UNITED STATES MARITIME COMMISSION

REPORT TO CONGRESS

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UNITED STATES MARITIME COMMISSION

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WASHINGTON, D. C.

COMMISSIONERS

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EMORY S. LAND
EDWARD C. MORAN, JR.
HENRY A. WILEY
THOMAS M. WOODWARD

W. C. PEET, JR., *Secretary*.

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LETTER OF TRANSMITTAL

UNITED STATES MARITIME COMMISSION,
Washington, D. C., January 3, 1938.

To the Congress:

I have the honor to present herewith the report of the United States Maritime Commission from October 26, 1936, the effective date of the Merchant Marine Act, 1936, through October 25, 1937. There is included also a summary of the operating-differential subsidy agreements entered into as of January 1, 1938, and the new construction to be undertaken as part of its long-range program.

Section 208 of the act 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."

As the Congress convened in a special session on November 15, 1937, the Commission took the opportunity to submit at that time the Economic Survey of the American Merchant Marine. The results of its investigations were set forth therein together with the Commission's recommendations for legislation.

The accompanying report covers the remaining activities of the Commission for the period under review.

Very sincerely yours,

JOSEPH P. KENNEDY, *Chairman.*

THE UNITED STATES MARITIME COMMISSION

INTRODUCTION

The United States Maritime Commission received from the Congress a mandate to develop and maintain a merchant marine sufficient to carry a substantial portion of the water-borne export and import foreign commerce of the United States on the best-equipped, safest, and most suitable type of vessels owned, operated, and constructed by citizens of the United States, manned with a trained personnel, and capable of serving as a naval and military auxiliary in time of war or national emergency.

For the past 6 months the Commission has endeavored to develop the policies instrumental in carrying out the projected program and to establish a sound basis for their administration. The major problems of the merchant marine from the standpoint of the national welfare and the major obstacles to its development under present conditions have been set forth in the Economic Survey of the American Merchant Marine submitted to the Congress on November 10, 1937. Included in that report are the results of the many investigations conducted by the Commission in observance of the statutory instructions of sections 210, 211, 212, and 213 of the Merchant Marine Act of 1936.

During the Commission's brief tenure of office it has not been possible to accomplish in a thorough fashion all the studies contemplated by the act. A report entitled "Aircraft and the Merchant Marine" was transmitted to the Congress on November 13, 1937, and a report on the scrapping or removal from service of old or obsolete tonnage owned by the United States on December 10, 1937. A report on tramp shipping will shortly be completed. The study of the relative cost of construction or reconditioning of vessels in the shipyards in the various coastal districts of the United States, together with recommendations on equalizing their competitive basis, remains in preparation.

The Commission's survey advanced numerous suggestions for assisting the development of American shipping by amendment to the Merchant Marine Act of 1936. In compliance with the specific request, these suggestions have already been submitted for consideration of the Congress. They require no detailed treatment in this report.

Creation.

The United States Maritime Commission was created as an independent governmental agency by Public Act No 385, known as the

Merchant Marine Act, 1936, which was passed by the Seventy-fourth Congress and approved by the President on June 29, 1936. On September 26, 1936, the President gave appointments to H. A. Wiley, rear admiral, United States Navy (retired), chairman; M. M. Taylor, rear admiral, United States Navy (retired), and George Landick, Jr., to serve as a temporary Commission, and 30 days thereafter the provisions of the Merchant Marine Act became effective.

Although this report deals with the activities of the Maritime Commission from its inception, it is concerned primarily with the accomplishments of the Commission since April 15, 1937, on which date the following appointments were confirmed by the Senate:

Joseph P. Kennedy, chairman.
E. S. Land, rear admiral, United States Navy (retired).
Edward C. Moran, Jr.
H. A. Wiley, rear admiral, United States Navy (retired).
Thomas M. Woodward.

Administrative Organization.

The staff of the Commission in Washington now consists of 568 employees. Approximately 500 more persons are employed either in the district offices located at New York, Norfolk, New Orleans, San Francisco, and London, England, or in supervision of the Commission's properties. Owing primarily to a reduction in the number of workmen employed on the laid-up fleet the total number of employees has been reduced by 175 during the past year. The major portion of its administrative personnel was transferred to the Commission from the Merchant Fleet Corporation and the Shipping Board Bureau. Section 201 (e) of the Merchant Marine Act, 1936, provides for the certification to the United States Civil Service Commission of all such employees, provided that their services are satisfactory. The work of appraising the qualifications of these employees and of certifying them to the Civil Service Commission proceeded gradually during the course of the summer. At the present time approximately 60 percent have been certified, and it is expected that the remainder will be submitted to the Civil Service Commission before the end of 1937.

A close acquaintance with the nature and difficulties of its problems convinced the Commission of the necessity of obtaining the services of experts in various lines to supplement its staff. It appeared likewise that an independent audit of the Commission's books had not been made for some time and that this omission should be rectified. With these projects in view, the Commission submitted to the Congress a request for authorization to employ various persons and firms to perform special services, and by the terms of the Third Deficiency Appropriations Act, approved August 25, 1937, was granted permission to allocate not more than $75,000 for this purpose.

Administration of the operating-differential subsidy agreements, which requires supervision over many phases of the shipping industry, has broadened the scope of the Commission's activities and necessitated a realinement of administrative duties within the Commission. A functional chart of the Commission as of October 25, 1937, is included in the appendix.

Rules and Regulations.

Proper administration also compelled the Commission to implement the provisions of the Merchant Marine Act, 1936, by various rulings and interpretations under the power granted by section 202 (b) "to adopt all necessary rules and regulations to carry out the powers, duties, and functions vested in it by this act." The absence of definitive standards in some sections of the act or the presence of ambiguous clauses in others required prompt administrative clarification. A failure to do so would have resulted in stultification of the act. Among the divers problems which the Commission solved in this fashion were the right of the Commission to pay the cost of increased reserve speed for tankers as a national defense feature; the nature of "conclusive evidence" in determining the amount of the construction differential; and the meaning of "competition" as used in connection with the power of the Commission to subsidize the operation of American-owned vessels which compete with foreign-flag vessels in foreign trade. These interpretations and rulings were formulated under the direction of the General Counsel.

Many regulations were issued by the Commission in the form of general orders. They include regulations for filing applications for operating and construction subsidies, forms for registration under section 807 of the act, and the minimum-manning scales, minimum-wage scales, and reasonable working conditions for subsidized vessels.

VESSEL CONSTRUCTION PROGRAM

It is apparent from even a hasty glance at the statistics set out in the Commission's Economic Survey of the American Merchant Marine that the major task facing the Commission is the replacement of its rapidly aging fleet.

It is the Commission's intention that all vessels built under the Merchant Marine Act of 1936 shall embody the highest standards of construction with respect to safety and fireproofing and shall represent a considerable advance above the standards adopted by the International Convention for the Safety of Life at Sea. Other features of design to be incorporated in any new vessel include installation of the latest improvements in machinery and its location, adequate quarters for both officers and crew, as well as the national defense features required by the Merchant Marine Act.

The foundation for a long-range construction program has been laid and will be outlined below. During the period covered by this report, however, only one application for a construction-differential subsidy has been accepted by the Commission.

Replacement of the "Leviathan."

The replacement of the *Leviathan* has been the subject of discussion and negotiation for several years. One of the provisions in the agreement of March 18, 1935, whereby the United States Lines Co. was permitted to lay up the *Leviathan* provided that a firm bid for the construction of its successor should be made within 6 months. On different occasions bids were obtained for the construction of a vessel of the *Washington-Manhattan* class. As no firm contract for construction was submitted, the time for fulfillment of the United States Lines Co. construction agreement was repeatedly postponed until passage of the Merchant Marine Act of 1936 prohibited all new construction loans. In the spring of this year the design for a vessel similar to the steamships *Washington-Manhattan* was perfected by the technical staff of the Commission (with full cooperation of the Navy and private interests) and on August 1 an invitation for bids was issued. Bids were received from Newport News Shipbuilding & Dry Dock Co., Bethlehem Shipbuilding Corporation, and the New York Shipbuilding Corporation, the lowest bid being that submitted by Newport News Shipbuilding & Dry Dock Co., in the amount of $15,750,000 on an adjusted price basis; that is, the invitation provided for the adjustment of the final price on the basis of any changes in material and labor costs during the construction period, but in no event more than 15 percent. The contract for the construction of this vessel, which was signed on October 21, 1937, calls for its completion within 852 days. This new liner is expected to enter the trans-Atlantic service in 1940 and will cost the United States Lines Co. $10,500,000 which is the Commission's estimate of the foreign construction cost of this vessel.

C-2 Design for Cargo Vessels.

