

The U.S. Treasury announced on September 28 that it occurred in the Fund's statement, which accords with its own policy, and that it plans to continue in effect its existing gold practices and procedures.

At a press conference in London after the Fund's Annual Meeting, Mr. Gaitskell, the Chancellor of the Exchequer, stated that the British Government supported the view that gold producing countries should sell their

gold exclusively to central banks and, therefore, at the respective parities of their currencies; but he implied that if there were any deviations from this rule they should be allowed on a non-discriminatory basis.

Sources: International Monetary Fund, Press Release No. 170, Washington, D. C., September 28, 1951; U.S. Treasury Department, Press Release, Washington, D. C., September 28, 1951; *The Economist*, London, England, September 29, 1951.

## Shipping Conferences and Ocean Freight Rates

*By the Associated Steamship Lines*

**A**LTHOUGH the recent relatively moderate increase in the so-called "general cargo" ocean freight rate (this type of cargo constitutes only around 10% of the total cargo carried) has aroused some adverse comment and has even led to the suggestion that control of the ocean freight rates be placed under some Philippine Government agency, the Associated Steamship Lines welcomes the public interest which is being shown. The Association has nothing to conceal and if its nature and objectives become better known to the public, this could only redound to the mutual advantage.

Everyone understands how important foreign trade is in the national economy of the Philippines, and, therefore, the importance of the shipping which carries this trade. And, certainly, no one could believe that the shipping companies would take any action damaging to the trade on which its own existence depends.

What, by the way, is not so well understood is that the cost of ocean transportation with respect to many classes of cargo, represents only a very small proportion of the ultimate retail price to consumers. The public will have to look elsewhere for the cause of high prices. From the United States Pacific coast, the ocean transportation cost of a can of evaporated milk, for instance, figures out to only around 1/4 of one centavo for a tall can and 1/8 of one centavo for a small can!

The Associated Steamship Lines is a voluntary, non-profit group of steamship companies engaged in the carrying trade between the Philippines and other countries, not including the countries of Europe, which has been operating since 1922, a few years after the close of the First World War.

The Association has been referred to as a "shipping conference", a type of operation which began to evolve after the transition of shipping from sail to steam. Such conferences now exist in all the leading maritime countries.

It should be understood that it was the advent of the steamship which for the first time made fast and regular service possible between the ports of the world, since steamships were not so dependent on wind and weather as were the sailing ships. Sailing ships were generally individually owned, sailed only when they had taken on full cargoes, which might take weeks or months, and the duration of their voyages could never be foretold with any accuracy.

With the regular service between ports provided by steamships, the speed alone of these ships greatly increased the amount of cargo carried within a stated period, and with the natural increase in the number of ships and the increase in the sailings from and to the various ports, a very destructive period of cut-throat competition set in among shipowners. If this had continued, all the weaker steamship companies would have been driven off the seas

and the organization of a few great monopolies would automatically have been brought about.

Shipping conferences are sometimes accused of seeking to control and monopolize a trade, but actually the very opposite is the truth. Shipping companies were driven into these conferences to survive as such and prevent the formation of gigantic monopolies. Without the agreements brought about in the conferences, adequate and satisfactory service on the various shipping routes of the world by the various companies would not be possible.

Shipping conferences attempt to stabilize freight rates,—that is one of their objectives, and these rates must be adjusted from time to time, but this is not done arbitrarily but only after extended consultations between the shipping companies and at least all the more important shippers. Conferences can not simply levy what rates they like, not only because rates that are too high would destroy their own cargo-carrying business as the shippers would not be able to compete in the world markets, but because there are always shipping companies which are not members of such organizations as well as numerous tramp ship operators who offer competition. Furthermore, except in the matter of rates, the member shipping companies are still in competition among each other with respect to quality of service.

**A**n outstanding fact is that the shipping business is largely international. Every shipping company not engaged in merely a coast-wise trade, comes within the territorial jurisdiction of at least two nations, often many more as its ships ply between the ports of various countries. It is for this reason that governments, while they exercise their general regulatory powers over all shipping under their own jurisdiction and over foreign shipping when under their jurisdiction, they do not attempt to exercise direct control over ocean freight rates.

Suppose, for instance, that one government, in the interests of its merchants, fixed the maximum rate on a certain commodity at \$20 a ton, and the government of another country, in the interests of its merchant marine, prescribed a minimum rate of \$25. For a shipowner to accept cargo under those conflicting orders would manifestly be impossible. Treaties of friendship, commerce, and navigation entered into between nations generally provide that no attempt will be made by either government to fix ocean freight rates.

The foregoing should make it clear why the international shipping business has been permitted to work out what is largely a system of self-regulation through the conference system.

Yet simple as all this seems, the system has sometimes been under attack,—as in the Philippines only recently. Even the sea-wise British Government, as early as 1906,

appointed a commission to investigate "shipping rings". After three years of investigation, the commission concluded:

"1. Developments in ocean transportation have made it necessary that shipowners be afforded such protection as that granted by the system of shipping conferences and deferred rebates.

