revenues for the year November 1, 1937, to October 1, 1938, do not reflect the increase in gross revenue which occurred during this period. A comparison of results for the past 2 years is set forth in the following tabulation:

Revenues and expenses, Nov. 1, 1937, to Oct. 31, 1938

Terminal	Revenues		Maintenance, operations, and administrative expenses		Net revenues	
	1937	1938	1937	1938	1937	1938
Boston	$65,711	$66,472	$37,481	$53,340	$28,230	$13,132
Brooklyn	111,000	111,000	62,711	41,261	48,289	69,739
Hoboken [1]	80,544	104,946	65,742	90,958	14,802	13,988
Philadelphia	162,500	162,500	99,264	126,148	63,236	36,352
Norfolk	120,968	121,680	115,907	92,530	5,061	29,150
Craney Island [2]	500	250	(3)	(3)	500	250
	541,223	566,818	381,108	404,237	160,115	162,611

[1] 50 percent gross revenue—minimum rental, $80,000. Lease with the North Atlantic Terminal Service, Inc., expired Aug. 31, 1938, and was not renewed. Property now under direct operation by the Maritime Commission.
[2] This covers the period of 6 months from Nov. 1, 1937, to Apr. 30, 1938. Property was transferred to the Navy Department, May 1, 1938.
[3] Maintained by Lessee.

In connection with the operation of the Government-owned lines by managing agents on an actual cost basis a study was made of the terminal facilities utilized by the respective lines. The probability of reducing stevedoring and cargo handling expenses by consolidating their terminal operations led the Commission to resume direct operation of the Hoboken terminal upon the expiration of the lease of the North Atlantic Terminal Service, Inc.

At the present time one of the four piers is sufficient to take care of the requirements of the Government-owned lines. The remaining three, together with storage space and miscellaneous buildings, have been leased to private companies with some increase in rental over previous terms.

The four remaining terminal properties under the jurisdiction of the Commission are operated by lessees in accordance with agreements negotiated some years ago. Negotiations for a revision of the lease covering the Philadelphia terminal have been completed but the contract has not been executed.

FINANCIAL STATEMENTS

Acting on authority granted in the "Third Deficiency Appropriation Act, fiscal year 1937," the Commission employed a well-known firm of certified public accountants to examine the balance sheet as of April

15, 1937 and the statement of income and expenses for the period October 26, 1936 to April 15, 1937. Although a detailed audit was not undertaken, the company examined and tested the accounting records of the Commission and other supporting evidence and reviewed the method employed.

The concluding paragraph in the covering letter from this firm states:

> In our opinion, based upon the examination indicated in the first paragraph of this report and subject to the foregoing explanations and qualifications, the accompanying balance sheet and related statement of income and expenses fairly present, in accordance with accepted principles of accounting consistently maintained by the Commission during the period under review, its position as at April 15, 1937 and the results of the operations for the period from October 26, 1936, to April 15, 1937.

The balance sheet of the Commission as of June 30, 1938, which is included in the appendix to this report, reflects the balance sheet submitted by the firm of independent auditors.

Repayment of the construction loan notes and ships-sales notes, transferred to the Commission on dissolution of the United States Shipping Board Bureau Merchant Fleet Corporation, accelerated during the past year. In accordance with the terms of a number of ocean-contract settlement agreements, provision was made for the application of credits to mortgage indebtedness held by the Commission and in other cases for extinguishing entirely all outstanding long-term indebtedness. The balance of construction loan notes unpaid on October 31, 1938, was $53,269,277.66, while the total of ships sales notes receivable on this date was $7,513,433.33.

The following financial statements are included in the appendix:

- Appendix A—Balance sheet, June 30, 1938.
- Appendix A-1—Summary of income and expenses and charges for the period July 1, 1937 through June 30, 1938.
- Appendix B—Appropriations, transfers, collections, and disbursements October 26. 1936–October 31. 1938.

