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PROBLEMS OF THE SOFTWOOD LUMBER INDUSTRY

HEARINGS BEFORE THE COMMITTEE ON COMMERCE UNITED STATES SENATE EIGHTY-SEVENTH CONGRESS

SECOND SESSION

ON

S. 2737

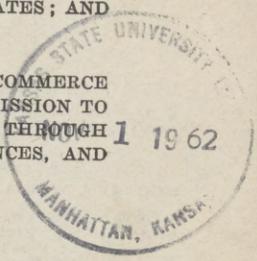
A BILL TO ENCOURAGE THE USE OF AMERICAN-FLAG VESSELS BY DOMESTIC INDUSTRIES, AND FOR OTHER PURPOSES

S. 3105

A BILL TO PROVIDE THAT THE LAW LIMITING THE TRANSPORTATION OF MERCHANDISE IN THE COASTWISE TRADE TO CERTAIN U.S. VESSELS SHALL NOT APPLY TO SUCH TRANSPORTATION BETWEEN A PORT ON THE EAST COAST OF THE UNITED STATES AND A PORT ON THE WEST COAST OF THE UNITED STATES; AND

S. 3429

A BILL TO AMEND SECTION 6(2) OF THE INTERSTATE COMMERCE ACT TO AUTHORIZE THE INTERSTATE COMMERCE COMMISSION TO REQUIRE THE CANCELLATION OF ANY INTERNATIONAL THROUGH ROUTE OR JOINT RATE UNDER CERTAIN CIRCUMSTANCES, AND FOR OTHER PURPOSES



PART 4

Amendments to Cabotage Laws and Interstate Commerce Act

JULY 17 AND 18, 1962

Printed for the use of the Committee on Commerce



47
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¹ Senator Case excused from further service on Commerce Committee and Senator Winston L. Prouty assigned to the committee on July 18, 1962.

NOTE.—This series of hearings on "Problems of the Softwood Lumber Industry" are printed in four parts, as follows:

Pt. 1: Washington, D.C., April 16, June 14, 15, and 18, 1962.

Pt. 2: Olympia, Wash., Lewiston, Idaho, April 20 and May 28, 1962.

Pt. 3: Portland Oreg., June 4, 1962.

Pt. 4: Washington, D.C., July 17 and 18, 1962, on S. 2737, S. 3105, and S. 3429, bills to amend the cabotage laws and the Interstate Commerce Act.

CONTENTS

Statement of—	Page
Alexander, Hon. Donald W., Administrator, Maritime Administration, Department of Commerce, Washington, D.C.-----	901
Altman, Edwin N., executive vice president, American Maritime Association, 1725 K Street NW., Washington, D.C.-----	947
Hansen, Hon. Julia Butler, Member, House of Representatives from the State of Washington-----	896
Morse, Hon. Wayne, U.S. Senator from the State of Oregon-----	910
Murphy, Hon. Rupert L., Chairman, Interstate Commerce Commission, Washington, D.C.-----	961
Neuberger, Hon. Maurine B., U.S. Senator from the State of Oregon-----	881
Norblad, Hon. Walter, Member, House of Representatives from the State of Oregon-----	913
Shapiro, Alvin, vice president, American Merchant Marine Institute, Inc., 919 18th Street NW., Washington, D.C.-----	925
Thurman, John N., vice president, Pacific American Steamship Association, Inc., 1625 K Street NW., Washington, D.C.-----	939
Tollefson, Hon. Thor C., Member, House of Representatives from the State of Washington-----	893
Statement submitted by—	
Edgett, G. Cleveland, executive vice president, West Coast Lumbermen's Association, 1410 SW. Morrison, Portland, Oreg.-----	957
Haddock, Hoyt S., executive secretary, AFL-CIO Maritime Committee, 132 third Street SE., Washington, D.C.-----	959
Labor-Management Maritime Committee, 132 Third Street SE., Washington, D.C, signed by Earl W. Clark and Hoyt S. Haddock, Co-Directors-----	958
Reed, William G., chairman, Simpson Timber Co., 2000 Washington Building, Seattle, Wash-----	917
Westland, Hon. Jack, Member, House of Representatives from the State of Washington-----	956
Communications from—	
Baier, Carl F., Route 1, Box 160, Olympia, Wash., dated July 14, 1962, to Hon. Julia Hansen-----	899
Baier, Carl F., International Longshoremen's & Warehousemen's Union, 111 West Thurston, Olympia, Wash., dated July 14, 1962, to Hon. Julia Hansen-----	900
Bellamy, Don, vice president, Rainier Manufacturing Co., Rainier, Oreg., dated July 13, 1962, to Hon. Warren G. Magnuson-----	921
Buchanan, Donald, president, Buchanan Lumber Co., Post Office Box 396, Olympia, Wash., dated July 13, 1962, to Hon. Warren G. Magnuson-----	922
Casey, John T., Idapine Mills, Inc., and Sierra Mountain Mills, Portland, Oreg., dated July 14, 1962, to Hon. Warren G. Magnuson-----	924
Cave, Don, president, Eureka Chamber of Commerce, Eureka, Calif., dated July 16, 1962, to Hon. Warren G. Magnuson (also signed by Larry T. Marshall, chairman, Eureka Chamber of Commerce Natural Resources Committee and R. F. Denbo, manager)-----	923
Chamber of Commerce, Gray's Harbor, Aberdeen, Wash-----	889
Charette, Robert L., Aberdeen, Wash., dated July 13, 1962, to Hon. Warren G. Magnuson-----	920
Collins, Chapin, editor, the Montesano Vidette, Montesano, Wash., dated July 13, 1962, to Hon. Julia Hansen-----	899
Collins, Chapin, editor, the Montesano Vidette, Montesano, Wash., dated July 13, 1962, to Hon. Warren G. Magnuson-----	919

Communications from—Continued

	Page
Deas, S. P., secretary, Southern Pine Industry Committee, New Orleans, La.....	889
Department of Commerce, Washington, D.C., dated August 16, 1962, to Hon. Warren G. Magnuson.....	973
Dwyer, R. F., Portland, Oreg., dated July 13, 1962, to Hon. Warren G. Magnuson.....	921
Edgett, G. C., executive vice president, West Coast Lumbermen's Association, 1410 SW. Morrison Street, Portland, Oreg., dated July 12, 1962, to Hon. Julia Hansen.....	900
Erickson, C. W., president, Western Lumber, Inc., Aberdeen, Wash., dated July 16, 1962, to Hon. Warren G. Magnuson.....	922
Griffee, W. E., secretary-manager, Western Pine Association, Yeon Building, Portland, Oreg., dated July 13, 1962, to Hon. Warren G. Magnuson.....	967
Grunkemeier, M. V., president, Shelton-Mason County Chamber of Commerce, Shelton, Wash., dated July 16, 1962, to Hon. Warren G. Magnuson.....	923
Hirshfield, Vice Adm. J. A., U.S. Coast Guard (retired), president, Lake Carriers' Association, Cleveland, Ohio, dated July 20, 1962, to Hon. Warren G. Magnuson.....	919
Hood, Edwin M., president, Shipbuilders Council of America, 1730 K Street NW., Washington, D.C., dated July 17, 1962, to Hon. Warren G. Magnuson.....	917
James, Dave, cochairman, Lumbermen's Economic Survival Committee, Seattle, Wash., dated July 16, 1962, to Hon. Julia Hansen.....	899
Johnson, Bill, manager, Olympia Area Chamber of Commerce, Olympia, Wash., dated July 13, 1962, to Hon. Warren G. Magnuson.....	921
Landberg, R. M., vice president and manager, Grays Harbor branch, National Bank of Commerce, Aberdeen, Wash., dated July 13, 1962, to Hon. Warren G. Magnuson.....	920
Landis, Euge/e, Director of Transportation, International Minerals & Chemical Corp., Skokie, Ill.....	973
McNeil, Don, manager, Medford Chamber of Commerce, Medford, Oreg., dated July 16, 1962, to Hon. Warren G. Magnuson.....	924
Nelson, Lee J., general manager, Al Peirce Lumber Co., Coos Bay, Oreg., dated July 13, 1962, to Hon. Maurine B. Neuberger.....	889
Nicholas, R. V., chairman, Humboldt County Board of Trade, Eureka, Calif., dated July 16, 1962, to Hon. Warren G. Magnuson.....	923
Pederson, Edward M., chairman, Board of Supervisors, Humboldt County, Eureka, Calif., dated July 16, 1962, to Hon. Warren G. Magnuson.....	923
People's National Bank, Hoquiam, Wash.....	889
Potlatch Forests, Inc., Lewiston, Idaho, dated July 13, 1962, to Hon. Warren G. Magnuson.....	921
Powell, Leighton H., chairman, Board of County Commissioners, Aberdeen, Wash., dated July 17, 1962, to Hon. Warren G. Magnuson.....	922
Prentice, Dale C., secretary-manager, Southern Oregon Conservation & Tree Farm Association, Medford, Oreg., dated July 17, 1962, to Hon. Maurine B. Neuberger.....	888
Prince, Gregory S., executive vice president and general counsel, Association of American Railroads, Transportation Building, Washington, D.C., dated July 20, 1962, to Hon. Warren G. Magnuson.....	915
Riley, F. C., executive vice president, Fairhurst Lumber Co., Fortuna, Calif., dated July 16, 1962, to Hon. Warren G. Magnuson.....	924
Ritner, Roy, member, House of Representatives, State of Washington, Seattle, Wash., dated July 17, 1962, to Hon. Warren G. Magnuson.....	922
Rose, Stan, president, Exeter Lumber Sales Co., Longview, Wash., dated July 16, 1962, to Hon. Warren G. Magnuson.....	922
Savage, Charles R., business agent, International Woodworkers of America, Shelton, Wash., dated July 16, 1962, to Hon. Warren G. Magnuson.....	922
Sibold, G. W., manager, Port of Olympia Commission, Olympia, Wash., dated July 13, 1962, to Hon. Warren G. Magnuson.....	921

CONTENTS

Communications from—Continued

Smith, Wayne, Delson Lumber Co., Olympia, Wash., dated July 14, 1962, to Hon. Warren G. Magnuson.....	Page 920
Smith, C. Wylie, vice president, Coos Head Timber Co., Coos Bay, Oreg., dated July 16, 1962, to Hon. Maurine B. Neuberger.....	888
Tanzer, Hershah, vice president, Western Lumber Marketing Association, 1010 SW. 14th Avenue, Portland, Oreg., dated July 14, 1962, to Hon. Maurine B. Neuberger.....	888
Terhayden, Henry A., mayor, city of Eureka, Eureka, Calif., dated July 16, 1962, to Hon. Warren G. Magnuson.....	923
Reports from—	
Department of the Navy, dated August 14, 1962, on S. 2737.....	975
Department of State, dated August 10, 1962, on S. 2737.....	975
Department of State, dated August 10, 1962, on S. 3105.....	976
General Accounting Office, dated March 15, 1962, on S. 2737.....	914
General Accounting Office, dated May 4, 1962, on S. 3105.....	915
General Accounting Office, dated July 9, 1962, on S. 3429.....	968
Interstate Commerce Commission, dated July 12, 1962, on S. 3429.....	969
Interstate Commerce Commission, dated August 2, 1962, on S. 3429.....	964
Treasury Department, dated August 13, 1962, on S. 2737.....	975



1. Introduction 1

2. The History of the Project 2

3. The Objectives of the Project 3

4. The Methodology of the Project 4

5. The Results of the Project 5

6. The Conclusions of the Project 6

7. The Recommendations of the Project 7

8. The Acknowledgements of the Project 8

9. The References of the Project 9

10. The Appendixes of the Project 10

PROBLEMS OF THE SOFTWOOD LUMBER INDUSTRY

TUESDAY, JULY 17, 1962

U.S. SENATE,
COMMITTEE ON COMMERCE,
Washington, D.C.

The committee met, pursuant to adjournment at 10:45 a.m., in room 5110, New Senate Office Building, the Honorable Warren G. Magnuson, chairman, presiding.