Although the initial step in its construction program was taken by the Commission in letting the contract for a 33,000-ton liner to replace the *Leviathan,* the glaring deficiency in the American merchant marine is the lack of modern cargo ships. No keel for a cargo vessel has been laid in this country since the early 1920's. In its negotiations with the operators for long-term subsidy agreements the Commission has placed particular emphasis on the problem of remedying this prolonged dearth of construction.

The first step taken in this direction was the design of an economical steel cargo vessel with a speed of 15½ knots. The design of this vessel, known as the C-2 design, was prepared in collaboration with the Navy Department, the Bureau of Marine Inspection and Navigation, The American Bureau of Shipping, and several well-known naval architects. Upon completion the preliminary design was submitted to leading shipbuilding firms and ship operators for their suggestions as to its adaptability for use in the various trades. It is felt that the plans and specifications are sufficiently flexible to permit adjustment in accordance with the needs of the individual operator without losing the advantages of quantity production. Tests conducted on models of this vessel promise a considerable reduction in operating costs, particularly in the matter of fuel consumption.

The immediate construction of 12 vessels of the C–2 design is contemplated. Plans and specifications have been drawn for both turbine and Diesel propulsion and bids invited for vessels of each type. Provision has been made for the submission of bids on a fixed lump-sum basis or on an adjusted-price basis. These vessels will be constructed for the account of the Government, but it is hoped that arrangements will be made with private steamship operators to purchase them before construction is completed.

Tanker Construction

The Commission has negotiated with the Standard Oil Co. of New Jersey for the construction of 12-high-speed tankers suitable for use as naval auxiliaries. The cost of increasing the speed of these vessels in excess of normal commercial requirements and of providing them with various features of construction desired by the Navy Department from the standpoint of national defense will be borne by the Government. Besides the 16½-knot speed required for national-defense purposes other features to be incorporated in these tankers are magazine spaces, gun foundations, oiling-at-sea gear, heaving-lift facilities and pumping arrangement to allow flexible tank pumpage to carry four or more grades of oil. The cost of these national defense features for the 12 tankers approximates $10,563,000 or 28 percent of the total expenditure involved.

Although the Standard Oil Co. alone is signatory to this agreement, the opportunity to participate on the same basis was offered to 34 American companies operating tankers. Under the terms of the agreement these other oil companies may be allocated 1 or more of the 12 ships with the approval of the Commission. Applications to participate in this tanker replacement program must be received by the Commission prior to February 1, 1938.

Certain oil companies have signified their willingness to cooperate with the Commission in the construction of tankers suitable for use as naval auxiliaries but their commercial requirements can be satisfied by vessels of a smaller size. If satisfactory arrangements are made with these companies some further construction of new tankers will be undertaken on the basis outlined above.

Construction Under Long-Term Subsidy Agreements.

The long-range subsidy contracts effective as of January 1, 1938 involve definite replacement commitments on the part of the shipping companies. The seven lines have agreed to build a total of 20 ships between now and 1942, 14 of the vessels to be started in 1938. In addition, the companies are required to develop plans for the building of approximately 23 other vessels. The Export Steamship Corporation has indicated its willingness to construct 9 or 10 vessels between 1938 and 1942 in the event that a satisfactory long-range subsidy is worked out. This problem is now receiving consideration. This gives a total of 52 or 53 vessels which the 8 lines are expected to build within the next 5 years. The cost of these vessels is expected to run in the neighborhood of $110,000,000. The terms of the agreements provide for automatic cancellation and a return of 25 percent of the subsidies paid by the Government in the event that construction is not undertaken according to schedule.

Construction for Domestic Commerce.

During the past year numerous requests have been received by the Commission for aid in the construction of small seagoing vessels and vessels to engage in commerce on inland waters. Although the Commission was advised by the Navy Department that several of the vessels proposed might be of some use as naval auxiliaries, it was felt that the efforts of the Commission and the resources at its disposal should be directed primarily to the reconstruction of our merchant fleet engaged in foreign commerce and that for the present, at least, none of the Commission's funds should be diverted to the construction of vessels for domestic commerce.

LABOR

A corollary to the problem of replacing the vessels comprising the American merchant marine is the problem of providing them with satisfactory seagoing personnel. Despite the urgent need for new construction, private operators hesitate in the face of the present labor situation. Chaotic labor conditions, signalized by demands of the crews, "sit-down" and "quickie" strikes, and slipshod performance of duties are characteristic of the industry. The lack of order and discipline on board ship was sharply focused by the *Algic* incident, in which the refusal of the seamen on board a Government-owned vessel to perform their lawful duties compelled the Commission to take prompt and decisive action. Although the Commission has recommended remedial legislation, no lasting cure will be effected until the jurisdictional strife now prevalent in maritime labor is terminated and a more cooperative working arrangement is reached by the unions and the ship operators.

Improvement of Crew Quarters.

Hearings held by the Commission during the summer months on minimum wages, minimum manning scales, and reasonable working conditions and the personal inspection of many ships by the Commissioners disclosed that part of the prevailing unrest was attributable to inadequacy of crew quarters on board ship. Subsequent to the hearings, therefore, the Commission set up a special committee on crew quarters to inspect and make recommendations for changes on each subsidized vessel within the limitations imposed by the age and type of the ship and its expected commercial life. Commencing on the Atlantic coast, this committee proceeded to the Pacific and is presently engaged on the Gulf. Recommendations for changes in crew quarters on 45 vessels have been approved by the technical staff of the Commission and will be promptly carried out by the respective operators. The cost of alteration ranges from $1,400 to $18,000 per vessel, and the total expenditure is estimated at $219,300. The burden of effecting these changes will be shared by the operator and the Commission.

Establishment of Labor Standards.

By a general order dated October 21, 1937, the Commission adopted minimum manning and minimum wage scales and reasonable working conditions for officers and crews on subsidized vessels. The findings in this order were the result of extensive investigation. Hearings were held at 10 different ports. This gave the opportunity to both operators and vessel personnel to present their evidence in person. A general hearing was then held in Washington.

Sifting all the material offered, the Commission found that the variations in type and age of the subsidized vessels, as well as the different needs of the services in which they were engaged, precluded the application of any blanket rules with respect to minimum manning scales and reasonable working conditions. Upon completion of the surveys of the subsidized fleet, the Commission will issue appropriate regulations on the minimum manning scale and working conditions to be observed on each ship.

The minimum wage scales adopted by the Commission fixed uniform rates of pay for practically all ratings on board ship except in the steward's department where the wide discrepancy in duties and pay make it impossible to set up uniform standards for all jobs. Prior to the promulgation of the Commission's order there existed a considerable variation in the basic rates paid on the Pacific coast and on the Atlantic and Gulf. Although the Commission specifically stated that it was only fixing minima and received assurances from the operators that the rates established would be so considered, the advantages of a uniform wage floor are important. Another contribution to the improvement of employment conditions was the provision for vacations for both officers and members of the crew. Some steamship lines had already inaugurated this practice for their officers, but it had not attained wide acceptance.

Effect of Warlike Activities.

While this order was still being formulated the Commission was confronted with a request for the payment of a bonus to all seamen on board vessels entering zones of warlike activity in Asiatic and Spanish waters. The Commission offered to use its good offices in discussing this problem with the operators and representatives of the unions but took the position that the adoption of any general order on this subject exceeded its authority. As the Government-owned American Pioneer Line was concerned in this matter, the Commission issued instructions for the payment of a cash bonus to officers and members of the crew on vessels of this line which entered certain well-defined areas.

Warlike disturbances in the Far East seriously affected a number of American lines during the summer months. Services were disrupted or curtailed with a detrimental effect on the companies' earnings. The prolonged gravity of the situation and the danger of provoking a hostile incident eventually led the President on September 14, 1937, to state:

> Merchant vessels owned by the Government of the United States will not hereafter, until further notice, be permitted to transport to China or Japan any of the arms, ammunition, or implements of war which were listed in the President's Proclamation of May 1, 1937.
>
> Any other merchant vessels, flying the American flag, which attempt to transport any of the listed articles to China or Japan will, until further notice, do so at their own risk.
>
> The question of applying the Neutrality Act remains in status quo, the Government policy remaining on a 24-hour basis.

SETTLEMENT OF OCEAN MAIL CONTRACTS

On assumption of office, the first task to which the Commission directed its attention was the adjustment of ocean-mail contracts held by 32 steamship companies operating 43 routes. An order was issued prescribing regulations for the filing of applications for adjustment of the ocean-mail contracts, and an intensive study of the contracts and the essentiality of the routes they covered were undertaken by the Commission staff. It became apparent that there was a question as to the proper interpretation of the mail contracts. In some cases the classification of vessels adopted by the Post Office Department apparently differed from the terms of the 1928 statute. In other cases ships had been chartered to operate on the route served by the contractor without proper authorization. Cognizance of these and many other problems of controversial nature convinced the Commission that the settlement of the ocean-mail contracts would require the adjustment of many conflicting claims set forth both by the contractors and the Government. The Commission notified all contractors on February 1 that it would reserve the right to withhold payment on all voyages begun after February 1, 1937, until the contract in question was adjusted, with the understanding that mail pay accrued on voyages after that date would be taken into consideration in arriving at a settlement.