Appendix A

Balance sheet June 30, 1938

ASSETS

General funds with the Treasurer of the United States			$112,374,904.71
Securities deposited with the Treasurer of the United States			650,000.00
Retirement and disability fund contributions			104,191.62
Accounts and interest receivable, less reserve for collection losses			4,516,531.82
Notes receivable, less reserves			
Secured by mortgages on vessels:			
Construction loans	$53,352,470.36		
Ship sales	7,027,827.60		
		$60,380,297.96	
Unsecured:			
Ship sales	650,798.13		
Less reserve for collection losses	650,798.13		
Miscellaneous	458,403.15		
Less reserve for collection losses	1,269.36		
		457,133.79	
			60,837,431.75

APPENDIX A—Continued

Balance sheet June 30, 1938—Continued

ASSETS—continued

Mortgages and miscellaneous securities				$360,803.75
Contracts for sale of vessels:				
United States Lines Co., Inc.			$11,079,032.00	
Less amounts received to apply on down payment			205,340.63	
				10,873,691.37
Fleet at appraised values:				
Passenger vessels held for operations; freighters operated by managing agents; tugs operated by charterers, and launches and barges for use of the laid-up fleet			6,192,989.00	
Inactive vessels			14,850,810.00	
				21,043,799.00
Stores, supplies, equipment, and automobiles				1,076,459.16
Terminals and training stations, at nominal values				7.00
Shipyard and housing projects, at appraised values				22,625.00
Ground rent estate, Hog Island				2,550,000.00
Deferred charges and prepaid expenses				57,072,064.19
Total				271,482,509.37

LIABILITIES

Accounts payable				$6,952,226.56
Deposits on sales and other contracts				738,542.87
Retirement and disability fund contributions				104,191.62
Reserve for payment of claims:				
Claims under protection and indemnity insurance policies			$241,173.87	
Unclaimed wages, salvage awards, and unused passenger tickets			117,981.46	
				359,155.33
Reserve for marine insurance:				
Outstanding claims			644,054.73	
Contingencies			1,000,000.00	
				1,644,054.73
Reserve for ocean mail contract settlement (Munson Steamship Line)				652,845.05
Commitments				67,381,569.14
Voyages in progress:				
Unterminated voyage revenue			1,132,759.76	
Less unterminated voyage expense			980,155.43	
				152,604.33
Deferred credits:				
Unearned marine insurance premiums on privately owned vessels			56,651.82	
Miscellaneous			2,420,803.71	
				2,477,455.53
Net worth:				
Balance as at June 30, 1937		$207,571,502.54		
Adjustments July 1, 1937, to June 30, 1938:				
Other than profit and loss	$1,945.57			
Profit and loss:				
United States Shipping Board Merchant Fleet Corporation (prior to Oct. 25, 1936)	48,846.62			
United States Maritime Commission (Oct. 26, 1936, to June 30, 1937)	4,282,036.82			
		4,328,937.87		
Adjusted net worth June 30, 1937, as at June 30, 1938			203,242,564.67	
Excess of expenses and charges over income for the period July 1, 1937, to June 30, 1938			12,222,700.46	
Net worth as at June 30, 1938				191,019,864.21
Contingent liabilities:				
Suits pending or in litigation and claims asserted against the Commission, as successor to the predecessor, United States Shipping Board Merchant Fleet Corporation as at Oct. 31, 1938			[1](140,721,460.07)	
Suits pending or in litigation against the Commission in the United States Court of Claims as at Oct. 31, 1938			(22,613,045.13)	
No liability attaches to the funds of the Commission with respect to judgments which may be rendered by the court in the above Court of Claims cases. Such judgments are payable only pursuant to act of Congress and from the general funds in the United States Treasury; should any of the suits be settled by the Commission, any amounts payable thereunder would be paid from the general funds of the Commission.				
Total				271,482,509.37

[1] Of this amount $133,001,357.06 represents claims of foreign governments.