The CHAIRMAN. The committee will come to order.

The chairman has a short opening statement which he will read. I have called the hearing this morning to take up three bills pending in the committee which were introduced as a result of extensive hearings and study this committee conducted in connection with the lumber problem.

Two of the bills—S. 2737, introduced by myself and others, and S. 3105, sponsored by Senator Neuberger—reflect the intense concern of the lumber industry about its adverse competitive position in relation to Canadian producers of lumber. The west coast cargo lumber shippers have asserted that in 3 years' time their share of the Atlantic coast green lumber market has declined from 70 percent to 28 percent. It is their view, and the hearing record developed after seven hearings on the lumber problem, both out West and here tends to support it, that the domestic lumber shippers are forced to use, under the terms of the Jones Act, higher cost American-flag vessels, while Canadian producers can use foreign-flag vessels at anywhere from \$4 to \$11 per thousand board feet less.

S. 2737 is designed to equalize the shipping cost for American lumber producers by providing a subsidy to the intercoastal carrier based on the difference between the tariff rate filed with the ICC and the rate that foreign-flag vessels are charging in Canada.

Senator Neuberger's bill approaches the problem in a different way by repealing that part of the Jones Act which requires American vessels to be used in the trade between east and west coast ports.

These are, of course, matters of urgent concern to the Pacific Northwest and, in the judgment of the committee, it will be necessary to hear testimony from Government agencies and the maritime interests in connection with the problem.

The third bill, S. 3429, would authorize the ICC to cancel any international through route or joint rate when the connecting foreign carrier is giving its shippers an undue preference or advantage over shippers, localities, or carriers in the United States. This bill was recommended by the Interstate Commerce Commission to deal with the situation that was present prior to July 11, when the Canadian

Professional staff members assigned to this hearing: August J. Bourbon and Gerald B. Grinstein.

railroads granted Canadian shippers a 15-day freehold not available from American railroads.

On July 11, the Canadian railroads withdrew the 15-day freehold privilege and the American railroads reciprocated by withdrawing circuitous routing. It is possible, however, that the problem of foreign advantage might appear again in the future, not necessarily in connection with lumber, and this authority would give the Interstate Commerce Commission a valuable tool to protect American interests for any other rulings that may be made in the future.

(The bills follow:)

[S. 2737, 87th Cong., 2d sess.]

A BILL To encourage the use of American-flag vessels by domestic industries, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the provisions of this Act shall apply to transportation in the domestic trades subject to the Merchant Marine Act, 1920.

SEC. 2. The Secretary of Commerce is authorized to grant a subsidy to the transportation of the merchandise of any industry located within the United States if he determines after notice and hearing that the requirements of section 27, Merchant Marine Act, 1920 (46 U.S.C. 883), are causing such industry to lose a substantial portion of its business to foreign competitors.

SEC. 3. Upon application by any carrier participating in cargo which the Secretary of Commerce has determined is entitled to a subsidy pursuant to section 2 of this Act, the Secretary shall determine an amount by which it is necessary for the United States to assume the burden of stimulating a domestic industry with respect to transportation. Such amount shall be known as the domestic trades subsidy, shall be paid to such carrier, and shall be determined as follows:

(a) For any charter or contract, the Secretary shall determine that the rate or charge made by the domestic carrier is fair and reasonable. The Secretary shall then determine what would be a fair and reasonable charge or rate for a low-cost foreign-flag carrier to serve the same ports as the domestic carrier. The excess of the charge or rate of the domestic carrier over that of the low-cost foreign carrier shall be the total subsidy for the transportation, payable to all carriers in that trade and participating in that traffic.

(b) The subsidy accrued to each carrier during any calendar month shall be paid to the carrier on or before the tenth day of the following month.

SEC. 4. (a) The Secretary of Commerce shall adopt and prescribe rules and regulations in order to assure that the total charge or rate paid by the consignee or consignor is no more than such shipper would have paid the low-cost foreign-flag carrier, as determined in section 3(a) of this Act.

(b) The Secretary of Commerce shall adopt and prescribe such other rules and regulations as are necessary for the administration of the subsidy provided by this Act.

SEC. 5. Any person knowingly and willfully violating any provision of this Act, or any rule or regulation thereunder, for which a penalty is not otherwise provided by law shall, upon conviction thereof, be fined not less than \$100 nor more than \$10,000.

[S. 3105, 87th Cong., 2d sess.]

A BILL To provide that the law limiting the transportation of merchandise in the coast-wise trade to certain United States vessels shall not apply to such transportation between a port on the east coast of the United States and a port on the west coast of the United States

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 27 of the Merchant Marine Act, 1920 (46 U.S.C. 883), is amended by inserting before the period at the end thereof a colon and the following: "Provided further, That this section and the first section of the Act of February 17, 1898 (30 Stat. 248), shall not apply to the transportation of merchandise between a port on the east coast of the United States and a port on the west coast of the United States, including the State of Alaska".

[S. 3429, 87th Cong., 2d sess.]

A BILL To amend section 6(2) of the Interstate Commerce Act to authorize the Interstate Commerce Commission to require the cancellation of any international through route or joint rate under certain circumstances, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That paragraph (2) of section 6 of the Interstate Commerce Act, as amended (49 U.S.C. 6(2)), is amended by adding at the end thereof the following new sentence: "The Commission shall have authority to require the cancellation by carriers subject to this part of any through route or joint rate with any carrier operating in any foreign country whenever it finds that any rate, charge, privilege, or practice of such foreign carrier in connection with such through route or joint rate, or traffic handled thereunder, gives or confers upon any foreign shipper, locality, or carrier an undue preference or advantage over shippers, localities, or carriers in the United States."

The CHAIRMAN. We have the distinguished Senator from Oregon here, Mrs. Neuberger, and I think it would be well to hear her first on S. 3105.

**STATEMENT OF HON. MAURINE B. NEUBERGER, U.S. SENATOR
FROM THE STATE OF OREGON**

Senator NEUBERGER. Thank you, Mr. Chairman.

As you have so well stated, we have been discussing various aspects of the lumber industry and the competitive situation with Canada, and as I prepared my remarks for this morning, I have had to go back and see what I said before. It seems to be that I had said it before this committee, but there are just a few points that I would like to emphasize and I have asked permission to submit most of my remarks for the record.

The CHAIRMAN. That will be done.

Senator NEUBERGER. One of these things that has interested me is the telegrams and material coming in from Oregon, from various people connected with the timber business and one of these wires arrived yesterday, which I would like to read:

We urge immediately favorable action on legislation to put American cargo mills on equal competitive terms with Canada. In the American Atlantic coast lumber market during the 3-year period, 1955 to 1957, inclusive, we shipped 21-million-plus board feet to Atlantic coast as compared with only 1-million-plus for the 4½-year period, 1958 to date. A continuation of our operations, with over 300 men directly employed is seriously threatened by Canadian competitive advantages.

And there are other wires that substantiate that. Now of course, coming all from the industry, you might say naturally they would be suspect, they are looking at their own interests. But their testimony is borne out by the facts which come from a chart which I have from the Maritime Commission, showing a decline in employment, which seems to be directly affected by the shipping.

There is substantial agreement on a number of salient points. It is undisputed that a significant segment of the domestic lumber industry is greatly depressed and that a major cause of this depression has been the loss of traditional domestic lumber markets to Canadian lumber producers and that the Jones Act restrictions on domestic shipping have given Canadian lumber producers a substantial cost advantage in competing for the U.S. domestic lumber markets. But I think most significant—we all know when working with this why we have the Jones Act—is that despite the protection which the Jones

Act is to give to the domestic intercoastal shipping trade, that trade has declined drastically and has continued to decline relentlessly.

It reminds me when I was in the Oregon Legislature, we had a very restrictive milk control law. It had been put in to protect the dairy farmers at a time when milk was being dumped along the road because farmers said they weren't getting suitable pay for their efforts. So we had a restrictive pricing law. It was in effect for some 30 years and during that period, what happened to the milk industry? It began to go down and down and down. Monthly you would see sales of wonderful Holstein herds and Jersey herds.

Well, I finally decided that this so-called protective law was harming the milk industry rather than helping it and after much effort, we finally got it repealed, and we have had a much more successful dairy industry since then. I think this is comparable to the Jones Act. Instead of protecting the industry, it is maybe, to use a cliché, going to price itself out of the market and more and more people are losing employment and fewer and fewer ships are in the intercoastal trade.

I am informed by the Maritime Administration that there are presently only 22 vessels which are exclusively devoted to intercoastal shipping and they employ no more than a thousand men. Well, just in my State alone, we have some—this is conservatively—3,500 men out of work in the lumber business. So you have to offset one against the other.

Senator LAUSCHE. May I ask a question at this time? Will you repeat—the ships employ a thousand but, on the other hand, you have 3,700 people out of work in the lumber industry.

Senator NEUBERGER. Right.

Senator LAUSCHE. Is it the point of the Senator from Oregon that the 3,700 who are out of work, are out partly because of the increased costs of transportation that is imposed by the Jones Act?

Senator NEUBERGER. I am glad the Senator put in the word "partly"; that is correct. There are many other contributing factors, but I do think this is a very important one.

The CHAIRMAN. Well, Senator, if I may be permitted for the record, I think this will put this in perspective a little better. The figures that we have gotten from the industry and others, historically 90 percent of our lumber that goes to eastern markets is shipped by rail and approximately 10 percent had been shipped by water. And when we are dealing with water transportation, we are dealing with the 10 percent.

Senator NEUBERGER. You mean 10 percent of the lumber that arrives on the eastern market?

The CHAIRMAN. Yes; that is shipped by water or did come by water. None of it is coming now.

Senator NEUBERGER. That is right.

The CHAIRMAN. When we talk about going up from 28 to 70, we are talking about the lumber that historically went by water. Ninety percent of all the lumber in the whole Pacific Northwest, everybody's, goes east by rail.

Senator NEUBERGER. But these men and families affected by the decline in the lumber industry in Oregon are right along the coast where all of this is affected.

The CHAIRMAN. I'm talking about overall. In Washington and Oregon, the percentage would be higher because there are more so-

called tidewater mills that used water shipments, but the overall lumber shipments are 90 percent by rail and 10 percent by water.

Senator LAUSCHE. The fact is, however, that the principle is identical. The figures may vary, but the principle involved in the presentation made by the Senator from Oregon is identical.

The CHAIRMAN. Yes.

Senator LAUSCHE. And that is, that by imposing the high transportation charge resulting from the Jones Act, you have destroyed a part of the lumber industry.

The CHAIRMAN. That is correct.

Senator NEUBERGER. Of course, we all know the social implications when the mill goes out. You have a town which is just dependent upon that and the whole town becomes a ghost town. We have several of these in Oregon and I think you have some in Washington.

The CHAIRMAN. The ramifications are worse. When we speak of the 28 to 70 percent taken over by the Canadians, we are talking about these people who had been using the water shipments and this affects a great number. In other words, the whole lumber industry has been affected, including the southern pine industry, but this has been hurt the worse because of transportation.

Senator NEUBERGER. I know that since I have been working so intensely on this lumber problem, I have had a greater sympathy with our colleagues who come from textile States, as I have begun to appreciate some of the problems of what happens in a community when a single industry goes out.

I would like now to turn to the national defense implications of the Jones Act modification. We are all concerned with national defense and one of the arguments for keeping the act is so we have a maritime fleet in time of an emergency. I wish to emphasize that my bill, Senate bill S. 3105 will open only the intercoastal shipping trade to foreign shipping.

As I previously stated, there are presently only 22 vessels exclusively engaged in intercoastal trade. Each of these was constructed prior to the close of World War II and 20 of the 22 are Liberty ships. A recent report from the Office of the Chief of Naval Operations states that Liberty ships are at present of little wartime value. Moreover, there are nearly 2,000 dry-cargo ships under U.S. flag available in time of national emergency. There are also 420 flag-of-convenience ships which the Navy considers to be under effective U.S. control.