Preliminary conferences were scheduled and held with many of the contractors by the temporary Commission. When the permanent Commission took office in April 1937 it was found necessary to borrow the services of 40 attorneys and examiners from other governmental agencies in order to complete negotiations of settlement by June 30, 1937, the termination date set in the Merchant Marine Act of 1936. This group, as well as the regular staff members assigned to work on contract adjustments, were placed under the supervision of the General Counsel.

Many claims were set forth by the contractors and the Commission's representatives in negotiating the settlements. Among these was included a claim of $52,000,000 for the balance of payments which would have been paid operators had the ocean-mail contracts been continued in force until their expiration dates. Further claims were asserted in the aggregate of $21,000,000 involving claims for damages arising from reduction in mail pay, reclassification of vessels, substitution of ships, construction and reconstruction of ships, and other minor items. In offset to these claims the Commission raised the question of the validity of the contracts, claims for additional interest, failure to complete voyages and meet speed qualifications, failure to undertake construction of new vessels, and other alleged irregularities.

On June 30, 1937, the Commission announced that it had effected settlements with 23 companies holding 32 ocean-mail contracts. These agreements, providing for the mutual release of all claims, were settled at a net cost to the Government of approximately $750,000.

A settlement agreement providing for mutual release of claims by the contractor and the Government was concluded with the Waterman Steamship Corporation on July 27, 1937. In settlement of the contractor's claims arising out of withheld mail pay the Commission agreed to pay the Waterman Steamship Corporation $185,000, and to pay compensation for three voyages of one of its vessels during 1936 and 1937 at the rate of $2.50 per mile.

Pursuant to the terms of section 402 of the Merchant Marine Act, the settlement agreements executed by the Commission were submitted to the Attorney General for review. The Attorney General notified the Commission on September 7 that he was not dissatisfied with the settlement agreements made by the Commission and would not appeal them to the Court of Claims.

On September 24, 1937, the Commission concluding its negotiations with the American Mail Line, Ltd., signed a settlement agreement of the ocean-mail contract covering route No. 26 with a mutual release of claims.

A full tabulation of all ocean-mail contract settlements is given in the following table:

Name of company	Foreign ocean-mail route No.—	Amounts paid by the Government to the contractor in settlement	Amounts paid by the contractor to the Government in settlement
American Diamond Lines, Inc	53		$70, 367. 59
American Mail Line, Ltd	26		
American Scantic Line, Inc	16		
American South African Line, Inc	6		
American West African Line, Inc	17, 47		
Atlantic & Caribbean Steam Navigation Co	18		
Baltimore Mail Steamship Co	46		
Colombian Steamship Co., Inc	19		
Eastern Steamship Lines, Inc	15, 52		
Export Steamship Corporation	5		143, 000 00
Grace interests:			
Grace Steamship Co	8, 38		
Panama Mail Steamship Co	37	$1, 350, 000	
Gulf Pacific Mail Line, Ltd	55		
Lykes interests:			
Lykes Bros. Steamship Co., Inc	23		
Lykes Bros.-Ripley Steamship Co	57		325, 000. 00
Tampa Interocean Steamship Co	45		
Mississippi Shipping Co., Inc	35		
New York & Cuba Mail Steamship Co	20, 21		
Oceanic & Oriental Navigation Co	30, 31, 48, 49		50, 000. 00
Oceanic Steamship Co	24		
Pacific-Argentine Brazil Line, Inc	34		
South Atlantic Steamship Co	33		
States Steamship Co	28, 29		13, 000. 00
United States Lines, Inc	43, 44		
Waterman Steamship Corporation	54	185, 000	
Total		1, 535, 000	601, 367. 59

NOTE.—No payment has been made by the contractor to the Government or by the Government to the contractor other than as indicated in this statement. In all other cases which have been settled contractors' and Government claims have been released without payment by either party.

The remaining contracts not adjusted by the Commission are held by the Dollar Steamship Lines, Inc., Ltd., Munson Steamship Line, Gulf Mail Line, United Fruit Co., and the American Line Steamship Corporation.

Adjustment of the Munson Steamship Line contract presented unusual difficulties because the company has been in the process of reorganization under section 77B of the Bankruptcy Act for a number of years, and the service is operated through trustees appointed by the court. Protracted negotiations throughout the summer failed to bring about an adjustment of claims satisfactory to the trustees for the creditors, the reorganization committee, and the Commission.

Settlement of the ocean-mail contracts held by the Dollar Steamship Lines, Inc., Ltd., was deferred initially by the failure of the company to comply with the Commission's request to furnish essential information concerning the operations of the contractor and its affiliates.

Later negotiations were further impeded by the unsettled state of the company attributable to warlike activities disrupting its service to the Far East. This situation became so serious that the Commission on October 8, 1937, took the precautionary measure of applying the mail payments for voyages commenced subsequent to February 1, 1937, to the contractor's mortgage indebtedness held by the Commission. Throughout the past 6 months the Commission has kept in close touch with the Dollar companies, and on several occasions members of the staff were sent to the coast to endeavor to work out a satisfactory basis for a settlement of the mail contracts and the grant of an operating-differential subsidy. A successful conclusion to these negotiations is predicated on a reorganization of the various Dollar companies to provide a firmer financial structure and plans for necessary new construction.

The United Fruit Co. signified that it did not wish an operating-differential subsidy, but claimed a considerable sum in settlement of its ocean-mail contracts because of the unamortized construction differential on the six vessels it constructed under the 1928 act. Frequent conferences with representatives of this company have as yet failed to bring about a mutual agreement on the amount which might be considered just compensation to the contractor for the cancellation of the mail contracts which it held.

As there was some doubt concerning the eligibility of a number of lines for a long-term subsidy, a provision was included in the settlement agreements with these operators reserving to the contractor the right to rescind the release of his claims and the settlement agreement at any time prior to January 1, 1938, in the event that a long-range operating-subsidy agreement was not executed. If the contractor chose to exercise his right of rescission it was stipulated that he should return all or part of the moneys paid as compensation under the ocean-mail contract for voyages commencing after February 1, 1937. The contractor and the Commission would then revert to the status existing before the settlement agreement.

OPERATING-DIFFERENTIAL SUBSIDY AGREEMENTS

By the terms of the Merchant Marine Act of 1936 every contractor who filed an application for adjustment of his ocean-mail contract likewise had the right to seek to substitute an operating-differential subsidy agreement. Consequently, in most cases conferences with representatives of the Commission included discussion of a proposed operating-differential subsidy as well as settlement of the mail contract involved. As the permanent Commission took office only 2½ months before the date fixed by Congress for termination of subsidy by mail payments, it determined that no operating-differential-subsidy agreement would be executed for more than a 6-month period. There was serious doubt in many cases as to the eligibility of certain companies for a long-term contract because of inability to present a sufficiently sound financial structure, to divorce themselves from existing foreign-flag affiliations, or to comply with other essential requirements. Furthermore, the Commission desired to make a careful scrutiny of the practical application of the subsidy agreements before negotiating long-term contracts.

Temporary Agreements.

Temporary operating-subsidy agreements were executed before uly 1, 1937, with 16 steamship lines. Subsequently, on September 24, 1937, an operating-differential-subsidy agreement was signed with the American Mail Line, Ltd., employing 4 vessels and bringing the number of the subsidized fleet to 155. The table given below estimates for a period of 6 months, the operating-differential subsidy, the mail pay on a contract basis, and the mail pay on a poundage basis.

Estimated subsidies for 6 months under temporary differential operating subsidy agreements

	Number of vessels	Net estimated subsidy for 6 months	Estimated mail pay, 6 months	Estimated poundage pay, 6 months [1]
American Diamond Lines, Inc	8	$179,768.00	$448,000	$9,600
American Mail Line, Ltd	4	330,000.00	411,000	50,500
American Scantic Line, Inc	7	234,500.00	468,000	22,336
American South African Line, Inc	4	97,500.00	149,000	4,500
Atlantic & Caribbean Steam Navigation Co	5	100,000.00	178,500	18,500
Baltimore Mail Steamship Co	5	233,168.00	617,300	1,600
Colombian Steamship Co., Inc	3	101,430.00	320,500	16,600
Eastern Steamship Lines, Inc	4	98,133.50	216,652	3,162
Export Steamship Corporation, The	18	466,000.00	740,500	26,300
Grace Line, Inc	6	650,000.00	808,540	38,186
Lykes Bros. (group)	54	814,940.00	1,399,000	None
Mississippi Shipping Co., Inc	9	186,600.00	326,000	None
New York & Cuba Mail Steamship Co	3	205,200.00	456,500	16,000
Oceanic Steamship Co., The	2	287,300.00	486,500	57,800
Pacific Argentine Brazil Line, Inc	6	133,010.00	126,000	None
South Atlantic Steamship Co	6	108,000.00	156,400	None
United States Lines, Inc	11	750,000.00	1,161,500	273,400
Total	155	4,975,579.50	8,469,892	538,484

[1] Actual amount earned for carrying mail at usual rates.