APPENDIX A-1

Summary of income and expenses and charges for the period, July 1, 1937, to June 30, 1938

INCOME			
Operation of vessels revenue		$11, 243, 668. 06	
Laid-up fleet revenue		50, 018 65	
Real estate operations and rental revenue		626, 542. 27	
Interest on notes and accounts receivable		2, 039, 999. 32	
Profit from sale of assets:			
Ships	$1, 533, 111. 03		
Surplus stores	103, 324. 40		
		1, 636, 435. 43	
Miscellaneous		41, 315. 57	
Total revenue			$15, 637, 979. 30
EXPENSES AND CHARGES			
Operation of vessels expense including repairs and betterments		11, 487, 529. 07	
Expenses of inactive vessels in custody of managing agents		79, 581. 30	
Expenses of inactive vessels in custody of United States Maritime Commission		70, 852. 51	
Managing agents compensation		684, 849. 21	
Seamen's training expenses, Coast and Geodetic Survey		1, 503. 69	
Laid-up fleet expense		437, 545. 01	
Real estate operations and rental expense		104, 488 03	
Terminal repairs		268, 886 18	
Operating-differential subsidies		8, 759, 442 76	
Construction-differential subsidies		1, 382, 902. 50	
Excess of marine insurance claims over earned premiums		16, 801. 60	
Uncollectible receivables		71, 710. 13	
Depreciation on vessels:			
Active fleet	$721, 326. 00		
Inactive fleet	1, 120, 917. 00		
		1, 842, 243. 00	
Gains in valuation of fleet other than depreciation and sales:			
Equipment placed on board or removed from vessels		6, 096. 91	
Miscellaneous charges		303, 969. 08	
General administrative expense:			
Salaries and wages	$2, 003, 396. 16		
Fees and expenses for professional services	111, 366 88		
Traveling expenses and transportation	92, 831. 53		
Rent of offices and warehouses	11, 466 27		
Telegraph, telephone, and cable	43, 990. 30		
Advertising	4, 861. 70		
Other administrative expense	86, 559 76		
		2, 354, 472. 60	
Total expense and charges			27, 860, 679. 76
Excess of expenses and charges over income			12, 222, 700. 46

APPENDIX B

Appropriations, transfers, collections, and disbursements Oct. 26, 1936, to Oct. 31, 1938

	Oct. 26, 1936, to June 30, 1937	July 1, 1937, to June 30, 1938	July 1, 1938, to Oct. 31, 1938	Total
Appropriation transfers to United States Maritime Commission:				
Transfers from U. S. Shipping Board, U. S. Merchant Fleet Corporation, and U. S. Shipping Board Bureau	$88, 118, 239. 62	$90. 00	$100. 00	$88, 118, 429. 62
Transfers from Post Office Department, foreign ocean mail appropriations	16, 245, 165. 06	718, 699. 88		16, 963, 864. 94
Transfers from State Department, appreciation of foreign currencies	1, 380. 00	3, 002. 21	4, 000. 00	8, 382. 21
Transfer from U S. Treasury, Great Lakes Exposition appropriation		1, 787. 02		1, 787. 02
Transfer from Department of Commerce, printing and binding appropriation 1937	11, 325 72			11, 325. 72
Transfer from U. S. Treasury, Greater Texas and Pan American Exposition appropriation	5, 000. 00			5, 000. 00
Appropriation, Federal ship mortgage insurance fund			500, 000. 00	500, 000. 00
Total	104, 381, 110. 40	723, 579. 11	504, 100. 00	105, 608, 789. 51

APPENDIX B—Continued

Appropriations, transfers, collections, and disbursements Oct. 26, 1936, to Oct. 31, 1938—Continued