The assertion that the 22 World War II vessels engaged in intercoastal shipping are essential to the national defense effort cannot be sustained. Furthermore, the consistent annual decline in intercoastal shipping since the postwar period strongly suggests that even if the Jones Act were to remain intact, the intercoastal shipping fleet will disappear in a very few years.

I would like to conclude by saying that a good point I think of this proposal is that it entails neither subsidy nor quota. It is entirely consistent with the administration's emphasis upon free trade. It burdens neither the taxpayer nor the consumer and there is ample indication that it will provide immediate and substantial relief to the blighted domestic lumber industry.

Thank you, Mr. Chairman.

(The complete statement and attachments follow :)

STATEMENT OF SENATOR MAURINE B. NEUBERGER, OF OREGON, IN SUPPORT OF S. 3105

Mr. Chairman, for the past several months this committee has served as the forum for an intensive public dialog on the wisdom of Jones Act modification. I think it appropriate this morning that we attempt to distill the substance of that dialog.

There is substantial agreement on a number of salient points: It is undisputed (1) that a significant segment of the domestic lumber industry is gravely depressed; (2) that a major cause of this depression has been the loss of traditional domestic lumber markets to Canadian lumber producers; (3) that the Jones Act restrictions on domestic shipping have given Canadian lumber producers a substantial cost advantage in competing for U.S. domestic lumber markets; and (4) that despite Jones Act "protection," the domestic intercoastal shipping trade has declined drastically and has continued to decline relentlessly from postwar levels.

Opponents of Jones Act modification have relied principally upon two arguments: (1) That modification of the Jones Act will not subdue Canadian competition because of other competitive advantages enjoyed by the Canadians, and (2) that the Jones Act restrictions are essential to the national defense effort.

I am convinced that these arguments are spurious and I believe that fact can be demonstrated to the committee's satisfaction.

During the last 10 years west coast lumber producers have lost to their British Columbia competitors close to two-thirds of the U.S. Atlantic coast market for waterborne shipments of Douglas fir and hemlock. The British Columbia share of this stable market has increased from 7 percent in 1951 to 57 percent in 1961 and 72 percent in June 1962.

I request the committee's permission to include with my statement a copy of a chart listing employment in Oregon's sawmills and planing mills over a 15-year period. The chart discloses that in Oregon's sawmills and planing mills alone, employment has dwindled from 45,000 in June 1947 to 28,300 in June of this year. I also request permission to include a telegram which I received yesterday from the Coos Head Timber Co. describing the economic inroads made by Canadian competition upon a typical west coast cargo mill.

Domestic lumber shippers, straitjacketed by Jones Act restrictions, are forced to pay the American conference rate of \$36 (\$37 for loose-loaded stock) per thousand board feet of lumber to ship their lumber to Atlantic coast ports. The Canadians, shopping in the world market for steamship charters, can ship their lumber for as much as \$13 below the American conference rate. This differential is graphically illustrated by an analysis of the charter costs for two vessels available to British Columbia shippers. I ask permission to include with my statement analyses of the charter costs for the *Triton Vessel* and the *Esperos*. Since these costs were compiled I am informed that foreign charter charges have declined approximately 15 percent.

Commerce Department statistics show that the average realization on lumber shipments from the Douglas-fir region in 1961 was approximately \$71 per thousand board feet. Thus, the \$13 Canadian freight advantage represents at least a 15-percent cost advantage enjoyed by Canadian lumber producers.

That the Jones Act has not succeeded in protecting the domestic shipping trade is sharply illustrated by a chart prepared by the Maritime Administration demonstrating the decline in domestic shipping, particularly in intercoastal shipping, since the postwar period. I ask that I be permitted to include this chart with my statement. I am informed by the Maritime Administration that there are at present only 22 vessels which are exclusively devoted to intercoastal shipping. These 22 vessels employ no more than 1,000 men.

Those who claim that Jones Act modification will not lessen the competitive impact of Canadian lumber insist that lower Canadian stumpage and labor costs afford the Canadians an even greater cost advantage than the freight differential. Recent cost analyses, however, have demonstrated unequivocally that the rougher British Columbia terrain, the necessity of longer tows to the British Columbia mills, higher equipment costs, and lack of overrun have the effect of making Canadian lumber costs "free alongside" of a ship as high or higher than American costs.

The Canadian lumber industry recently acceded to wage demands sufficient to equalize American and Canadian wages. Canadian lumber workers already enjoyed more paid holidays (with shorter qualifying periods) than American workers, and more fringe benefits than their American counterparts.

In a recent report prepared for several western Senators, the State Department concluded that the Jones Act imposed freight differential has been the

primary cause of the growth of Canadian competition. The State Department observed:

"During the past 5 years, there has been a decline amounting to 400 million board feet per year in the level of waterborne shipments from the U.S. Pacific coast mills and a corresponding increase in the level of waterborne shipments from British Columbia mills. While other factors may have contributed to the shift, it appears that the substantial difference in freight costs has been principally responsible. There is no reason to believe that the trend will be reversed so long as the cost difference prevails."

Turning now to the national defense implications of Jones Act modification, I wish to emphasize that S. 3105 will open only the intercoastal shipping trade to foreign shipping. As I previously stated, there are at present only 22 vessels exclusively engaged in the intercoastal trade. Each of these vessels was constructed prior to the close of World War II; 20 of the 22 are Liberty ships. A recent report from the Office of the Chief of Naval Operations states that Liberty ships are at present "of little wartime value." Moreover, there are nearly 2,000 dry cargo ships under U.S. flag available in time of national emergency. There are also 420 "Flag of Convenience" ships which the Navy considers to be under "effective U.S. control." The assertion that the 22 World War II vessels engaged in intercoastal shipping are essential to the national defense effort cannot be sustained.

Furthermore, the consistent annual decline in intercoastal shipping since the postwar period, strongly suggests that even if the Jones Act were to remain intact, the intercoastal shipping fleet would disappear in a very few years.

Nor will passage of S. 3105 necessarily result in the elimination of the domestic intercoastal shipping fleet. The Jones Act, by excluding competition in intercoastal shipping, has unquestionably fostered uneconomic practices in domestic shipping. Spurred by the impetus of foreign competition, the American operators may well be able to utilize traditional American ingenuity to become truly competitive in an open market.

S. 3105 entails neither subsidy nor quota. It is entirely consistent with the administration's emphasis upon free trade. It burdens neither the taxpayer nor the consumer; and there is ample indication that it will provide immediate and substantial relief to the blighted domestic lumber industry.

"TRITON VESSEL"

Nine thousand five hundred tons deadweight; 499,000 feet bale. British Columbia to U.S. Atlantic coast for \$72,500 f.i.o. This works out as follows:

Basic charter-----	\$72, 500
Figuring an average stowage factor she should carry 5,800,000 feet net.	
Loading costs should be approximately-----	34, 800
Discharging costs should be approximately-----	40, 600
Miscellaneous-----	2, 100
Total-----	150, 000

Or, \$150,000 divided by 5,800,000 equals a rate of \$25.86 per thousand feet.

The other ship was a time charter and works out as follows:

"ESPEROS"

Fifteen thousand four hundred and five tons deadweight; 708,000 feet bale; 14 to 14¼ knots on 40/42 tons of fuel. British Columbia to U.S. Atlantic coast, \$2.45 per ton, or, \$37,742 per month, or, \$1,258 per day.

Using an average stowage factor, this ship should carry 6,600,000 feet.

The voyage, conservatively, should take 26 days loading and discharging, and 20 days at sea, or, 46 days at \$1,258-----	\$57, 868
Fuel should be about 6,540 barrels at \$2.50-----	16, 350
Port charges—loading (3 ports)-----	1, 500
Loading costs-----	39, 600
Canal toll and agency-----	6, 400
Discharge (2 ports)-----	46, 400
Discharge—port charges-----	3, 500
Miscellaneous-----	3, 250
Total-----	174, 968

Or, \$174,968 divided by 6,600,000 equals a rate of \$26.51 per thousand feet.

Covered employment, State of Oregon, sawmills and planing mills, group No. 242

Year	January	February	March	April	May	June	July	August	September	October	November	December
1947	37,854	39,144	41,315	43,485	44,973	44,955	46,821	47,701	47,782	46,168	44,473	44,088
1948	44,048	45,457	47,237	48,570	50,207	53,427	56,368	57,409	55,621	50,904	48,249	42,726
1949	36,389	37,288	44,104	48,553	50,504	51,686	50,580	50,999	50,226	48,198	47,243	45,568
1950	36,496	38,752	44,984	49,446	54,027	56,099	57,092	59,183	58,137	54,913	50,798	48,446
1951	47,448	48,723	50,053	54,207	56,538	58,444	57,705	57,957	55,833	53,688	51,336	47,789
1952	44,752	46,189	47,757	51,918	52,027	55,670	56,984	56,663	55,491	52,772	51,324	47,943
1953	45,583	46,114	48,533	50,744	51,446	52,578	53,580	52,535	50,890	47,917	45,349	42,365
1954	40,695	41,347	43,745	45,694	48,061	49,442	50,183	41,350	50,338	48,756	47,685	46,422
1955	44,400	44,739	45,553	46,898	49,334	52,368	53,143	53,790	52,829	48,817	46,105	43,477
1956	41,428	41,863	42,286	44,943	46,696	47,929	48,025	48,033	46,195	43,520	41,095	38,477
1957	35,453	35,196	36,546	39,178	40,708	41,897	41,553	41,208	39,772	38,124	36,575	33,153
1958	29,058	29,262	29,611	30,660	32,176	33,883	34,697	35,774	36,074	35,558	34,320	32,904
1959	31,178	30,639	32,079	34,063	35,355	36,846	36,474	37,258	36,565	35,193	34,279	33,413
1960	30,589	31,075	31,901	32,295	32,873	33,911	33,770	33,519	31,845	29,948	28,353	27,013
1961	24,405	24,405	26,504	26,504	27,981	29,425	29,454	29,665	31,845	27,780	26,798	25,629
1962	25,000	25,300	25,700	26,900	27,700	28,300	(1)	(1)	(1)	(1)	(1)	(1)

1 1962—Estimate by State of Oregon based on sampling—Final figures probably within 2 percent of sample.

Seafaring employment (jobs)—Ocean-going merchant ships of 1,000 gross tons or over in the domestic trades of the United States