Supplemental Applications.

Many supplemental applications were received by the Commission for waivers, exceptions, or consents of various kinds under sections 803, 804, 805, and other provisions of the act. The brief interval of time between the conclusion of the negotiations for the subsidy contracts and their effective date, July 1, 1937, necessarily precluded a thorough survey and study of each application. It was felt, however, that the Government's rights could be adequately protected for the term of these agreements by the inclusion of numerous conditions and qualifications in each case. For example, the dissociation of one company's foreign-flag affiliations might not only be detrimental to the company, but also to American shipping in general. In this case

Section 804 was waived provisionally on condition that no subsidy would be paid unless the foreign-flag associations were discontinued or the Commission, upon formal application and for a good cause, waived the provisions of Sect. 804 in accordance with the proviso therein contained. In other cases, where request was made for permission to use subsidiary companies to perform stevedoring or ship-repair work on the ground of increased operating economy, the application was granted on condition that the profits enure to the benefit of the operator, thus becoming subject to recapture, and that the books of the affiliated company be available for examination by the Commission.

Development of Long-Range Subsidy Program.

Having approved 6-month subsidy agreements, the Commission was faced with the necessity of laying down a long-range program based on its observation of the working out of the temporary subsidies and on various studies conducted by the Commission's staff. Each temporary subsidy agreement contained a clause stipulating that the operator should submit to the Commission before September 1, 1937, a plan for the replacement of all vessels over 15 years of age, and should embrace in this report full details on the number, size, and type of vessel as well as the method proposed to finance their construction. The response to this section of the subsidy agreements was discouraging. Many reasons were offered by the operators to explain their unwillingness or inability to build new vessels at once. Finances, labor conditions, high costs, restrictive provisions of the act, all were cited. Subsequent negotiations, however, indicated the possibilities of initiating a small-scale replacement program for the account of the privately owned lines.

At the same time the Commission staff launched an intensive study of the foreign commerce of the United States in order to develop which trade routes were essential within the meaning of the Merchant Marine Act, 1936. These studies were very broad in scope and thorough in detail, and it is the policy of the Commission to grant no long-term subsidy for a route the essentiality of which has not been fully determined.

As the administration of the subsidy agreements progressed, the operators requested the Commission to include among the subsidized items in their long-term subsidy agreements various items in addition to those specified in section 603 (b) of the act, viz, insurance, maintenance, repairs not compensated by insurance, wages, and subsistence of officers and crews. Among the items in which they alleged themselves to be at a disadvantage in competition with foreign-flag vessels were passenger subsistence, shore and office expenses. Strong protestations were also made for the inclusion of countervailing subsidies to offset aid granted by foreign governments, and for an excess depreciation subsidy to compensate for the cancelation of the mail contracts where new construction had been undertaken under the terms of the 1928 act. It was contended also by some operators that in making its computations of operating-differentials between American- and foreign-flag vessels, the Commission should use the operating figures of the lowest-cost foreign competitor rather than a weighted average based upon the degree of competition offered by the vessels of each foreign competitor.

The Merchant Marine Act postulates the existence of substantial foreign-flag competition with American vessels on the lines which are deemed essential for the development of our foreign commerce. It implies likewise that the operating costs of these foreign ships can be obtained by the Commission in computing the amount of subsidy necessary to place American lines on a parity basis. The determinations which the Commission must make under these assumptions are necessarily tentative. An American steamship company may have obtained a dominant position in a trade route to the detriment of its foreign-flag competition. Failure to grant an adequate subsidy, however, might eliminate its competitive margin and permit the encroachment of foreign-flag tonnage in this service.

Another American company may operate a line to some country outside the United States which is an essential trade route. The competitive foreign-flag vessels may cover the same route as one leg in a more extended service. The knotty problem is then presented of appraising the extent of this type of competition and of estimating the costs of a competitor who may sign on his crew in one country, purchase his supplies in another, and have his repairs made in a third.

The study and consideration of these questions has occupied many hours of the Commission's time. With full realization of the impossibility of fixing operating differentials with scientific precision, the Commission feels that it has taken all possible steps to procure the most complete information available and that with experience in administration of these agreements it will attain a higher degree of exactitude.

Long-Term Agreements.

Long-term operating-differential subsidy agreements have been signed with seven steamship lines. The period covered by these agreements varies in accordance with the commitments for new construction. In the case of lines with pressing replacement needs the term of subsidy is limited to 1 year, with an extension for a further period on condition that the initial contracts have been executed and a replacement program has been formulated in a manner satisfactory to the Commission.

The agreements with these lines further provide for their automatic cancelation and a reduction of the amount of subsidy payable during

1938 by 25 percent if the operator fails to execute the construction contracts stipulated.

The seven steamship lines and the estimated operating differential subsidies for the year 1938 are:

Grace Steamship Co	$1,083,000
Lykes Bros.-Ripley Steamship Co., Inc	2,290,000
New York & Cuba Mail Steamship Co	398,000
Oceanic Steamship Co	650,000
South Atlantic Steamship Co	266,000
Mississippi Shipping Co	406,000
United States Lines, Inc	2,266,000
Total	7,359,000

Six other companies have been granted extensions of their temporary operating-differential subsidy agreements. Each of these lines presented certain problems which could not be satisfactorily solved before the close of the year. In order to permit negotiations to continue without penalty to the operator the following companies received short-term subsidies for the periods indicated:

	Months
American Scantic Line, Inc	3
American South African Line, Inc	3
Colombian Steamship Co., Inc	3
Eastern Steamship Lines, Inc	3
Baltimore Mail Steamship Co	9
Pacific Argentine Brazil Line, Inc	2

The temporary operating-differential subsidy agreement executed with the American Mail Line, Ltd. for a 6-month period does not expire until March 24, 1938. The disposition of this service hinges upon the outcome of the entire Dollar situation.

Report of Granting Aid to Vessels Over 20 Years in Age.

Section 605 (b) of the act requires the Commission to report to the Congress the financial aid granted for the operation of a vessel more than 20 years of age. One application of this nature was granted by the Commission for the period of the temporary operating differential subsidy agreements. The findings and the order adopted by the Commission in this case are set forth as follows:

Whereas American South African Line, Inc., has applied under section 605 (b) of the act for payment of an operating-differential subsidy under its operating-differential subsidy agreement on the *Chincha*, a vessel more than 20 years of age; and

Whereas American South African Line, Inc., has made the following representations to the Commission:

1. That it will be impossible to meet the sailing schedule provided in the operating-differential subsidy agreement unless American South African Line, Inc., shall be permitted to include among the vessels covered by such agreement an additional vessel.

2. That American South African Line, Inc., owns other vessels, but such other vessels are being, or will be, operated in a service from Gulf ports to Atlantic ports during the period of such agreement without any subsidy.

3. That the *Chincha* is the only other vessel so owned which, because of the present and future locations of such other vessels during the period of such agreement, can be so substituted.

4. That unless this application was granted, American South African Line, Inc., would not enter into the proposed settlement agreement whereby all claims under American South African Line, Inc.'s, ocean-mail contract are mutually released.

5. That American South African Line, Inc., may not continue the Gulf-Atlantic service without any subsidy if such application should not be granted: Now, therefore, the Commission hereby

Finds, That it is in the public interest to pay an operating-differential subsidy for the operation of the *Chincha*, a vessel over 20 years of age, under the operating-differential subsidy agreement; and, upon the basis of such finding,

Orders, That an operating-differential subsidy shall be paid on the said vessel, *Chincha*, under the operating-differential subsidy agreement.

EXERCISE OF REGULATORY FUNCTIONS

The Merchant Marine Act of 1936 vested the Commission with the regulatory powers, duties, and functions embodied in the Shipping Act, 1916; the Merchant Marine Act, 1920; the Intercoastal Shipping Act, 1933; and the Merchant Marine Act, 1936. The pertinent provisions deal with the lawfulness of transportation rates of common carriers by water in interstate and foreign commerce and of the practices of these carriers and of other persons carrying on the business of forwarding or furnishing wharfage, dock, warehouse, or other terminal facilities in connection with a common carrier by water; with the maintenance of tariff files covering rates and practices of common carriers by water; and with agreements filed by such carriers and other persons under exemption from the provisions of the antitrust acts.