"2. The system of shipping conferences and deferred rebates has developed until it is now a controlling factor on all sea routes where trade and general merchandise are the chief interests.

"3. Not only shipowners but a large proportion of the shippers regard shipping conferences making use of the system of deferred rebates as a necessary means by which the advantages supplied under an organized service can be maintained.

"4. Steamship lines require a guarantee of a continuity of custom and a means of protection against competitors offering spasmodic service in order to provide service covering a large range of ports with sailings at regular and fixed dates and with ships especially adapted for particular trades."

In the United States also, in 1912, the U. S. Congress authorized an investigation of steamship conferences in the foreign and domestic trade of the country. It, too, lasted a number of years and its work resulted in the enactment of the U. S. Shipping Act of 1916. This law forbade the use of the deferred rebate, but established the legality of the conference system.

The congressional committee reported, in part, as follows with respect to the system:

"It is the view of the committee that open competition can not be assured for any length of time by ordering existing agreements terminated. The entire history of steamship agreements shows that in ocean commerce there is no happy medium between war and peace when several lines engage in the same trade. Most of the numerous agreements and conference arrangements discussed in the foregoing report were the outcome of rate wars, and represent a truce between the contending lines. To terminate existing agreements would necessarily bring about one of two results: The lines would either engage in rate wars which would mean the elimination of the weak and the survival of the strong, or, to avoid a costly struggle, they would consolidate through common ownership. Neither result can be prevented by legislation, and either would mean a monopoly fully as effective, and it is believed more so, than can exist by virtue of an agreement. Moreover, steamship agreements and conferences are not confined to the lines engaging in the foreign trade of the United States. They are as universally used in the foreign trade of other countries as in our own. The merchants of these countries now enjoy the foregoing advantages of cooperative arrangements, and to restore open and cut-throat competition among the lines serving the United States would place American exporters at a disadvantage in many markets as compared with their foreign competitors."

Why did the British commission report that shippers regarded the shipping conference as necessary, and the American committee speak of it as advantageous to merchants?

Again the facts are easy to understand. In the selling of commodities between countries on a competitive basis, the seller is at a great disadvantage if he is unable to pre-determine his cost of delivery and, likewise, the costs of his competitors locally as well as abroad. It is for this reason that established rates have been welcome by shippers. And, if rates must be increased, the shipping conferences, in order to protect the merchants in their advance commitments always arrange that the increases in rates will

not become effective until after a certain period, which, in the case of the Associated Steamship Lines in Manila, is 90 days from their promulgation. However, in the case of decreases, the shipper is given the advantage of the reduction immediately.

Conference rules require member companies to maintain a regular number of sailings in each year. The lines participating are on the berth with scheduled calls, and this allows shippers the opportunity to make their shipments at spaced intervals which are advertised well in advance. This regularity, which only the conference system makes practically possible, is a very great advantage to those who ship commodities in parcel lots because of the nature of the cargo or because the consignees can not accept full ship loads at one time.

Additionally, regular shippers are protected throughout the year because the conference-line ships call during the off-season when the movement of the major commodities may be slack or dormant. Chartering a ship is difficult at such times and small shippers could not even consider this unless it happens that they can have the assistance of larger shippers in providing the necessary amount of cargo.

With the various lines working together in a conference, shippers have still another advantage because the conference set-up enables them to receive prompt action on any matter pertaining to their shipping problems. There are always numerous such matters that require discussion, such as loading requirements, calling at small, non-regular ports, proper handling of shipments, etc. A conference also always works closely with the customs and other water-front organizations in order to maintain and improve the efficiency of the ports.

Chartering ships for special voyages may sometimes be advantageous for bulk cargo, such as ore or lumber, going to one port, but the disadvantages of chartering for the great majority of shippers are obvious. And it should not be thought that charter rates are always lower than conference rates, as this is by no means so.

Since the outbreak of the Korean War, for instance, tramp rates have risen rapidly, while the various conferences are generally far behind in effecting an upward revision of their rates, even though these are usually not more than 10% or 15% at a time and, as for the Associated Steamship Lines in Manila, with the customary 90 days notice to shippers. Only a few months ago, tramp-ship operators were not interested in cargoes at conference rates but preferred ballasting their ships to areas from which more remunerative freights were obtainable.

In a subsequent article it is planned to inform shippers and the public as to the present rates and how they compare with the rates from other nearby ports. It is wholly untrue that the Philippines is being discriminated against in this matter, as we shall show.

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"As the authority of government increases, the scope of individual initiative shrinks. People find that their welfare depends less on their own productive efforts and activities, and more on the decisions of bureaucrats. As their freedom of action diminishes, their sense of responsibility weakens. Their hopes center more and more on the possibility of getting something for nothing. The idea of receiving payment for services rendered tends to give way to the idea of simply receiving payment."—  
From the November *Guaranty Survey*.