Operation	1941 (Sept. 30) shipboard jobs			1943 (June 20) shipboard jobs			1955 (June 30) shipboard jobs			1956 (Dec. 31) shipboard jobs			1957 (Mar. 31) shipboard jobs							
	Ships	Lj- censed	Unli- censed	Ships	Lj- censed	Unli- censed	Ships	Lj- censed	Unli- censed	Ships	Lj- censed	Unli- censed	Ships	Lj- censed	Unli- censed	Total				
																	Total	Total	Total	Total
Domestic trade.....	580	5,469	18,302	23,771	284	2,709	9,734	12,443	430	5,061	14,110	19,171	406	4,312	12,564	16,876	396	4,790	13,356	18,146
1. Coastwise.....	415	3,735	9,706	13,441	---	---	---	---	272	3,115	8,683	11,798	306	3,179	9,034	12,213	266	3,062	8,535	11,597
(a) Atlantic and gulf.....	---	---	---	---	---	---	---	---	234	2,687	7,493	10,180	266	2,772	7,904	10,676	234	2,703	7,535	10,238
(b) Pacific coast.....	---	---	---	---	---	---	---	---	38	428	1,190	1,618	40	407	1,130	1,637	32	359	1,000	1,369
(c) Interoceanal.....	53	475	1,592	2,067	---	---	---	---	79	913	2,547	3,460	38	406	1,190	1,596	53	609	1,701	2,310
2. Noncontiguous.....	112	1,259	7,004	8,263	---	---	---	---	79	1,033	2,880	3,913	62	727	2,340	3,067	77	1,119	3,120	4,239
(a) Alaska.....	---	---	---	---	---	---	---	---	22	230	641	871	10	98	280	378	13	120	336	456
(b) Hawaii.....	---	---	---	---	---	---	---	---	28	459	1,234	1,740	25	324	1,206	1,530	34	638	1,777	2,415
(c) Puerto Rico.....	---	---	---	---	---	---	---	---	20	344	958	1,302	27	305	854	1,159	30	361	1,007	1,368
Domestic trade.....	357	4,287	11,951	16,238	374	4,037	12,102	16,139	372	4,023	12,017	16,040	182	1,906	5,419	7,325	363	3,883	11,173	15,056
1. Coastwise.....	231	2,672	7,448	10,120	228	2,387	6,805	9,192	238	2,492	7,104	9,696	116	1,217	3,442	4,659	273	2,868	8,000	10,868
(a) Atlantic and Gulf.....	199	2,307	6,430	8,737	196	2,058	5,900	7,958	202	2,115	6,061	8,176	93	980	2,797	3,777	239	2,516	7,244	9,760
(b) Pacific coast.....	32	365	1,018	1,383	32	329	905	1,234	36	377	1,043	1,420	23	237	645	882	34	352	766	1,108
(c) Interoceanal.....	56	645	1,798	2,443	69	729	2,159	2,888	49	521	1,540	2,061	27	265	763	1,058	31	318	955	1,253
2. Noncontiguous.....	70	970	2,705	3,675	77	921	3,138	4,059	85	1,010	3,373	4,383	39	424	1,184	1,608	59	697	2,238	2,935
(a) Alaska.....	16	192	421	613	15	149	413	562	16	161	433	594	15	151	425	576	8	81	236	307
(b) Hawaii.....	31	525	1,448	1,973	33	440	1,814	2,254	38	493	1,963	2,456	14	139	444	603	22	285	1,011	1,386
(c) Puerto Rico.....	23	253	836	1,089	29	332	911	1,243	31	356	977	1,333	10	114	315	429	29	331	911	1,242

¹ Seafaring strike commenced June 16, 1961, on Atlantic, Gulf, and Pacific coasts. (See normal employment potential shown for Dec. 31, 1961.) Source: U.S. Department of Commerce, Maritime Administration, Office of Ship Statistics, Division of Labor Data, Mar. 23, 1962.

COOS BAY, OREG., July 16, 1962.

HON. MAURINE B. NEUBERGER,
Senate Office Building, Washington, D.C.:

We urge immediate favorable action on legislation to put American cargo mills on equal competitive terms with Canada in the American Atlantic coast lumber market. During 3-year period, 1955 to 1957 inclusive, we shipped 21,799,697 feet to Atlantic coast as compared with only 1,754,213 feet for the 4½-year period 1958 to date. A continuation of our operations with over 300 men directly employed is seriously threatened by Canadian competitive advantages.

COOS HEAD TIMBER Co.,
C. WYLIE SMITH, Vice President.

MEDFORD, OREG., July 17, 1962.

Senator MAURINE NEUBERGER,
Senate Office Building, Washington, D.C.:

We have reports of numerous hearings at which our forest products industry presented testimony concerning its plight. Many suggestions for improving our situation have been proposed. To date we have received many promises but little action. Time is of the essence. We sincerely hope and request that you do all you can in your committee hearings and on the floor to: (1) Improve our competitive position with Canadian imports; (2) effect a basic change in attitude of monopolistic timberland managing agency; and (3) decentralize some of the above agencies administrative authority to simplify appeals procedure.

DALE C. PRENTICE,
Secretary-Manager, Southern Oregon Conservation
and Tree Farm Association.

PORTLAND, OREG., July 14, 1962.

HON. MAURINE B. NEUBERGER,
U.S. Senate Office Building, Washington, D.C.:

The Portland newspapers announced today a July 17 congressional hearing on legislation before Congress concerning repeal of the Jones Act and a subsidy for U.S. lumber cargo shippers. These same papers along with others in the Northwest have been building up an emotional climate to influence the U.S. Tariff Commission to recommend quota restrictions against Canadian lumber. Also they make much of the recent closing of various Pacific Northwest sawmills and allege that the Bradwood mill of Columbia-Hudson Lumber Co. will close unless the Jones Act is repealed or modified and a 10-percent tariff imposed on Canadian imports.

The Western Lumber Marketing Association is sincerely concerned that such frenzied newspaper and public accounts and the determined action of the newly formed Lumbermen's Economic Survival Committee come at a time that your committee is trying to soberly study the issues. Over 85 percent of all American lumber shipments move by rail rather than water and we urge that, if any action is taken to modify the Jones Act, similar action be recommended to the ICC to achieve more liberalized domestic rail shipping policies so that rail shipping mills are not put at a disadvantage as a result of benefits to cargo mills.

Further, we challenge the groups and association urging Jones Act reform to prove that the small mills which have gone out of business recently did so solely because of Canadian competition or whether policies of management and timber conservation were not at fault. It is established that 1961 and the first half of 1962 are among the most profitable years for the major group who are principally water shippers and who would be principal benefactors for any change in the Jones Act. If your committee is equally concerned with the plight of the small- and medium-sized mills, the backbone of our lumber business, then we urge your considered attention to the petition of 140 western sawmills addressed to you on June 4, 1962, praying that your committee intercede with the ICC in reopening its hearings on I&S docket 7050. We are not against Jones Act reform but must warn that any action taken on Jones Act alone is a half step and one which can be detrimental to the larger part of our industry as substantial benefits will accrue to a relatively small group of mills.

We will appreciate reply by collect wire advising type of hearing planned and whether our witness and testimony may be heard at that time.

Sincerely,

HERSHAL TANZER,
Vice President, Western Lumber Marketing Association.

COOS BAY, OREG., July 13, 1962.

Senator MAURINE NEUBERGER,
Senate Office Building, Washington, D.C.:

Understand hearings on Newberger and Magnuson-Morris bills relative to Jones Act on Tuesday. We would deeply appreciate your sincere efforts to obtain feasible relief for the U.S. west coast lumber cargo shippers immediately. Under present conditions the Canadians will soon have the entire lumber cargo markets. Time is of the essence.

LEE J. NELSON,
General Manager, Al Pierce Lumber Co.

NEW ORLEANS, LA., July 16, 1962.

Hon. WARREN G. MAGNUSON,
Chairman, Senate Commerce Committee, Washington, D.C.:

Understand Commerce Committee begins hearings tomorrow to consider proposals calling for amendment of Jones Act to permit use of foreign ships from American ports to territories or possessions of the United States, as well as subsidies to offset losses to American vessels, with possibility of further amendments to include intercoastal shipments in foreign bottoms. Southern pine industry committee, representing all known producers of all southern lumber vigorously opposed to changing Jones Act which would permit use of foreign vessels, and firmly against subsidies. Would appreciate inclusion of this statement in your committee hearing record.

SOUTHERN PINE INDUSTRY COMMITTEE,
S. P. DEAS, *Secretary.*

Senator WARREN MAGNUSON,
Senate Office Building, Washington, D.C.:

Time is running out for Pacific Northwest cargo mills. Closures of past month indicate most mills cannot hold out much longer. We urge that Senate Commerce Committee decide which of two bills to be considered at hearings is most realistic and move for action. Seems evident that other avenues are either closed or hindered by obstacles and in the meantime situation becomes more critical. While we appreciate administration concern over Canadian economy as expressed in news stories refusing quota consideration the most repeated question on the west coast is "How about ours."

GRAYS HARBOR CHAMBER OF COMMERCE.

ABERDEEN, WASH., July 19, 1962.

Senator WARREN MAGNUSON,
Senate Office Building, Washington, D.C.:

Northwest economic situation in lumber areas continues to deteriorate due to closures of cargo mills on account of Canadian shipments to east coast. Urge your committee to come out hearings with some measure that will show as much concern for Northwest economy as newspapers indicate administration is showing for that of Canada.

HOQUIAM BRANCH, PEOPLES NATIONAL BANK.

The CHAIRMAN. Any questions?

Senator THURMOND. No questions.

The CHAIRMAN. Again for the record, Senator Neuberger, your bill S. 3105 proposes that the Jones Act be repealed only as it applies to transportation of merchandise between a port on the east coast and a port on the west coast of the United States, including Alaska. It is limited to that?

Senator NEUBERGER. It is.

The CHAIRMAN. So that the record be clear.

Senator LAUSCHE. I would like to ask a question. Would the Senator from Oregon express her views about the strength or weakness of the proposal that while we are subsidizing the ships sailing on the high seas under the U.S. flag to keep them in existence, the thought that we subsidize now those shippers who are prejudiced economically because of the high cost of transportation is not sound or is it? I don't know if the Senator understands.

Senator NEUBERGER. I think I do understand because what we have now in the lumber industry is really subsidizing the shipping business by being forced to pay higher rates for putting this given amount of board feet on the Atlantic markets as compared to Canadian shippers and the alternative, as I gather the Senator from Ohio suggests, is that we give an outright subsidy to the lumber industry.

Senator LAUSCHE. No; there is a bill providing for that.

Senator NEUBERGER. That is right.

Senator LAUSCHE. I am not suggesting that.

Senator NEUBERGER. It depends—I figure that by repeal of this section of the Jones Act, we get away from this subsidy which I'm getting more and more concerned with. It seems to grow and grow and it is more in keeping with our free-trade principle and I can't see that it is going to harm our national defense. I haven't gone into this lightly because I am concerned with the job opportunities for seamen and longshoremen and the whole industry, but I believe that this is a detriment to them rather than help.

Senator LAUSCHE. Do I understand it clearly, that we are now subsidizing the merchant marine on the high seas?

Senator NEUBERGER. It is obvious we are by this protective covering; yes.

Senator LAUSCHE. But now we are going to create another subsidy resulting from the fact that the transportation charges under our present program are higher. That is, the other bill recommends another subsidy.

Senator NEUBERGER. That is another way of handling the situation, yes, if we wish to keep the Jones Act intact.

Senator LAUSCHE. And it is the Senator's position that keeping the Jones Act intact has helped those working on the merchant marine in carrying lumber, but it has destroyed the Oregon lumber business?

Senator NEUBERGER. No; I don't think it has even helped the merchant marine because we have seen a decline in jobs in the merchant marine because they don't have as much cargo to carry.

Senator LAUSCHE. Then it helps in neither way.

Senator NEUBERGER. That is my position. It helps to keep protective legislation for a few seamen and a few shipping firms, but its harmful effects to the lumber industry, especially in my State, it seems to me are outweighed and to give them a chance to compete with Canada is a more desirable plan.

Senator LAUSCHE. Is it established in your mind that Canada is selling more lumber to our west coast because it is hiring foreign—

Senator NEUBERGER. Not to our west coast, to our east coast.

Senator LAUSCHE. It is transporting with foreign ships instead of the high-priced ships that we have.

Senator NEUBERGER. Right. The British Columbia share of this market on the Atlantic coast has increased from 7 percent in 1951 to

57 percent in 1961 and 72 percent in June 1962. Now the lumber market is here. We are inclined to say, well, we are using other materials. We are using concrete, glass, brick, and so on, but the market must be here because Canada is taking the market.

We are having good relations, I hope, with Canada and she buys a great deal from us and I am really not in favor of imposing a quota on importation from Canada. I think it is very bad policy, but I would like to see our lumber people able to compete with putting their lumber on the docks in Brooklyn or Wilmington as compared to those from British Columbia and I think they are forbidden to do it by the Jones Act.

Senator LAUSCHE. Does the Senator have the difference in the cost of transportation on the ships engaged by the Canadian lumber industry compared with that—may we have it, please?

Senator NEUBERGER. Yes. The Canadian shipping in the world market for steamship charters can ship their lumber for as much as \$13 below the American conference rate, which is \$36 for us.

Senator LAUSCHE. It is \$36 for us and how much is it for Canada?

Senator NEUBERGER. \$23.

The CHAIRMAN. Per thousand feet.

Senator LAUSCHE. The difference in the cost is because Canada is using—

Senator NEUBERGER. I wouldn't say altogether the difference in cost. You have to take into consideration the cost of getting the lumber to shipside and that sort of thing, but this is just the difference in shipping rates.