Although the Commission's jurisdiction over carriers engaged in foreign commerce is limited, considerable control is exercised through conference agreements. Since carriers are granted exemption from the antitrust acts when operating under approved agreements, careful examination is made of all agreements filed, rate changes made, and the minutes of conference action with a view to preventing violations of the regulatory provisions of the shipping acts or any action prohibited by section 15 of the Shipping Act, 1916, or detrimental to the commerce of the United States.

During the past year a cooperative working arrangement for the handling of certain regulatory matters has been consumated with the Interstate Commerce Commission. Under this arrangement each Commission will promptly notify the other of the filing of cases in which they have a mutual interest, with the purpose of keeping each other constantly informed and of taking consistent action, if possible under their respective regulatory acts. Progress has been made in expediting decisions under this arrangement.

Pursuant to section 212 (e) of the Merchant Marine Act, 1936, a study was made of the export and import rates in certain trades to determine whether any discrimination existed. The report of this study indicates that services and conditions in the two trades are radically different; that the articles in these trades vary widely, both as to character and value, and method of packing and volume of movement; and that no conclusion on the question of discrimination can be drawn without a more thorough investigation and formal hearing. This has not as yet been undertaken by the Commission.

Formal Docket.

On October 26, 1936, there were pending 233 formal complaints and/or investigations. Subsequently, 27 formal complaints were filed and 13 investigations instituted by the Commission on its own motion. Hearings were held in 241 cases, of which 200 involved assembling and distributing charges on intercoastal shipments. These cases dealt with the lawfulness of handling charges assessed at Los Angeles, Long Beach, and San Diego, Calif., and sought reparation of approximately $270,000. Hearings were held at various ports throughout the country over a period of 58 days. In addition, 12 formal complaints, filed by 261 complainants and interveners attacking similar handling charges on foreign shipments handled at Pacific coast ports, asked reparation of approximately $400,000. Hearings in these cases are being conducted.

Final reports containing the Commission's conclusions and the orders necessary to put them into effect were prepared in 13 cases; 10 cases were disposed of by order without reports; 2 cases were closed when the carriers complied with the order instituting the proceeding; 15 proposed reports were issued and oral arguments were conducted in 9 cases.

A number of cases on the docket involved comprehensive adjustments of rates or major revisions of practices in the domestic and foreign trades. In Docket No. 416, Eastbound Intercoastal Lumber, the Commission conducted an exhaustive investigation into the rate structure on lumber from the Pacific coast to Gulf and Atlantic ports. The decision laid down fundamental principles of rate making applicable not only to the lumber trade but to the whole field of transportation by water. Docket No. 438 dealt with commodity rates between Atlantic and Gulf ports. Similar rates of carriers subject to the jurisdiction of the Interstate Commerce Commission also were in issue. The cases were heard jointly by the two Commissions and both cooperated in their consideration of the cases, notwithstanding that their jurisdiction is derived from different regulatory acts. In *Docket No. 423, Phelps Bro. & Co., Inc.,* v. *Cosulich-Societa et al.,* a conference had refused complainant membership in the conference on equal terms with each of the present members. The Commission found that complainant was entitled to membership in the conference, thus condemning the discrimination and unreasonable prejudice resulting from the refusal of the conference to admit complainant to membership. The complainant was subsequently admitted to membership in the conference.

Informal Docket.

An informal docket is maintained by the Commission to assist shippers, carriers, and other persons in the adjustment of controversies which arise in the matter of rates, fares, and charges for transportation. Many informal complaints are handled by correspondence or adjusted through informal conference, thereby obviating the delay and expense incident to formal procedure.

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. During this period three special docket applications were granted.

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. During the period 1,257 new agreements, were filed. This number includes modifications and cancelations of approved agreements. At the end of the period there were on file 2,653 effective agreements, 123 of which were conference agreements. Under the latter the parties cooperate in the matter of fixing rates, rules, and regulations for transportation, thus ensuring the maintenance of a uniform and stable rate structure and minimizing unfair competition between the carriers.

Interstate Tariffs.

Common carriers by water in intercoastal commerce are required to file their actual rates, and other common carriers by water in interstate commerce are required to file their maximum rates. During the period 10,343 tariff schedules were received and examined, 9 of which were rejected for failure to comply with the law or with the Commission's rules governing the construction and filing of tariffs. Under authority granted by the Shipping Acts of 1916 and 1933, 122 special permission applications, requesting authority to make rate changes effective on short notice or to depart from the Commission's tariff requirements were granted, 13 were denied, 4 were denied in part and granted in part, and 9 were withdrawn by carriers or were filed without action. During the period 28 rate adjustments proposed by common carriers were protested. Of this number eight adjustments were suspended, suspension was denied in six cases, approval was withheld in four and granted in four, and six were filed without action.

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 8,952 rate filings were made pursuant to the above order. In addition, 2,086 filings were made by conference carriers covering homeward and other trades.

LITIGATION AND CLAIMS

The office of the General Counsel, in addition to its many other duties, 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. A strenuous effort has been made in the past year to reduce the docket of 291 cases, involving $65,855,549.39, which were pending in the courts on October 26, 1936. Included in this number were 52 cases actively defended by counsel for premiums and insurance underwriters, amounting to $894,433.86; 44 cases, involving $768,400.55, were subsequently added to the docket. As 143 cases, involving $4,658,592.99, were closed in the period covered by this report, 192 cases remained pending on October 25, 1937, involving $61,965,352.95.

The docket which is heavy from the accumulations of 20 years includes admiralty cases; a group of cases involving insolvent banks and the Commission's right to preference; one case growing out of war-time ship construction involving several million dollars; a group of cases against bonding companies growing out of managing operator agreements; general average cases; bankruptcies; and a number of cases necessarily conducted in the courts of other countries. Settlements were effected in nine cases (other than ocean-mail contracts), the amount received by the Government in settlement being $90,-109.21. Briefs were prepared and filed in 24 cases. Numerous reports and recommendations were made to the Attorney General.

The situation with respect to claims by and against the Commission is similar to that of the cases in litigation from the standpoint of length of accumulation. Some progress has been made in the past year. The number of claims outstanding has been reduced from 60 to 40. Thirty-nine claims were closed with a net gain to the Government of $443,731.30. On October 26, 1937, there remained pending (including claims by the French and Italian Governments totaling $62,982,578.35), 18 claims against the Commission in the amount of $64,291,898.08, and 22 claims in favor of the Commission (including counterclaims against the French and Italian Governments for $16,823,566.16) amounting to $17,190,040.01.

INSURANCE

In dealing with the problems connected with the sale and operation of the Government-owned fleet, the Merchant Marine Act, 1920, laid down a twofold marine insurance program. On one hand it created a general insurance fund which the Shipping Board might use to insure each vessel to the extent of the Government's legal or equitable interest. As a corollary measure it directed the Board to build up the American commercial marine insurance market. To facilitate this step it exempted from the antitrust laws associations formed by marine insurance companies in pursuit of this purpose.

Most of the American participation in marine insurance on American hulls is written for the account of the syndicate or the general insurance fund. (During the fiscal year 1937 the general insurance fund was merged with the general funds of the Commission and an insurance reserve set up.) The syndicate has been encouraged to expand its coverage, and recent efforts of the Commission indicate that the maximum amount to be written on a single vessel will be advanced from $2,500,000 to $4,000,000. With the payment of mortgages held by the Government and the reduction of vessels in its active fleet, the general insurance fund steadily decreased its participation in the marine insurance market. The following tabulation shows the proportion of the insurance on mortgaged vessels placed in the 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

The shift in favor of the foreign market is not indicative of a permanent trend. Various factors temporarily upset the customary balance. The adoption of a definite policy by the Commission and the anticipated expansion of the syndicate should quickly reverse the relative positions of the American and foreign markets.

The fund's percentage represents a part interest on 49 privately owned vessels in the amount of $8,524,200. In addition, the fund wrote policies to the extent of $9,227,000, representing total coverage on 41 vessels owned by the Commission. The total of $17,751,200 now in effect represents a diminution of $3,758,350 from the amount written as of October 26, 1936. Although the Commission has a 5-percent participation in vessels on which it holds mortgages, this figure is only a little more than 2 percent of the insurance written on all American ocean-going vessels. The Commission therefore feels that the maintenance of the reserve, or a Government insurance fund, will not be detrimental to the growth of the American commercial market.

Replies to the annual questionnaire sent to United States shipowners indicate that their insurance at the present time is almost equally divided between the American and foreign market. The contemplated lifting of the syndicate's maximum line to $4,000,000 is expected to provide a healthy stimulant to the growth of the American market. The direct writings of the syndicate will be divided $3,000,000 to strictly owned and controlled American insurance companies and $1,000,000 to foreign companies which are admitted members and actually doing business in the United States. To prevent the accumulation of top-heavy lines, reinsurance will be permitted by the Commission to a reasonable extent, but in no event reducing the participation of strictly American companies below two-thirds of the capacity of the syndicate. As a further safeguard, records of all reinsurance placed both by members of the syndicate and nonmembers will be made available to the Commission in order that it may be properly informed of all arrangements for the insurance of American hulls.