	Oct. 26, 1936, to June 30, 1937	July 1, 1937, to June 30, 1938	July 1, 1938, to Oct. 31, 1938	Total
Collections:				
Construction loan notes receivable	$6,347,479.05	$12,951,517.97	$4,007,751.68	$23,306,751.70
Ship sales notes receivable	1,999,375.25	4,279,470.61	165,192.40	6,444,038.26
Miscellaneous notes receivable	595,449.17	241,148.04	15,289.02	851,886.23
Interest on notes receivable, interest on deferred payments of insurance premiums, etc.	1,946,566.29	1,976,747.60	274,037.84	4,197,351.73
Cash payments on sales of vessels		3,778,688.21	58,800.00	3,837,488.24
Sale of other assets	19,273.24	254,543.55	10,040.95	283,857.74
Operation of vessels revenue	6,245,465.02	10,323,367.85	2,813,275.87	19,382,108.74
Real estate rentals	426,045.64	619,796.00	238,421.26	1,314,262.90
Insurance premiums, loss recoveries, etc.	266,398.99	223,335.04	45,561.53	535,295.56
Construction progress collections (*U. S. Lines*)		69,528.38		69,528.38
Receipts in liquidation of receivables arising out of ocean mail settlement agreements		601,367.59		601,367.59
Federal ship mortgage insurance fund receipts			50.00	50.00
Miscellaneous	368,071.91	2,069,357.06	83,460.28	2,520,889.25
Total	18,214,124.56	37,418,867.93	7,711,883.83	63,344,876.32
Disbursements:				
General administrative expense	1,222,402.59	2,374,402.00	900,478.80	4,497,283.39
Operation of vessels expense	6,690,342.78	11,498,122.38	3,281,981.00	21,470,446.16
Inactive vessels expense			2,202,733.53	2,202,733.53
Laid up fleet expense	232,433.50	448,708.83	109,976.28	791,118.61
Real estate operations, repairs, and betterments	253,372.25	293,792.02	161,617.21	708,781.48
Insurance losses, returned premiums, etc.	230,594.40	647,532.06	89,374.27	967,500.73
Operating-differential subsidy payments		4,030,618.10	2,409,404.52	6,440,022.62
Construction progress payments		1,297,422.00	3,566,443.39	4,863,865.39
Foreign ocean mail contract payments	4,128,634.07	9,015,748.10	650,522.03	13,794,904.20
Foreign ocean mail contract settlements (by credit allowances)		3,518,979.32		3,518,979.32
Dollar Steamship Lines, Inc., Ltd. (repair loan)			2,000,000.00	2,000,000.00
Steamship "American Legion" (25 percent of purchase price)			33,750.00	33,750.00
United States Maritime Service (includes transfers of $261,000 to the Procurement Division, and $470,000 to the Coast Guard)			778,196.41	778,196.41
Seamen's training expense, Coast and Geodetic Survey			16,288.15	16,288.15
Miscellaneous	195,797.45	2,283,875.44	214,221.97	2,693,894.86
Total	12,953,577.04	35,409,200.25	16,414,987.56	64,777,764.85
Summary:				
Total appropriation and appropriation transfers	104,381,110.40	723,579.11	504,100.00	105,608,789.51
Total collections	18,214,124.56	37,418,867.93	7,711,883.83	63,344,876.32
Total appropriation transfers and collections	122,595,234.96	38,142,447.04	8,215,983.83	168,953,665.83
Total disbursements	12,953,577.04	35,409,200.25	16,414,987.56	64,777,764.85
Excess of receipts or disbursements		2,733,246.79	[1] *8,199,003.73*	
Balance available at beginning of fiscal year		109,641,657.92	112,374,904.71	
Available funds	109,641,657.92	112,374,904.71	104,175,900.98	104,175,900.98

[1] Disbursements are shown in italics.