Senator LAUSCHE. But that is the major cause for the difference?

Senator NEUBERGER. Yes.

Senator LAUSCHE. That is all.

Senator BARTLETT. One question. I want to get this clear, Senator Neuberger. The differential in shipping costs represents the difference between \$36 and \$23 a thousand feet?

Senator NEUBERGER. It varies.

Senator BARTLETT. No other costs involved?

Senator NEUBERGER. That is right; that is the shipping cost.

The CHAIRMAN. I have several wires here which I will put in the record, some four for this proposition and others against it. The West Coast Lumber Marketing Association from Portland has a long wire in here, but I think we ought to always make it clear when we are talking about this, this is one phase of the lumber problem which is shipped by water, which is 10 percent of the whole market.

Senator LAUSCHE. Yes; I think that is understandable, but I still want it pointed out that the principle is identical, whether you ship 100 percent or 10 percent.

The CHAIRMAN. The principle is the same.

Senator LAUSCHE. Yes. That is we are asking that we create two subsidies in order to keep the first one, the Jones Act intact.

The CHAIRMAN. The other bill merely extends the Maritime Act to intercoastal shipping, which this committee has recommended on other occasions after long hearings on the problem of intercoastal shipping.

Now part of it is due to the competition between rail and shipping. We have some pretty good examples of that, where the rail rates have

been cut and then the shipper has to go out of business, so it isn't just one thing. It is a combination of many things. Coastal shipping is the same way. That is practically extinct, particularly up and down the Pacific coast, or pretty near on the east coast because of the competition between the modes of transportation, rail and water shipments. This is on all other products.

Senator LAUSCHE. Doesn't S. 2737 provide that the subsidy is to be granted for the transportation of the merchandise of any industry? Won't the subsidy be paid to the industry that is presently handicapped because of the high comparative charges on the American shipping fleet? To whom will the subsidy be paid?

The CHAIRMAN. We make two suggestions: One to follow out the program in some places where you have so-called depressed areas because of an industry curtailment, or where an industry could take advantage of certain tax benefits or even a direct subsidy until the matter is cleared up. The main thing this committee has been concerned with is the decline in intercoastal shipping because of its inability to compete, not necessarily always with foreign competition, but with other modes of transportation. If we extend the Merchant Marine Act to intercoastal shipping, it would put them in the same operational formula as on offshore shipping. We had long hearings on that. We spent 3 months, I believe, 2½ years ago on all phases of it. We had all modes of transportation in and we pointed out then that this particular segment was dying.

This all gets down to the question as to whether you want to have intercoastal shipping or not. If you don't, if the answer is "No," then there is no use talking about anything. If you say it is important and necessary, which a lot of people do say in our whole transportation system, why then something has to be done about it. Even the intercoastal shipper, of which there is only one left now out there that hauls its own products, wants to abandon its service because it is losing money. They aren't taking other products, just their own lumber products, their own canning products, and they can't make it.

Senator LAUSCHE. I respectfully submit that the argument which the Senator from Washington is making is in conflict with the original theory of the Merchant Marine Act.

The original theory was that we shall have a merchant marine to sail on the high seas. It was not intended to deal with domestic problems.

The CHAIRMAN. It was never intended to or we would have put it in there.

Senator LAUSCHE. It was intended to have these ships on the high seas as a part of our national defense. But now it is being stretched into providing subsidies for what you call domestic transportation which is an entry into a field never envisaged by the original Merchant Marine Act.

The CHAIRMAN. I think the Senator from Ohio is correct. The original Merchant Marine Act eliminated intercoastal shipping because of the opposition of other modes of transportation. You are correct; we are attempting, because of the situation, deterioration, to extend the Merchant Marine Act to intercoastal shipping. That is

exactly correct, and there will be a lot of people who oppose it and a lot of people for it.

Senator NEUBERGER. Will the chairman allow me to call attention to what might seem like a contradiction, that my name appears on both bills, S. 2737 and 3105, but I also would like to call attention to the fact that S. 2737 was introduced in January and my bill in April. I felt that we had to do something to approach it, according to this original plan, but between January and April, I did considerable research on this thing and I didn't want to harm anybody or hurt our national defense and yet try to help the industry. That is the reason for my coming along in April with this later bill because I felt that it was probably the more logical approach than the original, which maintains pure subsidy.

The CHAIRMAN. I hope the other Senators here who haven't been so directly involved in this lumber problem will have some ideas. We have become a little desperate on this and we are trying to figure out some ways and means and that is why we entertained the suggestion from the Senator of Oregon and others.

Of course the testimony on the original Merchant Marine Act of 1936, the reason intercoastal shipping was left out mainly was because they said it was protected by the Jones Act. This is the reason it was left out. Now, after 25 years, we have found that the Jones Act, in effect, is hurting a big industry because of the water transportation feature. The reason it wasn't put in was because of that and the reason the offshore territories weren't put in was because they deemed they had the protection of the so-called Jones Act.

Are there any more questions? Are you through, Senator?

Senator NEUBERGER. Yes; thank you very much.

Senator LAUSCHE. I want to commend Senator Neuberger for a very fine presentation.

Senator NEUBERGER. Thank you.

The CHAIRMAN. Congressman Tollefson is here from my State, and he might say his home city is—there might be some confusion about this with some of the Oregon cities—well, they call themselves the lumber capital of the world.

Mr. TOLLEFSON. We used to be, Mr. Chairman.

STATEMENT OF HON. THOR C. TOLLEFSON, CONGRESSMAN FROM THE SIXTH DISTRICT OF THE STATE OF WASHINGTON

Mr. TOLLEFSON. Mr. Chairman, I appreciate the opportunity to express a few thoughts in connection with this problem.

May I state at the outset that I have had a difficult time in reaching the conclusion which I have reached. As you know, it has been my privilege to serve on the House Merchant Marine and Fisheries Committee since I became a Member some 16 years ago and I have become, as you know, a staunch supporter of a strong merchant marine. I have been reluctant over the years to consider favorably any suggestion to amend the Jones Act which was designed to protect our coastwise and intercoastal ship operators, but we do have a problem out in the Pacific Northwest.

We have a sick lumber industry. We do, of course, have a sick intercoastal shipping industry also. But as I have been given the

picture by the lumber people out in my area and, as the chairman indicated earlier, the Canadian lumber producer has taken over, according to the figures for this year, some 70 to 72 percent of our eastern lumber market.

As a consequence, some of our lumber industries have been forced to close down. How many thousands of employees are out of jobs as a consequence, I'm not sure. We have heard figures as high as 8,000 in the Pacific coastwise. This may be a little high. Mrs. Neuberger has mentioned 3,500 or 3,700 for Oregon alone and it may be the 8,000 figure is not too high.

In addition to the 8,000, it is our understanding that an additional 12,000 associated and related workers are out of a job.

Now the Canadians have several advantages. They have lower stumpage costs; we understand their logging costs are lower and we are told that the longshore costs are lower per thousand feet. Recently the Canadians have devalued their dollar, so they have been given an additional advantage, so they can very easily undersell us in the eastern market, especially when they are able to use foreign-flag ships at a cost—the figure I have been given is \$78 per thousand board feet.

Administrative relief has been sought and suggested. Some segments of the lumber industry are desperate and they have suggested a number of steps to be taken, some in the way of administrative relief, to wit, that perhaps we ought to have a quota on imports of Canadian lumber or that there ought to be an increase in our tariffs.

The administration would be hard put to grant this kind of administrative relief because of our trade policies which have, as an integral part of them, the reduction of our tariffs and the elimination of quotas. So I think that it would be difficult for there to be any administrative relief. We in Congress can only grant legislative relief and I know the members of the west coast delegation and especially the northwest delegation have given long and serious thought to the problem and have come up with several proposals, including the one by Senator Neuberger, the one introduced by the chairman and other members of the committee.

These have included suggestions that we grant operating subsidy to the intercoastal shippers or that we grant a construction subsidy, so that there wouldn't be as big a writeoff necessary and the investment would be as great.

These, I believe, will be difficult of accomplishment. In the first place, we have a difficult time supporting the subsidy program under the 1936 act now. There are many Members of Congress who don't like subsidies of any kind and not serving on the Merchant Marine and Fishery Committee or Interstate and Foreign Commerce Committee on the Senate side, are not familiar with the bases for the 1936 act. So I have concluded that it would be almost impossible to get Congress to approve a subsidy program of any kind for intercoastal shipping.

It would be difficult to determine the amount of subsidy. In the ocean shipping, it is not quite so difficult because you find the Americans operating in competition with a foreign operator over a trade route and you can determine the differential fairly accurately as you can with construction subsidy, but you find a great deal of difficulty determining what the subsidy should be in intercoastal shipping.

So after long thought and after painful thought, I introduced a bill calling for an amendment to the Jones Act, and exception to the Jones Act, similar to the bill introduced by Senator Neuberger. My proposal is pending on the House side and I want to suggest it for your consideration here.

It provides that the Secretary of Commerce and the Secretary of Treasury—they administer the Jones Act and therefore must get into the picture—give them discretion to exempt an industry from the Jones Act if the Secretaries find that the administration of the Jones Act or the application of the Jones Act to that industry results in substantial injury to that industry.

Lumber isn't mentioned in the bill. This would be applicable to any industry that found itself in like predicament. Now as I say, this is a hard thing for me to do because over the years, as I have already said, I have been a strong supporter of the American merchant marine. But now we come down to a situation where we must balance the equities.

As the Senator from Oregon has said, there are a limited number of people employed in the intercoastal and coastwise shipping. More people are employed in the lumber industry and more people are out of work than would be the case if we amended the Jones Act in the small manner which I have suggested.

I hope that the committee will give consideration to both the proposal of the Senator from Oregon and my own proposal, which is pending on the House side.

I thank you again, Mr. Chairman, for permitting me to inject myself in the middle of your schedule and offer my few thoughts.

Senator BARTLETT (presiding). Congressman Tollefson, is your bill identical with S. 3105 as introduced by Senator Neuberger?

Mr. TOLLEFSON. I haven't read your bill, Senator Neuberger, but as I understood it, you exempt from the Jones Act intercoastal shipping?

Senator NEUBERGER. Yes.

Mr. TOLLEFSON. My bill gives to the Secretary of Commerce and Secretary of Treasury, the discretion to exempt an industry from the operation of the Jones Act if the Secretaries find that substantial injury is done to that industry because it must comply with the Jones Act, in other words, because it must ship by American-flag ship.

Senator BARTLETT. Have hearings been held on that bill yet on the House side?

Mr. TOLLEFSON. We have been behind our schedule, let us say, and we haven't had a full hearing on bills which are pending on the House side. We have had a cursory consideration of the proposals, is all.

Senator NEUBERGER. Would the witness yield for a comment? You are discussing about how to determine what this subsidy would be. On the basis of the statistical information I have, wouldn't it have to be \$13 a thousand? That is the extent of competition.

Mr. TOLLEFSON. I think it is a little more complicated than that, Senator. If you are going to adopt a pattern, if you limited subsidies to the lumber shipments, the minute you do that, other coastwise and intercoastal shippers are going to be interested in a subsidy too, because they too, may be a sick industry. There is no question about it.

The Jones Act hasn't been a complete failure. I wouldn't want to leave that impression. Were it not for the Jones Act, we wouldn't have any intercoastal shipping now or any coastwise shipping. It has kept those industries in business since the enactment of the Jones Act.

Senator BARTLETT. Your bill doesn't relate to subsidy at all?

Mr. TOLLEFSON. None at all.

Senator BARTLETT. Senator Thurmond?

Senator THURMOND. No questions.

Senator BARTLETT. Senator Lausche?

Senator LAUSCHE. Am I correct in this understanding that you take the position that the American lumber industry of the Northwest has been losing its commerce to Canada because Canada is able to undersell it to the east coast because it hires ships operated under foreign flags, while the American industry is compelled, under the Jones Act, to hire American ships with higher costs.