TRANSFER OF VESSEL REGISTRY AND SALES TO ALIENS

In addition to the activities concerned with the administration of subsidy agreements, the Commission is charged with the duties of administering various provisions of earlier shipping acts. Under section 9 of the 1916 Shipping Act the approval of the Commission is required for the transfer to alien ownership registry and flag of all vessels documented in the United States. Although this power of approval was granted primarily as a wartime measure, it enables the Commission to prevent serious depletion of the American merchant marine. Principally because of a shortage of tonnage in foreign markets and the rising price of scrap, there has been a progressive increase in the number of applications for transfer to foreign registry and ownership. This movement accelerated during the summer months. The Commission has, therefore, scrutinized with increasing care all applications for sales to aliens in order to keep under the American flag any vessels the transfer of which might be detrimental to the proper development of the merchant marine. The following chart summarizes the transfers 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 registry and flag under sec. 9, Shipping Act, 1916, as amended, during period from Oct. 26, 1936, to Oct. 25, 1937, inclusive

Type	Number	Total gross tonnage	Average age
Sailing vessels	11	11,920.23	22 6
Yachts and motorboats	20	3,061.7	16.4
Tugs and barges	2	464	29.5
Cargo vessels	59	165,020	20 2
Ferryboats [1]	4	11,146	20
Passenger/cargo	1	12,642	38
Tankers [1]	2	10,412	20
Total	99	214,655.93	19.89

[1] Charter.
[2] 1 vessel chartered to an alien for 1 voyage only.

UNDOCUMENTED VESSELS OF THE U. S. MARITIME COMMISSION SOLD AND APPROVED FOR TRANSFER TO FOREIGN REGISTRY AND FLAG

Cargo vessels	30	164,372	18 2
Grand total	129	379,027.93	19 5

Nationality	No. vessels	Gross tonnage
British	24	128,738
German	3	18,087
Greek	3	17,547
Total	30	164,372
Grand total	129	379,027.93

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, 1936, to Oct. 25, 1937, inclusive

Nationality	Number of vessels	Gross tonnage
Argentine	1	3,543
British	11	22,784.23
Canadian	13	10,769.6
Chinese	9	25,090
Cuban	3	3,207
Dominican	3	551
Ecuadorian	2	114.1
French	1	119
Greek	5	21,191
Hungarian	1	3,378
Italian	6	18,848
Japanese	7	31,905
Jugoslavian	2	6,986
Mexican	4	2,819
Newfoundland	1	772
Nicaraguan	4	6,644
Norwegian	4	9,536
Panamanian	4	12,140
Peruvian	1	360
Venezuelan	3	607
Union of Soviet Socialist Republics	4	10,560
Total	89	191,923.93
Charter to aliens	5	18,457
Sales alien without transfer	5	4,275
Total	99	214,655.93

During this same period the Commission has approved the surrender of the marine documents of 73 vessels. This transaction, involving a change in ownership but not in registry and flag, likewise requires consent of the Commission under section 30, subsection 0 (a), Merchant Marine Act, 1920.

COMMISSION PROPERTIES

Operation of Government-Owned Lines.

The Government-owned fleet actively engaged in foreign commerce when the Commission took office consisted of 36 vessels serving 5 trade routes. These ships were operated for the Government's account by managing agents under operating agreements signed in 1935. The Merchant Marine Act of 1936 directed the Commission to charter or sell these vessels as soon as practicable and provided that all operation of the Commission's vessels should be discontinued by June 29, 1937. At the beginning of the year, therefore, it notified its managing agents that no sailings should be scheduled which could not be completed by that date and shortly thereafter prepared bids for the charter of these vessels. Subsequently, at the request of the Senate Committee on Commerce, the date for opening these bids, scheduled for March 1, was postponed for 30 days. On April 1, 1937, an amendment to section 704 of the Merchant Marine Act of 1936 was enacted by the Congress which permitted the completion of all voyages commenced prior to June 29.

The Commission reissued invitations for the bare-boat charter of these vessels on May 15, 1937, and bids were opened 30 days later. The managing agents submitted bids for chartering the vessels on the services which they respectively operated. Additional bids were received from other groups on certain of the lines. Examination of all the bids, however, revealed that some of them did not comply with the terms of the invitation. After a thorough consideration of the remaining bids, the Commission determined to reject them in accordance with the provisions of section 707 of the Merchant Marine Act, 1936, and to negotiate new agreements with the then managing agents for the temporary operation of the lines until conditions were more favorable for a reoffering.

Under the terms of the new agreements, the managing agents agreed to operate the lines for the Commission's account on an actual cost basis, all profits derived therefrom accruing to the Commission. This form of agreement effected a considerable saving to the Government over the 1935 agreement, under which the managing agents received fixed payments on account of overhead, as well as a percentage of the gross and net revenue, without any obligation to meet operating losses. As the 1935 agreements had previously been extended several times without a final settlement, the Commission reduced the compensation payable to each of the managing agents. A brief statement of the routes served by these lines and the voyages terminated thereon during the past year is given in the following table:

Line	Managing agent	Voyage terminations
America France Line (North Atlantic ports to France)	Cosmopolitan Shipping Co.	34
American Hampton Roads-Yankee Line (North Atlantic ports and Canada to United Kingdom and Germany).	Southgate Nelson Corporation	19
Oriole Lines (North Atlantic ports to United Kingdom)		24
American Republics Line (Atlantic ports to East Coast, South America).	C. H. Sprague & Son, Inc.	34
American Pioneer Line	Roosevelt Steamship Co., Inc.	26
India 10		
Australia 10		
Far East 6		
Total		137

The results of operating the Government-owned lines for the fiscal year 1937 were adversely affected by prolonged strike conditions in the industry. In spite of a general increase in voyage revenue over the previous year, the net operating income diminished. Not only was the direct cost of labor raised by an increase in the wage scale placed in effect on the Commission's vessels March 1, 1937, but further charges were also incurred by changes in working conditions involving overtime and extra personnel. The price of various shipping services—stevedoring, cargo handling, tugboat hire—likewise advanced.

A further burden which will not be lightened in the future is the increasing cost of repairs. The primary factor is the approaching obsolescence of the Government-owned fleet. These vessels are now 17 to 19 years of age and their needs for repair and replacement grow with each year. Other causes tending to boost the bill for repairs are the curtailment of maintenance work formerly performed on board ship by members of the crew and the increases in labor and material costs in the shipyards.

The outlook for the fiscal year 1938 is uncertain. Actual voyage revenues for the 3-month period ending September 30, 1937, have exceeded estimates for the period, but operating expenses have also mounted. Some savings may be expected from the consolidation of the purchasing activities of all the Government-owned lines.

Average gross revenue per voyage

	Fiscal year 1937	Fiscal year 1938	
		Estimate	Actual through Sept. 30
America France Line	$33,394.56	$42,000	$39,747.20
American Hampton Roads-Yankee Line	46,599.17	50,000	67,748.26
Oriole Lines	52,202.87	56,000	48,694.01
American Republics Line	68,427.36	85,000	88,274.35
American Pioneer Line	130,211 98	148,930	153,013.38

The Commission is directed by the Merchant Marine Act of 1936 to arrange for the employment of its vessels on essential foreign-trade routes in the hands of private operators. The consummation of this policy is necessarily contingent on conditions being favorable for the sale or charter of these vessels after the essentiality of the routes they serve has been determined. The Commission's survey of trade routes indicates the desirability of realigning these services. Some of them may be discontinued as separate entities and merged with other lines or taken over by private operators to supplement an existing service. No prognostication of their final disposition can properly be made until the long-range program assumes more definite shape.

The Laid-up Fleet.

On December 26, 1936, the laid-up fleet consisted of 196 vessels located at Staten Island, N. Y.; Fort Eustis, Va.; Solomons Island, Md.; New Orleans, La.; Mobile, Ala.; and Seattle, Wash.