Appendix C

Results of operation by Government-owned lines July 1, 1937, to June 30, 1938

Managing agent	Trade	Number of vessels	Number of terms	Revenue: Voyage total	Expense: Operating	Expense: Allowance to managing agent	Expense: Total	Operating profit/loss to U. S. Maritime Commission: Fiscal year 1938	Operating profit/loss to U. S. Maritime Commission: Fiscal year 1937
Cosmopolitan Shipping Co., Inc.:									
American France Line	N. A.-French Atlantic	5	43	$1,626,622.71	$1,727,822.86	$139,509.63	$1,867,332.49	[1] $240,709.75	[1] $406,917.53
Southgate-Nelson Corporation:									
American Hampton Roads-Yankee Line	N. A. and U. K. and Continent	8	21	1,183,865.51	1,405,411.79	70,825.20	1,476,236.99	[1] 292,371.48	[1] 492,310.92
Oriole Lines	N. A. and West U. K. and Ireland	4	28	1,324,729.43	1,595,630.49	83,887.92	1,679,518.41	[1] 354,788.98	[1] 96,225.37
Total Southgate-Nelson Corporation			49	2,508,594.94	3,001,042.28	154,713.12	3,155,755.40	[1] 647,160.46	[1] 588,536.29
C. H. Sprague & Son, Inc.:									
American Republics Line	N. A. and S. A. east coast South America	9	36	2,908,417.96	2,960,057.94	162,348.59	3,122,406.53	[1] 213,958.57	[1] 436,725.71
Roosevelt Steamship Co., Inc.:									
American Pioneer Line	N. A.-Australia		10	1,588,899.85	1,378,604.71	62,757.66	1,441,362.37	147,537.48	286,686.30
American Pioneer Line	N. A.-India		11	1,391,109.08	1,351,971.16	60,406.00	1,412,377.16	[1] 21,268.08	[1] 310,252.47
American Pioneer Line	N. A.-Orient		9	1,373,789.45	1,174,119.25	60,439.68	1,234,558.93	139,230.52	9,625.20
Total Roosevelt Steamship Co., Inc.		12	30	4,353,798.38	3,904,695.12	183,603.34	4,088,298.46	265,499.92	[1] 13,940.97
Consolidation of managing agents			158	11,397,464.02	11,593,618.20	640,174.68	12,233,792.88	[1] 836,328.86	[1] 1,446,120.50

[1] Operating loss to U. S. Maritime Commission.

APPENDIX D

Ship construction program as of Oct. 31, 1938

Type of vessel	United States Maritime Commission hull No.	Builder	Operator	Contract price	As of Oct. 31, 1938	
					Percent completion	Payments to contractor
Constructed under title V:						
Passenger	MC-1	Newport News Shipbuilding & Dry Dock Co. (a)	United States Lines Co	(B) $15,750,000	16.9	$1,760,535.00
Constructed under title V (national defense features only):						
Tanker	MC- 2	Sun Shipbuilding & Dry Dock Co	Standard Oil, N. J.	(A) 880,250	77	484,137.50
Do	MC- 3	do	do	880,250	65	308,087.50
Do	MC- 4	do	do	880,250	50	308,087.50
		Total Sun Shipbuilding & Dry Dock Co		2,640,750		1,100,312.50
Do	MC- 5	Federal Shipbuilding & Dry Dock Co	do	(A) 880,250	55	308,087.50
Do	MC- 6	do	do	880,250	50	308,087.50
Do	MC- 7	do	do	880,250	15	88,025.00
		Total Federal Shipbuilding & Dry Dock Co		2,640,750		704,200.00
Do	MC- 8	Bethlehem Shipbuilding Corporation, Ltd	do	(A) 880,250	16	132,037.50
Do	MC- 9	do	do	880,250	4	
Do	MC-10	do	do	880,250	4	
		Total Bethlehem Shipbuilding Corporation, Ltd.		2,640,750		132,037.50
Do	MC-11	Newport News Shipbuilding & Dry Dock Co	do	(A) 880,250	2	
Do	MC-12	do	do	880,250	2	
Do	MC-13	do	do	880,250	1	
		Total Newport News Shipbuilding & Dry Dock Co.		2,640,750		
		Total Standard Oil Co. of New Jersey		10,563,000		1,936,550.00
Constructed under title VII:						
Cargo	MC-14	Federal Shipbuilding & Dry Dock Co	United States Maritime Commission	(B) 1,993,360	20	199,336.00
Do	MC-15	do	do	1,993,360	18	117,900.00
Do	MC-16	do	do	1,993,360	13	
Do	MC-17	do	do	1,993,360	13	
Do	MC-32	do	do	1,993,360	3	