Mr. TOLLEFSON. That is correct, except I would want to add, as I suggested at the outset of my statement, there are other cost factors, but this is the only one that we in Congress can do anything about, it seems to me. We can't do anything about lower stumpage or lower sawmill costs or lower logging costs or lower longshore cost. Nor can we do anything about devaluing the Canadian dollar. If we see fit to do so, we can do something about the shipping costs.

Senator LAUSCHE. It is further your position that there are primarily one of two remedies that can be granted: One, to emancipate the lumber and other industries of the Northwest from the requirement that they engage or hire American-operated ships in the transportation of their goods, or to subsidize those industries that are threatened with extinction?

Mr. TOLLEFSON. Those are the only two solutions that have occurred to me. There may be some others that I haven't heard of, but those are the only two that occur to me and as I have already indicated, I think it would be difficult, from a practical standpoint, to get subsidy approval by the Congress of the United States. I am not saying that critically. This is a practical thing.

Senator LAUSCHE. What about this growing granting of subsidies and the demands for them from all over the country of industries that claim they cannot compete? Where will it lead us?

Mr. TOLLEFSON. This opens up a broad subject, Senator, and we discussed phases of it when we had the trade bill on the other side and you probably had it on your side, too.

Senator LAUSCHE. I agree with you.

Senator BARTLETT. Thank you, Congressman Tollefson.

The next witness will be Congresswoman Julia Butler Hansen, from the sovereign State of Washington.

**STATEMENT OF HON. JULIA BUTLER HANSEN, A REPRESENTATIVE
IN THE CONGRESS OF THE UNITED STATES FROM THE THIRD
DISTRICT OF THE STATE OF WASHINGTON**

Mrs. HANSEN. Thank you, Mr. Chairman.

I am going to be very brief, but I would like to corroborate statements which have been made by Senator Neuberger and Congressman

Tollefson as well as Senator Magnuson. And may I add that the shipping is only one part of the lumber problem, and I think it is interesting to recall that on February 21 members of the lumber industry from all over the United States met with the Department of Agriculture and at that time made several suggestions for administrative action, things that are beyond the purview of Congress, that are in the administrative departments. Some of these are receiving attention and others are not.

The problem in the Northwest is particularly critical because for many years the Northwest has been a one basic industry economy, and when the lumber mills shut down and when the loggers can't work—and this has been a summer that has needed the employment—naturally the entire area is in difficulty.

Some of us can't quite agree with Mr. Tollefson that the administration couldn't take action on a level to deal with the tariff or the quotas. I think there is a certain amount of bargaining that can be done with Canada. It is not a one-way street in trade.

I support a good trade bill and I always have, but on the other hand it doesn't mean that we sit down with our hands folded and say this is it. And from the standpoint of the Northwest I think we should exert all the bargaining ability that we have, and I am sure that other Members of Congress not only in the Northwest but from all over the United States feel that the administration must sit down and bargain with Canada to get a better situation in the lumber market.

Now Senator Neuberger quoted a lot of interesting facts and figures. I have been in the Vancouver Harbor—Vancouver, British Columbia, Harbor—when the port was crowded with ships, and at the same time the ports of Everett and Seattle and Tacoma in the Northwest were empty. This is something that I don't think the American economy can stand, a continual downgrading of our own industry.

The second thing I have here, many telegrams, many letters. We have them from the Lumbermen's Economic Survival Committee, and this seems rather tragic, that in this year of 1962 one of our industries is forced to call itself a survival committee. This doesn't even sound sensible, particularly when we just got through voting for foreign assistance the other day, which most of us went along with, but this is something we have to think about for the assistance of our own industry.

We have a letter here from an outstanding educator in my district. I was talking to an operator today who has considerable exports to England and Europe. He trucks his lumber to New Westminster, British Columbia, for shipment because of lower costs. If he didn't, he would be out of that market. Thus we lose local longshore payroll and reduce port income. It is a tough situation. Perhaps next week's hearings on the Jones Act will help.

I think that is the attitude of the congressional district that I serve. What will help? We have right here the Olympic Hardwood Co. that will close a mill on July 20. We have a letter here from the International Longshoremen's & Warehousemen's Union:

We note by the daily newspapers—

This is to Senator Magnuson—

that you are going to hold hearings next week on the repeal of the Jones Act and intercoastal ship subsidies. Our position has not changed on this matter since your hearing in Olympia which was placed by me in the record. However, since that time our economic position has worsened. Time is of the essence. If some relief from Canadian lumber imports is not afforded us immediately, we in this port are finished. Senator, these are grassroots speaking and we need help now.

This is the secretary and business agent, Carl F. Baier.

Senator LAUSCHE. Mr. Chairman, may I ask a question?

What is the position of that longshoremen's association? Are they for the subsidy bill or for the modification of the Jones Act?

Mrs. HANSEN. They, I believe, have been for the subsidies.

Senator NEUBERGER. Yes, they were originally—if I may interrupt—opposed to the Jones Act, but as they study it more I think they realize that as the Jones Act is maintained, and there is less shipping, there is less work for longshoremen. What you really have is the longshoremen getting more employment if there is more loading of ships, and they are beginning to come around and see that they are not affected by the repeal of this section of the Jones Act.

Mrs. HANSEN. That is right.

May I say to the distinguished Senator from Ohio that I am not—although I introduced S. 2737 in the House—I couldn't care less which bill is put into effect. I just know that something has to be done unless you want to kiss goodbye to an industry, kiss goodbye to a region.

Here we have a letter, or wire, which the Senator has already put in, from the port of Olympia, from the manager, pointing out that the basic cargo of 154 million feet in 1957 dropped to 79 million feet in 1961, and this year, through June, 29 million feet.

This goes on and on. People in the lumber industry, people that are employed by the lumber industry are asking for action on the administrative level, on the congressional level. There are many bills before Congress, many before Congress and it is a very strange thing sometimes when we see that our own Government offices are using Canadian timber in preference to our own American-produced timber.

These are just some of the facts.

I live in a logging area, in a lumbering area, and its economy is the lifeblood of our district and, to a great share, in our State, and I want to join with Senator Neuberger in asking that this committee do everything that it can to assist that industry.

And may I thank the distinguished Senator from Alaska and the chairman of the committee for their courtesy this morning.

Senator BARTLETT. Thank you very much for appearing.

As I am first in your testimony, Congresswoman Hansen, what you are concerned with is a cure, however, it may be found.

Mrs. HANSEN. That is right.

Senator BARTLETT. Any questions, Senator Thurmond?

Senator THURMOND. Mr. Chairman, I have no questions.

I want to commend the Congresswoman and Senator Neuberger both for their fine presentations. As one member of this committee I certainly can visualize your problem because, as Senator Neuberger stated, we have a very serious problem in the textile situation, the

imports, the imports that are coming in and closing down our mills. We have had thousands of people who have lost their jobs because of that. And we also are having difficulty now in the southern pine industry. We have timber, too, not hardwoods to any extent, but we have pine, and we are undergoing a serious experience.

I want to say frankly, however, though, that I would not favor subsidies and I believe that you ladies, too, would prefer some other remedy rather than subsidies.

Mrs. HANSEN. We do.

Senator THURMOND. I think after all, the Government has gone into too many fields of subsidy, and I believe that American people are going to demand that we get out of the subsidy field, and if we are going to make private enterprise system work, in my judgment we have to get away from subsidies.

I hope relief can be granted in some other way because I am sure that you do need relief out there.

Mrs. HANSEN. May I say, Senator, there is no industry which is less sympathetic to subsidy, or which would ask it, than the lumber industry, because they are a very proud industry. It is not an industry made up of people that are looking for assistance. Only sheer necessity has compelled a discussion of all these facts.

Senator BARTLETT. Senator Lausche?

Senator LAUSCHE. No questions.

Senator BARTLETT. Thank you, Congresswoman Hansen.

(Letters and telegrams referred to by Representative Hansen follow:)

SEATTLE, WASH., July 16, 1962.

Representative JULIA B. HANSEN,
House Office Building, Washington, D.C.:

Jones Act hearing July 17, offers cargo lumber industry of west coast its only hope for specific congressional action which can remove transportation inequities now enabling British Columbia shippers to dominate U.S. Atlantic coast market. Unthinkable that dwindling intercoastal lines employing less than 500 men, must continue to receive Jones Act subsidy from lumber industry when this responsibility means eventual destruction of west coast cargo mills which have to bear this burden. We urge favorable report on Jones Act revisions which will restore to American lumbermen equal opportunity to compete with Canadians in transporting to our own markets. Regards.

LUMBERMEN'S ECONOMIC SURVIVAL COMMITTEE,
DAVE JAMES, *Cochairman*.

OLYMPIA, WASH., July 14, 1962.

DEAR MRS. HANSEN: I am writing this note personally as a private citizen and a lifelong Democrat. If this mess isn't straightened out pretty soon, we Democrats or you personally are going to be in serious difficulties this fall. A lot of our people who are "on the fence" politically, are getting bitter at this administration's slowness in an effort to solve this problem. I realize that you are doing everything that is possible to help solve this Canadian lumber import problem but I wonder how the administration's stand is on it?

Yours truly,

CARL F. BAIER.

THE MONTESANO VIDETTE,
Montesano, Wash., July 13, 1962.

Mrs. JULIA BUTLER HANSEN,
Washington, D.C.

DEAR JULIA: I happened to notice the story about the closing of the Olympic Hardwood in Raymond, which has a direct bearing on the Canadian lumber

situation. This will be especially tough on Raymond, which is almost entirely dependent on the industry.

Ray and Alan were in the office yesterday and, in the discussion, remarked that it was unfortunate the plywood people had released a happy story about a virtual boom in their industry just as you people were picturing the plight of lumber. I can understand this would be embarrassing. However, as you know, lumber isn't the same as plywood. Besides, industry releases tend to promote the best features. Production records don't always reflect good economy.

I was talking to an operator today who has considerable export to England and Europe. He trucks his lumber to New Westminster, British Columbia, for shipment, because of lower costs. If he didn't, he would be out of that market.

Thus, we lose local longshore payroll and reduce port income. It's a tough situation. Perhaps next week's hearings on the Jones Act will help.

Sincerely,

CHAPIN COLLINS.

INTERNATIONAL LONGSHOREMEN'S &
WAREHOUSEMEN'S UNION, LOCAL No. 47,
Olympia, Wash., July 14, 1962.

Representative JULIA BUTLER HANSEN,
House of Representatives Office Building,
Washington, D.C.

DEAR MRS. HANSEN: The following is a copy of a letter I am sending this day to Senator Magnuson:

"We note by the daily newspapers that you are going to hold hearings next week on repeal of the Jones Act and intercoastal ship subsidies. Our position has not changed on this matter since your hearing in Olympia which was placed by me in the record. However, since that time our economic position has worsened. Time is of the essence. If some relief from Canadian lumber imports is not afforded us immediately, we in this port are finished. Senator, these are the grassroots speaking and we need help, now."

Yours very truly,

CARL F. BAIER,
Secretary and Business Agent.

WEST COAST LUMBERMEN'S ASSOCIATION,
Portland Oreg., July 12, 1962.

Representative JULIA BUTLER HANSEN,
House of Representatives,
Washington, D.C.

DEAR MRS. HANSEN: I attach herewith a news article we have just sent to the newspapers in the Douglas-fir producing region. This underlines the serious situation which is taking old, established sawmills from our industrial community. Every week brings more permanent closures, more lost jobs, more lost investments. What will happen to communities like Bradwood-Astoria, Crescent City, and Raymond when their basic industry is closed?

Sincerely,

G. C. EDGETT,
Executive Vice President.

Permanent closing of four more large sawmills in the Douglas-fir region has cast deepening shadows of economic despair over an industry already suffering from excessive imports of cheaper made Canadian lumber.

G. C. Edgett, executive vice president of the West Coast Lumbermen's Association, said the closing of the 52-year-old Nettleton Lumber Co. in Seattle and the Columbia-Hudson Lumber Co. at Bradwood, Oreg., throws hundreds of additional men out of work, costs investors many tens of thousands of dollars.