The classification of these vessels was made after a survey in 1934–35 conducted by a joint committee representing the former Merchant Fleet Corporation, the Navy Department, and the Bureau of Shipping. As none of the vessels had been drydocked at that time and no under-water hull inspection had been made for more than a decade, the Commission laid down plans for a drydocking program and reclassification of the entire fleet. The following chart shows the classification and location of the vessels in the laid-up fleet as of October 26, 1936, and October 25, 1937:

Classification and location of laid-up fleet

Location	Oct. 26, 1936				Location	Oct. 25, 1937			
	Class I	Class II	Class III	Total		Class I	Class II	Class III	Total
Staten Island, N. Y.	20	32	3	55	Staten Island, N. Y.	1			1
Solomons Island, Md.	2	2		4	Solomons Island, Md.	2	2		4
Fort Eustis, Va.	5	49	17	71	Fort Eustis, Va.	16	45		61
New Orleans, La.	12	40	7	59	New Orleans, La.	6	39		45
Mobile, Ala.		3		3	Mobile, Ala.				
Seattle, Wash.		4		4	Seattle, Wash.		2		2
Grand total	39	130	27	196	Grand total	25	88		113

Eighty-three vessels have been disposed of during the past year—6 vessels were delivered to Lykes Bros.-Ripley in accordance with the purchase contract dated February 17, 1933; 2 vessels were placed in service on routes operated by managing agents for the Government; the remaining 75 vessels of class III, which indicates they are of insufficient commercial or military value to warrant further preservation, were sold between July 6, 1937, and October 21, 1937. The conditions surrounding the sale of these are briefly summarized in the following table:

Recapitulation of sales

Terms	Number	Dead-weight tons	Sale price	Average price per dead-weight ton
Restricted to domestic operation for 10-year period	2	17,091	$144,350.00	$8.57
Restricted to domestic operation for 10-year period after conversion to colliers	2	15,938	130,019.00	8.16
For conversion to bulk liquid carriers	4	46,051	745,000.00	16.18
For scrap in United States	15	89,304	314,134.93	3.51
For operation with restrictions from trading with United States ports for 10 years	27	221,746	1,464,582.99	6.60
For scrap—abroad	25	223,596	1,105,390.00	4.94
Total	75	613,726	3,903,976.93	6.36

In connection with the foregoing recapitulation of sales of vessels in the laid-up fleet, it is interesting to note that in addition to the price paid for vessels purchased for operation or scrapping in foreign countries considerable expenditures were required to put the vessels in proper condition to cross the ocean. Estimates made by the Commission, which have been carefully checked, reveal that the average expenditure in this country to repair and outfit a vessel for use in foreign operation amounts to $60,000 per ship, whereas $40,000 is the average amount spent to equip a ship for one outward voyage before being scrapped. On the basis of dead-weight ton the average expenditure on ships sold for scrapping abroad approximates $4.50 per ton and reaches $8.30 per ton when the useful life of the vessel will be prolonged.

The drydocking program undertaken by the Commission, which resulted in the reclassification of 39 vessels, was carried out during the summer months in the Staten Island and James River fleets. A study was also made of the most suitable place for laying up the class I and class II vessels which the Commission desired to retain for emergency use. It was found that the James River site offered the most advantageous location for consolidation of the two fleets. Consequently 23 vessels in the Staten Island fleet were towed to the James River during the late summer months. The work was carried out in conjunction with the Coast Guard Service for approximately $20,000. This transfer permits the Commission to dispense with the Staten Island location and personnel and will effect a considerable saving in the number of men required to maintain the fleet in a proper state of preservation. It is estimated that the consolidation of these two fleets and discontinuance of the Mobile fleet will reduce the maintenance charges approximately $200,000 per annum. The 113 vessels now comprising the laid-up fleet will not be sold for operation in either foreign or domestic trade, but will be held in reserve for a possible use in commercial or national emergencies. When any vessel is subsequently found to have deteriorated to a point where it no longer has sufficient military or commercial value to warrant its further preservation, it will be sold for scrap or otherwise removed. This action takes the laid-up fleet off the market definitely removing one lack of incentive for new construction.

Terminals.

One of the functions delegated to the Commission by legislation prior to the 1936 act is the supervision of various physical assets required during the era of wartime shipbuilding activity and the heyday of the Government-owned fleet. A thorough examination of these properties has been made by the Commission with the object of placing those which it finds desirable to retain in a sound operating condition and disposing of the remainder.

Like other branches of the shipping industry, the financial return on the Commission's five terminal properties and one fuel-oil station fluctuates with the movement of cargo. During the depression the rentals were reduced in recognition of the decline in traffic. Although they have produced very satisfactory revenues during 1937 the present contracts may not in all cases reflect the current rate of activity. Consequently, the profits of the lessees of the respective terminals exhibit considerable variation from the standpoint of percentage of return on gross revenue of business. The Commission is now studying the terms of these contracts with the intention of negotiating a form of contract equitable to each lessee and responsive to the cyclical character of the shipping business.

Revenues and expenses, Nov. 1, 1936–Oct. 31, 1937

Terminal	Revenues	Maintenance and administrative expenses	Net revenue
Boston	$65,711	$37,481	$28,230
Brooklyn	111,000	62,714	48,286
Hoboken	[1] 80,544	65,742	14,802
Philadelphia	162,500	99,264	63,236
Norfolk	120,968	115,907	5,061
Craney Island	500	(2)	500
Total	541,223	381,108	160,115

[1] 50 percent gross revenue—minimum rental, $80,000.
[2] Maintained by lessee.

Before seeking any adjustment of these contracts the Commission wished to be apprised of the future maintenance requirements of these properties. A detailed report has been prepared by an independent expert in the field, which estimates the repairs necessary in the next 5 years. A long-term maintenance program will be projected on the basis of this report to guide the Commission in its future arrangements for the lease of these properties.

Surplus Vessel Equipment.

The former Merchant Fleet Corporation maintained warehouses at Hoboken, N. J.; Norfolk, Va.; and New Orleans, La.; which were used for the storage of navigating gear, materials and equipment removed from laid-up vessels, special ship-repair materials, and a limited quantity of miscellaneous supplies available for use in connection with operations of the Government-owned vessels. It was found that the cost of maintaining these warehouses was excessive in view of the reduced number of Government-owned vessels engaged in active operation and the sale of vessels in the laid-up fleet which were found to be of no commercial or military value. The Commission determined therefore to minimize its activity in these matters by liquidating all warehouse stock except ship-repair materials and sufficient navigating gear to equip the vessels remaining in the laid-up fleet. The staff of the various warehouses has been decreased and all surplus property has been disposed of during the summer months. A recapitulation of the sales of surplus equipment in the storehouses and of the laid-up vessels is given below:

Recapitulation

	Book value less reserves	Selling price
Storehouses:		
New York	$35,267.68	$33,383.56
Norfolk	19,086.13	12,950.90
New Orleans	18,200.21	20,500.78
Total	72,554.02	66,835.24
Vessels:		
New York		11,659.00
New Orleans		4,986.05
Total		16,645.05

Housing Properties.

The Commission has title to various houses and properties consisting of 17 houses and 16 parcels of land located in Philadelphia, Pa., Camden, N. J., Groton, Conn., and Portsmouth, N. H. Investigation of these properties revealed that their retention was not advantageous to the Commission from the standpoint of utility or income. Invitations for their purchase were issued, but the offers were so far below the appraised value of the properties that they were rejected. The Commission has authorized further negotiations for the disposal of these properties, but in view of their undesirable location it is not believed that a ready market exists for their sale.

FINANCIAL STATEMENT

Acting on the authority granted in the Third Deficiency Appropriation Act the Commission obtained estimates from a number of well-known firms of certified public accountants to examine the books of the Commission as of April 15, 1937. As the report of the firm selected has not yet been completed and the necessary adjustments made in the accounts, it is not possible to issue a statement of the assets and liabilities of the Commission as of the close of the fiscal year 1937. There are submitted, however, a statement of collections and disbursements, October 26, 1936, to October 31, 1937; and an estimate of operating profit and loss for the period October 26, 1936, to June 30, 1937.

The principal assets of the Commission, exclusive of the funds on deposit in the United States Treasury and its ships and properties, are the construction-loan notes and ship-sales notes. Of the construction loans made under the Merchant Marine Act of 1928 in the amount of $147,943,642.41, almost one-half has been repaid, leaving a balance outstanding of $76,228,147.48 on October 31, 1937. The total of ship-sales notes receivable on the same date was $10,985,075.87.

Approximately $2,000,000 were paid to the Commission in satisfaction of construction-loan notes and ships-sales notes when the ocean-mail contracts were settled.