Do	MC-33	do	do	1,993,360	3	
		Total Federal Shipbuilding & Dry Dock Co.		11,960,160		317,236.00
Do	MC-18	Sun Shipbuilding & Dry Dock Co.	United States Maritime Commission	(A)2,070,292	33	207,029.20
Do	MC-19	do	do	2,070,292	30	207,029.20
Do	MC-20	do	do	2,070,292	19	207,029.20
Do	MC-21	do	do	2,070,292	16	207,029.20
Do	MC-30	do	do	2,070,292	3	
Do	MC-31	do	do	2,070,292	3	
		Total Sun Shipbuilding & Dry Dock Co.		12,421,752		828,116.80
Do	MC-22	Tampa Shipbuilding & Engineering Co.	do	(A)1,815,663	10	
Do	MC-23	do	do	1,815,663	8	
Do	MC-24	do	do	1,815,663	.5	
Do	MC-25	do	do	1,815,663	.5	
		Total Tampa Shipbuilding & Engineering Co.		7,262,652		
Do	MC-26	Newport News Shipbuilding & Dry Dock Co.	do	(B)2,080,292	12	
Do	MC-27	do	do	2,080,292	11	
Do	MC-28	do	do	2,080,292	11	
Do	MC-29	do	do	2,080,292	11	
		Total Newport News Shipbuilding & Dry Dock Co.		8,321,168		
Constructed under title V:						
Cargo	MC-34	Bethlehem Shipbuilding Corporation, Ltd. (b)	American Export Line	(A)2,559,000	5	
Do	MC-35	do	do	2,559,000	5	
Do	MC-36	do	do	2,559,000	2	
Do	MC-37	do	do	2,559,000	2	
		Total Bethlehem Shipbuilding Corporation, Ltd.		10,236,000		
		Plans and specifications (George G. Sharp, contract)		(c)150,000		21,427.59
		Total based on progress reports		76,664,732		4,863,865.39
		Sale of vessels:				
		(a) United States Lines Co.		10,250,000		[1] 440,133.76
		(b) American Export Lines, Inc.		5,629,800		
				15,879,800		[1] 440,133.76
				60,784,932		4,423,731.63

NOTES.— [1] Deduction. (A)=Fixed Price. (B)=Subject to adjustment on account of changes in cost of labor and material during construction period.

The Commission makes payments to the shipbuilder in proportion to work completed and receives from the purchaser the same proportion of the 25 percent down payment:

(a) On the domestic cost of construction $665,437.50

(b) On the foreign cost of construction, which is (domestic cost times 55 percent) 49,260.75

The foregoing amounts are to be applied as credits to the purchase price of a vessel.

(c) Estimated on basis of monthly fee of $1,000 and 65 percent for overhead expense.

Appendix E

Abstract of formal decisions entered October 26, 1937, to October 25, 1938

Embargo on iron and steel articles, 1 U. S. M. C., 674. Embargo by Bull Steamship Line on iron and steel articles to Lake Charles, La., and Beaumont, Tex., found justified. Proceeding discontinued.

Storage of import property, 1 U. S. M. C., 676. Respondents' practice of allowing excessive free storage of import property at the port of New York found to be unreasonable in violation of section 17 of the Shipping Act, 1916.