Latest closure is the Olympic Hardwood Co. of Raymond, Wash., costing 50 jobs. The mill will be dismantled and sold because it could no longer compete with cheaper made Canadian lumber. Each closure costs as many logger jobs as are lost in the mills, Edgett said.

In recent weeks the E. C. Miller Cedar Lumber Co. sawmill at Aberdeen was forced to close, and the Georgia-Pacific Corp. ceased operating one of their

giant mills at Toledo. Add another 200 sawmills closed, a good many of them forever, Edgett summarized, and you begin to get a picture of what unlimited imports of Canadian lumber are doing to our industry.

Many long months ago, Edgett stated, the west coast lumber industry went to Washington and asked to be relieved of some of the inequalities which favor Canadian lumber producers in our U.S. markets. Most of these inequalities, he added, can only be corrected by administrative or legislative action.

We asked for a temporary quota, he said, to limit Canadian imports until long-term solutions could be worked out. There have been several Senate Commerce Committee hearings, but no apparent action. Every week without action, he warned, sees the closing of more sawmills, the loss of many jobs and the loss of investors' savings.

Senator BARTLETT. The next witness will be Honorable Donald W. Alexander, Federal Maritime Administrator.

STATEMENT OF DONALD W. ALEXANDER, MARITIME ADMINISTRATOR

Mr. ALEXANDER. Mr. Chairman, my name is Donald W. Alexander. I am the Maritime Administrator. With your permission I would like to read a prepared statement.

Senator BARTLETT. Certainly.

Mr. ALEXANDER. S. 3105 would amend section 27 of the Merchant Marine Act, 1920, to provide that neither that section nor the first section of the act of February 17, 1898, shall apply to the transportation of merchandise between a port and on the east coast of the United States and a port on the west coast of the United States, including the State of Alaska.

S. 2737 would authorize the Secretary of Commerce to pay a subsidy for the transportation, in American-flag vessels, of the merchandise of any industry located in the United States if the Secretary determines, after notice and hearing, that the requirements of section 27 of the Merchant Marine Act, 1920, are causing such industry to lose a substantial portion of its business. The amount of the subsidy would be the difference between a fair and reasonable rate for the domestic carrier and a fair and reasonable rate for the low-cost foreign carrier, to carry the commodity between the same ports served by the domestic carrier. The bill would require the recipient of the subsidy to charge a rate for the carriage of the commodity that is no higher than the fair and reasonable rate that would be charged by the low-cost foreign carrier.

We recommend against favorable consideration of the bills at this time.

The Jones Act. (sec. 27 of the Merchant Marine Act, 1920) provides that merchandise shall not be transported by water, or by land and water, between points in the United States embraced within the coastwise laws in any other vessel than a vessel built in the United States, documented under the laws of the United States, and owned by citizens of the United States as defined in section 2 of the Shipping Act, 1916.

The only change that section 27 of the 1920 act made in existing law was to require that the American flag vessels eligible to carry merchandise in the coastwise trade must be owned by citizens of the United States as defined in section 2 of the Shipping Act, 1916. Prior to 1920 (under the act of February 17, 1898), any vessel built in the United States, and documented under its laws, had the right to operate in the

coastwise trade; and a vessel owned by a corporation which was organized under the laws of a State of the United States and its president and managing directors were citizens of the United States. There was no requirement that any of its stocks be U.S. citizen owned. Section 2 of the Shipping Act, 1916, provided that a corporation is a citizen of the United States for purposes of operation in the coastwise trade only if it met the foregoing requirements for documentation and the controlling interest in the corporation and 75 percent of its stocks were owned by citizens. This is still the law except that now, as a result of an amendment made in the 86th Congress, the minority of a quorum of the directors may be aliens.

Since 1808, only vessels built in the United States and documented under its laws have been eligible to engage in the coastwise trade. Prior to that time, American flag participation in the coastwise trade was protected by discriminating tonnage taxes.

From the merchant marine viewpoint, the purpose that is served by section 27 of the Merchant Marine Act, 1920, is to protect the American flag carriers in our coastwise trade from competition with lower cost foreign flag vessels, and to require that any vessels built for the coastwise trade shall be built in shipyards located in the United States so as to aid our shipyards.

As studies made by your committee indicate, although the United States prior to World War I had a flourishing coastwise trade, and even prior to World War II had a relatively good coastwise trade, this trade since World War II has almost disappeared. The chief causes of this decline evidently are the American merchant marine's high cargo handling costs, its high seagoing labor costs, the inefficiency of the vessels employed in the trade, and the competition of the railroads with the water carriers.

The purpose of the American merchant marine is to serve the commerce and defense of the United States. So that American flag vessels which are owned by citizens of the United States will remain available for commercial and national defense purposes, sections 9 and 37 of the Shipping Act, 1916, provide that such vessels can be transferred to foreign ownership and registry only with the consent of the Secretary of Commerce. This assures that American flag vessels owned by citizens which are necessary for commercial or national defense purposes will remain available for such purposes.

The United States promotes an American merchant marine (1) for commercial purposes; (2) so as to maintain ships in being, and in operation, in the event of a national defense emergency; (3) so as to maintain a mobilization base in our shipyards which could be expanded to build the merchant-type vessels that would be needed for such emergency; and (4) so as to maintain a pool of trained merchant seamen to man such vessels.

The domestic waterborne trade has not contributed as much to the achievement of these objectives since the end of World War II as might have been expected. We have these problems under study, however, and we hope for improvement in this area. In his transportation message, the President stated (p. 15) :

I have also recommended a stepped-up research program for developing ways and means of increasing the competitive efficiency of our merchant marine and related industries. Of particular significance in this effort will be the applica-

tion of the principles of mass production, and the standardization of ship types and ship components, for reduction in the cost of new vessel construction. Also, I am urging that sound development in technology and automation be applied to merchant shipping as rapidly as possible, fully recognizing and providing for the job equities involved, as a major program for enhancing the competitive capability of our merchant marine.

We are doing research and development work which we believe will lead to the production of automated ships which will reduce the overall cost of shipping services.

The Jones Act protects from the lower cost foreign flag ship competition, not only American flag ships in our continental U.S. domestic trade, but also protects the railroads and trucks from this competition. The present operating costs of foreign flag vessels are less than half of the operating costs of American flag vessels. We do not know whether railroads and trucks could compete effectively against rates made on the basis of these foreign costs. However, we cannot say whether these foreign costs would remain this low.

The experience of the United States immediately prior to our engagement in World War I, which led to its effort to develop an American merchant marine, was that foreign flag services are unreliable in that substantial numbers of foreign flag vessels were withdrawn from our foreign trade with the result that our trade was not adequately served, and that the rates of the vessels remaining in it were exorbitant. Before foreign flag vessels are admitted to the coastwise trade, the implications of these factors for our domestic transportation systems must be carefully considered. These vessels can move from one trade to another and into whatever trade they consider more profitable. In addition they are subject to requisition by the nation whose flag they fly.

In his transportation message, the President stated:

At my request, the Secretary of Commerce has undertaken a study of the current problems of the American merchant marine. This review will involve such specific issues as the state of coastal and intercoastal shipping and the cost of service to our noncontiguous territories.

In addition, at the request of the White House, the executive branch has undertaken a comprehensive study of the entire lumber industry and its problems, which include, in addition to imports of lumber, overcapacity, raw material costs, and domestic west to east coast transportation charges. Comparative labor costs, preferential and discriminatory tax provisions, and any other factors pertinent to conditions in the lumber industry will also be given attention. Among the possible solutions to the problems of the lumber industry that will be considered are the bills that have been introduced to deal with the transportation aspect of the problem.

S. 3105 is one of these bills. This bill would make section 27 of the Merchant Marine Act, 1920, inapplicable to the intercoastal trade. As we have indicated, the implications of this solution for our transportation system require the most serious consideration.

S. 2737 would authorize the payment of subsidy to American flag carriers and would require the American flag carriers to carry the lumber—or any other commodity—at the fair and reasonable foreign flag rate if the Secretary determines that the provisions of the Jones Act are causing a substantial loss of U.S. markets to a foreign competitor. This bill appears to authorize subsidization of ships in their

competition with railroads for the carriage of lumber; and it appears to authorize subsidy for the segment of the lumber industry that ships by water in its competition with those segments that ship by rail. It also establishes the strictest sort of rate regulation.

These are only preliminary views with regard to these bills. We will give careful consideration to the bills in the studies that we have underway.

The Bureau of the Budget advises there is no objection to the submission of this statement from the standpoint of the administration's program.

Senator BARTLETT. Mr. Alexander, what administrative responsibility does the Federal Maritime Administration have with respect to coastwise, intercoastal trades?

Mr. ALEXANDER. We generally have the promotional responsibilities for all of the U.S. shipping which includes coastal, intercoastal, and foreign trade.

Senator BARTLETT. What promotional drives are underway in respect to these domestic trades?

Mr. ALEXANDER. At the present time, most of our efforts to assist the coastal and intercoastal trades are in the areas of technological progress, the areas which are covered in the President's message.

We have underway at the present time a great deal of work directed towards providing more efficient and faster ships in the coastal and intercoastal trades. We are developing, in other words, programs which we believe will provide better ships for these trades and which we believe will contribute to improved conditions for these trades. And this is the way we are interpreting the promotional responsibilities which we have under the act.

Senator BARTLETT. You said the chief causes of the decline relate to the American Merchant Marine high cargo handling costs, the high seagoing labor or costs, the inefficiency of the vessels employed in the trade and the competition of the railroads.

Now if you are required to pick out one of these as compared with the others and give it priority, which one would that be?

Mr. ALEXANDER. I think that is a little hard for me to do at this point, sir. I think we would have to make that determination on the basis of the comparative cost figures and the influence of the cost figures on the overall problem and I do not have these facts at hand at the present time, sir.

Senator BARTLETT. I must say that the point that concerned me chiefly about your presentation, which I understand relates particularly to your area of responsibility, Mr. Alexander, is that it says this study is going to be made and that study is going to be made and this committee has been and is engaged in an effort to do something to shore up the lumber industry on the west coast. And we are told that this is an urgent proposition. Those of us who have been in on many of the hearings believe it is an urgent proposition, and on page 5, you said we have these problems under study. And then you quoted from the President's message, where an effort will be made to apply mass production principles and I can't see how that is going to help in the domestic trade at all because you are not going to have a need for a lot of ships if things continue as they have been.

And, in fact, we will need less instead of more. So those principles could not be applied.

And then elsewhere, you have said that at the request of the White House, the executive branch is undertaking a comprehensive study of the entire lumber industry, and we fear that the lumber industry may be dead before these studies are completed.

Now again I am mindful of the fact that you aren't concerned specifically with the lumber industry, although I know you have a great interest in any segment of American industry and you announce on the part of the Maritime Administration, an opposition to both of these bills. What would you recommend, Mr. Alexander, be done to alleviate this distressing situation?

Mr. ALEXANDER. Well, we as I have indicated, sir—we in the Maritime Administration feel that we have a medium, a tool with which we can work, and that is the development of faster ships and more efficient ships which we feel will ultimately provide less costly service to the intercoastal and coastwise shipping people.

The CHAIRMAN. But you have already nominated that as being one of only several elements. Do you think that in itself would be sufficient to restore our domestic shipping?

Mr. ALEXANDER. No, sir; that in itself will not, but I feel this is the contribution that we in the Maritime Administration can make in the solution of this problem. We do not think it is the complete or final solution.

Senator BARTLETT. Now, Mr. Alexander, when domestic shipping was taken over during the two World Wars, isn't it a fact that completely new patterns of transportation developed, which made it terribly difficult, impossibly difficult almost, for domestic shipping to become reestablished at the conclusion of each war?

Mr. ALEXANDER. That is my understanding, sir.

Senator BARTLETT. Isn't it true likewise, that at the outset of World War I, we had practically no shipping and we had to depend upon foreign carriers almost exclusively, and they let us have it, to the point that rates in some instances went up as much as 2,000 percent?

Mr. ALEXANDER. That is my understanding.