Appendix A

Statement of collections and disbursements of the Division of Finance, U. S. Maritime Commission, Oct. 26, 1936, to Oct. 31, 1937

	Oct. 26, 1936, to Apr. 15, 1937	Apr. 16, 1937, to Oct. 31, 1937	Total, Oct. 26, 1936, to Oct. 31, 1937
Appropriation transfers to U. S. Maritime Commission:			
Transfers from U. S. Shipping Board, U. S. Merchant Fleet Corporation, and U. S. Shipping Board Bureau	$88, 116, 169. 79	$2, 159 83	$88, 118, 329. 62
Transfers from Post Office Department. Foreign ocean-mail appropriations	10, 000, 000. 00	6, 963, 864. 94	16, 963, 864. 91
Transfers from State Department. Appreciation of foreign currencies	1, 380. 00	2, 202 21	3, 582. 21
Transfers from Department of Commerce: Printing and binding appropriation 1937	11, 325. 72		11, 325. 72
Transfers from U. S. Treasury: Greater Texas and Pan American Exposition, appropriation		6, 787. 02	6, 787. 02
Total	98, 128, 875 51	6, 975, 014 00	105, 103, 889. 51
Collections:			
Construction-loan notes receivable	4, 672, 605. 31	4, 627, 149 31	9, 299, 751 62
Ship-sales notes receivable	1, 169, 211. 72	3, 381, 196. 79	1, 550, 408 51
Miscellaneous notes receivable	595, 278. 74	189, 200 85	784, 479 59
Interest on notes receivable, insurance premiums, etc.	1, 234, 450. 52	1, 362, 857 88	2, 597, 308 40
Cash payments on sales of vessels	127, 697. 00	2, 642, 328 66	2, 770, 025. 66
Sale of other assets	15, 096 30	118, 932 66	134, 028. 96
Operation-of-vessels revenue	3, 917, 026. 33	5, 917, 505 42	9, 834, 531 75
Real-estate rentals	307, 806. 92	345, 712 68	653, 519 60
Insurance premiums, loss recoveries, etc	197, 904. 06	115, 144. 79	313, 048. 85
Receipts in liquidation of receivables arising out of ocean-mail-settlement agreements		601, 367. 59	601, 367. 59
Miscellaneous	299, 044. 09	699, 881. 39	998, 925. 48
Total	12, 536, 120. 99	20, 001, 278. 02	32, 537, 399 01
Disbursements:			
Foreign-ocean-mail-contract payments	4, 079, 529. 07	8, 916, 600. 30	12, 996, 129. 37
General administrative expense	809, 845. 24	1, 181, 765. 26	1, 991, 610. 50
Operations-of-vessels expense	4, 280, 174 45	6, 229, 595. 59	10, 509, 770. 04
Reserve fleet expense	144, 367. 66	309, 806. 81	454, 174. 47
Real-estate operations, repairs and betterments	178, 747. 26	175, 053. 60	353, 800. 86
Insurance losses, returned premiums, etc	121, 168. 13	507, 045. 56	628, 213. 69
Disbursed in liquidation of payables arising out of ocean-mail-settlement agreements		1, 854, 593. 32	1, 854, 593. 32
Operating-differential-subsidy payments		95, 868. 10	95, 868. 10
Miscellaneous	160, 066. 87	801, 748 08	961, 814. 95
Total	9, 773, 898. 68	20, 072, 076. 62	29, 845, 975 30
Summary:			
Total appropriation transfers	98, 128, 875. 51	6, 975, 014 00	105, 103, 889. 51
Total collections	12, 536, 120. 99	20, 001, 278 02	32, 537, 399 01
Total appropriation transfers and collections	110, 664, 996. 50	26, 976, 292. 02	137, 641, 288. 52
Total disbursements	9, 773, 898 68	20, 072, 076. 62	29, 845, 975. 30
Balance	100, 891, 097. 82	6, 904, 215 40	107, 795, 313. 22
Balance available: Funds on deposit, U. S. Treasury, Oct. 31, 1937			107, 795, 313. 22

Appendix B

Consolidation of monthly financial statements of the U. S. Maritime Commission, fiscal year 1937—Oct. 26, 1936, to June 30, 1937

ESTIMATED OPERATING PROFIT AND LOSS

	Operating agreement	Number of terminals	Estimated		Profit (+) or loss (−)
			Revenue	Expense	
Freighters	1935	90	$6,445,518.59	$7,267,109.92	−$821,591.33
Inactive vessels in custody of operations—Maritime Commission				138,269.03	−138,269.03
Miscellaneous revenue and expense:					
Terminal properties			371,648.38	283,542.34	+88,106.04
Other properties			56,004.27	1,639.00	+54,365.27
Interest earned and other items			2,217,268.30	1,394,736.97	+822,531.33
Total			2,644,920.95	1,679,918.31	+965,002.64
Reserve fleet expense		[1] 188		250,254.45	−250,254.45
Administrative expense				1,218,583.50	−1,218,583.50
Ocean-mail contracts				14,175,969.32	−14,175,969.32
Total		278	9,090,439.54	24,730,104.53	−15,639,664.99

[1] Number of vessels at end of fiscal year.

UNITED STATES MARITIME COMMISSION

JANUARY 13, 1938.

OFFICE OF COMMISSIONERS

Responsible for the development and administration of the Merchant Marine Act of 1936.

SECRETARY

EXECUTIVE DIRECTOR

Coordinates and assigns all divisional, departmental and field activities approved and authorized by the Commission; makes recommendations on matters to be presented to the Commission for action.

LEGAL DIVISION

Performs all legal services for the Commission; prepares contracts and other documents; conducts litigation; settles claims and renders opinions and interpretations; conducts negotiations and provides counsel at hearings. The Division is comprised of the SUBSIDIES and OPERATIONS, LITIGATION and CLAIMS and OPINIONS and REVIEWS Sections.

TECHNICAL DIVISION

Analyzes or prepares plans and specifications for the construction of merchant vessels; prepares from technical standpoint invitations for construction and repairs and recommends on bids; supervises and inspects the construction of vessels; reports upon shipyard facilities; conducts condition and repair surveys of vessels under jurisdiction of Commission; maintains laid-up fleet in state of preservation; serves as liaison with Navy and Commerce Departments on construction matters. The Division consists of the DESIGN, INSPECTION and MAINTENANCE and LAID-UP FLEET Sections.

DIVISION OF OPERATIONS AND TRAFFIC

Administers contracts and supervises operation of Commission lines; studies and recommends on operating and traffic phases of subsidy applications and payments; cooperates with Division of Regulation in the maintenance of agreements between lines; submits comments on trade route surveys; promotes the use of American Flag vessels; recommends on applications for sale alien, transfer to foreign registry and surrender of marine documents of U. S. vessels; supervises the operation and maintenance of terminal properties. The Division consists of the OPERATIONS, TRAFFIC and TERMINALS Sections.

DIVISION OF FINANCE

Maintains records and prepares reports of the financial transactions of the Commission; audits and certifies administrative vouchers and voyage accounts; audits steamship and shipyard contractors' accounts and finances; analyzes, makes recommendations on, and administers applications and contracts for operating and construction subsidies and other financial contracts; reports upon miscellaneous claims. The Division consists of the ACCOUNTING, AUDITING, EXAMINING, and CONSTRUCTION COST AUDIT Sections.

DIVISION OF ADMINISTRATION

Provides administrative control of central service agencies; conducts management studies, supervises warehousing, and advises on business matters. The Division is comprised of the PERSONNEL, PURCHASE and SALES, PLANNING, MAIL and FILES, STENOGRAPHIC and TYPING, TELEPHONE, LIBRARY and COMMUNICATIONS Sections.

DIVISION OF MARITIME RELATIONS

Conducts research and hearings necessary to develop data for recommendations for manning and wage scales, living conditions and other standards for vessel personnel; hears complaints regarding and investigates actual conditions aboard vessels; represents the Commission in all conferences pertaining to personnel of the American merchant marine.

DIVISION OF REGULATION

Investigates, hears and recommends action on all complaints filed under regulatory provisions of Shipping Act; examines rates and tariffs filed for compliance with the Acts and the requirements of the Commission; examines and recommends approval or disapproval of agreements made between common carriers and other persons under Section 15 of the Shipping Act, 1916; recommends rules, regulations or legislation necessary to protect American shipping and carriers in foreign and domestic trade. The Division is comprised of the FORMAL DOCKET, AGREEMENTS, and RATES and TARIFFS Sections.

DIVISION OF RESEARCH

Gathers, analyzes and makes recommendations on information pertaining to shipping with particular reference to the essentiality of trade routes, the differentials between foreign and domestic operating and construction costs, the nature and amount of foreign government aid rendered to shipping and the facilities of foreign and domestic ports; gathers, tabulates and disseminates shipping statistics. The Division is comprised of the TRADE ROUTES, CONSTRUCTION-DIFFERENTIAL, OPERATING-DIFFERENTIAL, GOVERNMENT AID and PORT SURVEYS PROJECTS and a STATISTICAL Section.

INSURANCE DIVISION

Manages the insurance activities of the Commission, including the underwriting of hull insurance, the adjustment of claims, the review of insurance covering vessels and property under the jurisdiction of the Commission, and the preparation of reports on cost differentials and on other features of world marine insurance. The Division consists of the UNDERWRITING and CLAIMS Sections.

SECTION OF SPECIAL STUDIES

Makes detailed studies of a special nature as needed by the Commission; prepares the findings of these studies in final form for releases.

INFORMATION SECTION

Prepares and releases information concerning the activities of the Commission; maintains liaison with the press, radio, cinema, periodicals and other news media; plans exhibits for the Commission.