As a reasonable regulation for the future, respondents required to limit the free time allowed on import property at the port of New York to a maximum period of 10 days, Sundays and holidays excepted.

Respondents not shown to be engaged in unlawful practices in connection with the storage or delivery of import property at the other North Atlantic ports involved in this proceeding.

R. Hernandez v. *A. Bernstein Schiffahrtsgesellschaft*, 1 U. S. M. C., 686. Complainant found unfairly treated and unjustly discriminated against in violation of Shipping Act, 1916, in that it was unlawfully refused space on defendants' vessels when same was available. Complainant injured. Further hearing ordered as to the measure of complainant's injury.

Bloomer Bros. Co., Inc, v. *Luckenbach S. S. Co., Inc.*, 1 U. S. M. C., 692. Freight on pulpboard boxes, pails, and berry baskets in mixed carloads from New York, N. Y., to Pacific coast ports found inapplicable in certain instances but not unjust and unreasonable. Undercharges found outstanding on certain shipments. Complaint dismissed.

Sugar from Virgin Islands to United States, 1 U. S. M. C., 695. Rate on raw sugar from the Virgin Islands to the United States found unjust and unreasonable, but not unduly prejudicial. Reasonable maximum rate prescribed.

Ocean Dominion Steamship Corporation not operating between Virgin Islands and United States ports ordered to cancel tariffs relating to such service. Tariffs of American Caribbean Line, Inc., ordered revised to comply with the Shipping Act.

Philadelphia Ocean Traffic Bureau v. *Philadelphia Piers, Inc.*, 1 U. S. M. C., 701. Wharfage charges at Philadelphia, Pa., piers on export and import freight not transported by railroad found not unduly prejudicial to foreign commerce or to the port of Philadelphia or otherwise unlawful. Complaint dismissed.

Buxton Lines, Inc. v. *Norfolk Tidewater Terminals, Inc.*, 1 U. S. M. C., 705 (includes report in case No. 442). Pier usage and handling charges at port of Hampton Roads, Va., and regulations and practices in connection therewith not shown to be unduly prejudicial. Regulations and practices not shown to be unjust or unreasonable. Wharfage and other terminal facilities furnished by a rail carrier at port of Hampton Roads, Va., in connection with common carriers by water subject to the Shipping Act, 1916, found separable from its functions as a rail carrier and subject to the jurisdiction of the Shipping Act. Complaints dismissed.

Commonwealth of Massachusetts v. *Colombian S. S. Co., Inc.*, 1 U. S. M. C., 711. (The report embraces cases No. 94, 183 and 422.) Defendants' rates on green coffee in bags from Ports in Colombia, South America, to New York, N. Y., and Boston, Mass., found to be unduly preferential and prejudicial and unjustly discriminatory.

Defendants found to be operating under unapproved agreements for the transportation of green coffee in bags from ports in Colombia, South America, to New York, N. Y., and Boston, Mass., which are unduly preferential and prejudicial, unjustly discriminatory, unfair and detrimental to the commerce of the United States to the extent that they make provisions for the rates condemned.

Armstrong Cork Company v. *American Hawaiian Steamship Co*, 1 U. S. M. C., 719. Defendants' tariff provision for mixed carload rates on shipments of floor coverings with roofing and building materials from California ports to ports in Oregon and Washington, found unduly prejudicial and unreasonable and ordered canceled.

Intercoastal Segregation Rules, 1 U. S. M. C. 725. (Includes also case No. 459.) Common carriers by water not obligated to deliver shipments in parcel-lots by submarks, or according to kind of commodity, or by size, brand, grade, or other designation. Such delivery is an extraordinary delivery privilege, or facility, granted or allowed in connection with transportation requiring publication in intercoastal tariffs. In respect to west-bound shipments, and in connection with east-bound shipments in certain instances, respondents' practices found in violation of their tariff rules.

Practice of certain respondents in making deliveries by kind, size, brand and grade without charge, while assessing a charge for parcel-lot deliveries by submark, was and is, unduly preferential and prejudicial.

Provisions of so-called segregation rule for east-bound application published and filed by respondents, other than Shepard Steamship Co., requiring detailed declarations in shipping instructions and bills of lading found ambiguous in respect to submarked shipments and susceptible, to misinterpretation, but such requirements when applicable alike to all classes of shipments not unlawful.

Assessment of a charge in addition to published transportation rate for piling shipments on carrier's pier according to detailed bill of lading designations when shippers or consignees do not request or receive parcel-lot delivery by submarks or by other designations found unreasonable.

Exceptions to the application of the charge on shipments routed to points beyond via a rail or water route delivered to the on-carrier as one lot under one general shipping mark found unduly preferential and prejudicial.

In respect to delivery privileges accorded, rule further found unduly preferential of mixed shipments and unduly prejudicial to straight shipments.

Just and reasonable rule for application to east-bound and west-bound transportation prescribed in lieu of condemned rules.

In the Matter of Fares and Charges for Transportation by Water of Passengers and Baggage Between United States and Puerto Rico, and Practices Relating Thereto, 1 U. S. M. C. 739. This case involved the failure of defendants serving Puerto Rico to give frequent and proper service to ports in that country and failure to accord cruise privileges thereto. Subsequent to the hearing, additional service was given and therefore, on motion of defendants concurred in by complainant, proceeding was discontinued.

American Norit Co. v. Agwilines, Inc., 1 U. S. M. C., 741. Rates on activated carbon from Jacksonville, Fla., to New York, N. Y., found unreasonable and reparation was awarded.

Payments to shippers by Wisconsin & Michigan Steamship Co., 1 U. S. M. C, 744. It was found that through Automotive Dealers Transport Co., a dummy corporation, and neither a common carrier, forwarder, nor bona fide soliciting agent, certain shippers who were also stockholders therein, were given rebates in the form of stock dividends as an inducement to ship over Wisconsin and Michigan Steamship Co. This practice enabled these shippers to secure transportation at less than the rates which would otherwise apply in violation of section 16 of the Shipping Act, 1916. It was further found that payments were not a deferred rebate under section 14. Great Lakes carriers found to have reached an understanding to increase the rate on automobiles, which understanding was within the purview of section 15, but was not filed in accordance therewith.

Since A. D. T. is no longer in existence payments made for stock have been refunded, rebates made in the form of dividends have been repaid, and the practices found to be unlawful have been discontinued, orders for the future were found to be unnecessary.

Dollar-Matson agreements, 1 U. S. M. C., 750. Agreement regulating competition found detrimental to the commerce of the United States and disapproved.

Intercoastal joint rates via on-carriers, 1 U. S. M. C., 760. Schedules proposing restrictions in connection with the participation of on-carriers on the Pacific coast in through routes and joint rates for intercoastal transportation of freight from Atlantic to Pacific coast ports found not justified. Suspended schedules ordered canceled and proceeding discontinued without prejudice to the filing of new schedules in conformity with the views expressed herein.

In re application of Baltimore Mail Steamship Company to transfer certain vessels owned by it to intercoastal trade, 1 U. S. M. C., —. Application of Baltimore Mail Steamship Co. for permission to enter intercoastal trade approved.

Ames Harris Neville Company, et al. v. American Hawaiian Steamship Company, et al, 1 U. S. M. C. —. Any quantity rate on cotton piece goods and cotton factory products from Atlantic and Gulf ports to Pacific ports not shown to be unduly prejudicial or unreasonable. Complaint dismissed.

Westbound Intercoastal rates—Atlantic ports to Vancouver, Wash., 1 U. S. M. C., —. Proposed cancellations of intercoastal through routes and joint rates to Vancouver, Wash., justified. Proceeding discontinued. Suspension order vacated.