Senator BARTLETT. And this, of course, is important for argument for the maintenance of an American fleet in being.

Senator Magnuson?

The CHAIRMAN. I merely want to add, I am sure Mr. Alexander knows this, that because we let this industry deteriorate between World War I and World War II, we had to spend \$22 billion to build up a fleet just to take care of our needs and we transported 95.6 of all of the commodities to our forces overseas. Twenty-two billion dollars would have paid a subsidy for the next 50 years to keep our merchant marine alive. Then we were stuck because we didn't look after our merchant marine as we should have, so now we have a lot of ships which you know are approaching complete block obsolescence.

This is something that bothers everybody here who went through it, and I know it bothers the maritime group and you.

Mr. ALEXANDER. Yes, sir.

The CHAIRMAN. What is an adequate merchant marine? Everybody talks about subsidizing the merchant marine. It is only the berth operators that are required to assume some responsibilities when

they become subsidized, but every major country in the world subsidizes its shipping to a far greater extent than we do, to keep its flag on the seas.

This is a serious problem. I don't like subsidies. I don't think anybody likes them. It is a bad word. But as to our intercoastal shipping, I think it is important we keep it as one of the modes of our transportation, intercoastal even more than coastal. But it is just gone. Now if we want to say let it go, that is one thing. Everybody opposes everything we try to do up here, but nobody comes up with an alternative. Everybody is against this, and against that; nobody comes up with an alternative, to suggest what we might do if we are going to keep this alive.

It reminds me of some campaigns I have been in. Everybody is against something, but they never have an alternative. I think that we have got to make some cold, hard decisions. You have the problem of island transportation, which will include Alaska, Puerto Rico. We are losing all of their trade, as you know, because we just haven't had the answer.

For instance, in lumber, we don't ship one stick of lumber to Puerto Rico, an American market: not one stick. And there is a pretty good building boom going on down there. But nobody will transport it. No American-flag is available, and no foreign-flag vessel can stop and pick it up. This thing has just gone down, down, down. And the foreign-flag fleets, the runaway flags, are going up, up, up. Some of our people say we have effective control of some of these ships, to use in time of need. I don't think you have much effective control of an American-owned tanker flying a Liberian flag in the Red Sea with Italian officers and Indian crew. Somebody has got to have some alternatives, or else we resign ourselves to let it go.

I am just not about to give up yet, but intercoastal shipping is needed, and the real problem in Hawaii and Alaska is decent shipping. We are doing a little something; and Puerto Rico, as you know, is the same way.

Senator BARTLETT. In line with what you are saying, Mr. Chairman, I want to express great, keen disappointment with this sentence from the President's transportation message, namely, and I quote:

This review—

the review contemplating a study of current problems of the American merchant marine—

This review will involve such specific issues as the state of coastal, intercoastal shipping and cost of service to our non-contiguous territories.

And he means, I assume by that, States too, and there is a real urgent problem there, but a study of the costs is surely not going to solve it at all. We are going to be just where we were, we just are going to have a little additional information.

One final question, Mr. Alexander. If this technological progress to which you refer, better ships, more efficient ships, were to be translated into reality and these ships were made available, the inference I gain is that this might be great enough in itself to make our coastwise and intercoastal ships competitive with Canadian ships, for example, that are carting lumber now from British Columbia ports to the east

coast of the United States. If that is a fact, is it not also a fact that those vastly improved ships would be available for foreign shipping, and if that is the case, if it had served this one tremendously beneficial effect in the domestic shipping trade, it would likewise do so to the foreign shipping trade.

My question is this, Would that mean we would no longer need subsidies for foreign shipping?

Mr. ALEXANDER. No, sir. What we have in mind in this development program for better and faster ships is finding some means whereby intercoastal and coastal interests would be benefited.

The ships that we have under development to serve these trades are not the very fast, high speed, long distance type of ship that we have under construction for the subsidized lines, which are of a different type altogether.

Senator BARTLETT. But isn't it about as far from Seattle to Boston as it is from any given port on the Atlantic coast to any point in Europe?

Mr. ALEXANDER. I think the competitive conditions, sir, are somewhat different, in that we are now competing with high speed liner services from other countries and my own impression is that we do not have that same high speed type of competition in intercoastal and coastwise trades.

Senator BARTLETT. Shouldn't our coastwise and intercoastal ships have this type of ship available if they are going to compete effectively against railroads and trucks?

Mr. ALEXANDER. This, as you know, Mr. Chairman, is another part of the effort we are making and has to do with the studies and the hearings that are being made under title 11 provisions at the present time.

Senator BARTLETT. One final question: Would the Maritime Administration oppose having Congress give the Maritime Administration discretionary authority to waive the Jones Act on a commodity-by-commodity basis when industries such as lumber is depressed to the point it now is?

Mr. ALEXANDER. I am not prepared to answer that question because I think it is one that involves the Department of Commerce and the Secretary of Commerce, and I don't believe I am qualified or prepared to answer.

Senator BARTLETT. Could you prepare a statement after consultation on that?

Mr. ALEXANDER. Yes, sir, I would be happy to.

Senator BARTLETT. Mr. Chairman, may I make a request?

I have to depart. I am late for another engagement. I would like to request that there be no consideration of S. 3429, which you introduced by request, until I am able to be present because I have several questions to ask concerning that.

The CHAIRMAN. Off the record.

(Discussion off the record.)

The CHAIRMAN (presiding). The Senator from Ohio has a question.

Senator LAUSCHE. What is the primary motivation in making your study for the introduction of automation in the shipping?

Mr. ALEXANDER. Senator, our primary motivation is to try to keep the American merchant marine competitive with the merchant marines of foreign countries, particularly those of Japan and the Soviet Union, where they are now developing high degrees of automation for their own merchant marine.

Senator LAUSCHE. That is, we are not competitive—that is putting it mildly, isn't it?

Mr. ALEXANDER. Yes, sir.

Senator LAUSCHE. And the reasons we are not competitive is the high cargo handling costs, its high seagoing labor costs, the inefficiency of the vessels employed in the trade, and the competition of the railroads with the water carriers.

Well, this last factor does not at all have an impact on our competitive position with foreign carriers?

Mr. ALEXANDER. No, sir; this only applies to the intercoastal problem.

Senator LAUSCHE. Does the merchant marine at all participate in the negotiations that go on between the operators of the merchant marine and, let's say, labor leaders?

Mr. ALEXANDER. No, sir. That is, we in the Maritime Administration do not participate in any way in the negotiations which are conducted between the maritime labor unions and the operators of the American shipping.

Senator LAUSCHE. The fact is, that you would be transgressing your rights if you did try to participate?

Mr. ALEXANDER. It is outside our area of authority and responsibility.

Senator LAUSCHE. Therefore, whatever is done in these negotiations, even though they have a very substantial impact upon the subsidy, you have to carry into effect the increased costs by way of subsidies?

Mr. ALEXANDER. Senator, under the act, we have the responsibility for making the determination as to whether labor costs coming out of contract negotiations are fair and reasonable and in every case, we must make those determinations.

Senator LAUSCHE. Has the merchant marine ever found that the agreement that came out of negotiations was unreasonable to the consumer?

Mr. ALEXANDER. I would say that in the broad provisions of these contract agreements, we have not found such to be the case. There have been a few isolated instances where a specific provision of the negotiations we felt were not fair and reasonable and they have been disallowed for subsidy purposes, but these have been infrequent.

Senator LAUSCHE. Infrequent?

Mr. ALEXANDER. Yes, sir.

Senator LAUSCHE. So the fact is whatever the negotiations produce is accepted by the merchant marine except in very infrequent and insignificant instances where you reject them?

Mr. ALEXANDER. Yes, sir.

Senator LAUSCHE. And when you do accept those new negotiations, your subsidies are increased?

Mr. ALEXANDER. Yes, sir; we accept them on the basis of their being fair and reasonable.

Senator LAUSCHE. Now then, is it a fact that this noncompetitive position which we occupy has had an impact in our international commerce?

Mr. ALEXANDER. Yes, sir; that is a fact.

Senator LAUSCHE. That is, it has interfered with our ability to compete in the markets of the world?

Mr. ALEXANDER. The percentage of the incoming and outgoing shipments to and from this country has been decreasing, the percentage of cargo carrying under American-flag ships has been decreasing; yes, sir.

Senator LAUSCHE. Under the general Merchant Marine Act where we subsidize the operation of the merchant marine ships, do we pay the subsidy direct to the carrier?

Mr. ALEXANDER. Yes, we do.

Senator LAUSCHE. And the general Merchant Marine Act subsidizes all cargoes carried and does not apply only to those that adversely affect a particular business?

Mr. ALEXANDER. The subsidies we pay are not restricted by the type of cargo or the type of business; no, sir.

Senator LAUSCHE. What is the difference between this bill providing for a subsidy and the general subsidy bill that we have in the Merchant Marine Act?

Mr. ALEXANDER. Under the act, subsidies are authorized only to meet foreign competition, foreign-flag competition. Foreign-flag ships cannot operate in the intercoastal and coastwise trade, so they are eliminated from the provisions of the subsidy payments which are stated in the act.

Senator LAUSCHE. If this bill is adopted, providing for the subsidy, it will not be general in its operation upon all cargoes; is that correct?

Mr. ALEXANDER. That is correct; yes, sir.

Senator LAUSCHE. The basic Merchant Marine Act is operative to all cargoes? And in that respect they differ?

Mr. ALEXANDER. Yes, sir.

Senator LAUSCHE. Are you speaking for the Secretary of Commerce in opposing both the bills?

Mr. ALEXANDER. Yes, sir.

Senator LAUSCHE. That is all I have.

The CHAIRMAN. Is that all?

Senator LAUSCHE. Yes, sir.

The CHAIRMAN. I wasn't here and I had to leave, but on S. 2737, your statement says that the views on that are preliminary views, that you haven't come to formal conclusion.

Mr. ALEXANDER. We are still considering all factors entering into this west coast lumber problem, so that we would not like to have this presentation considered as a final word. We are still working on it.

The CHAIRMAN. Of course, I know that you realize that we draw up bills up here and we have no pride of authorship and we are perfectly willing to receive suggestions, modifications, or alterations that might help the problem. Sometimes we find that they are very valuable to us, so that the bill as written may not necessarily be what we want to do to get at the problem.

The CHAIRMAN. Now, in your statement you mentioned that the Jones Act also protects other modes of transportation, other than water; is that correct?

Mr. ALEXANDER. Yes, sir.

The CHAIRMAN. Lumber that moves by water, of course, is not susceptible to rail treatment. That is green lumber. It is too heavy, No. 1; it is not usually shipped by rail. So that wouldn't this be true if Canada takes on our water market? How, then, would other modes of transportation be hurt by letting a foreign-flag vessel merely take the lumber east?

Mr. ALEXANDER. It is our view that when foreign-flag ships enter into the lumber trade, there are patterns established for the transportation of lumber, and there are consequent disruptions in the patterns of other modes of transportation, and we think this might conceivably have an adverse effect.

The CHAIRMAN. Of course, the record and the facts we ought to remember are that there is plenty of lumber to go east, even at present rates, but the operators of intercoastal shipping, because of other modes of transportation, can't come back with a load and therefore that is why they have all quit. There are plenty of customers for green lumber to go out of Oregon and Puget Sound and northern California, but there is no chance to make a go of it. As I pointed out earlier, even a private operator hauling his own lumber is in a bad situation. What we are trying to do is to isolate here a peculiar problem in this whole trade picture, which deals with green lumber, which again, uses mainly the older ships, it is that kind of cargo, and which only a tramp, an old tramp, Greek tramp, or Danish tramp or something would pick up. This is a peculiar problem dealing with a domestic market rather than our overall oversea matter.

But I can't see how the other modes of transportation would be affected if it only revolved around a water market in which the other modes of transportation don't participate in any way, and never did, and never expect to.

Senator Morse has a short statement here he wanted to contribute to the committee.

STATEMENT OF HON. WAYNE MORSE, U.S. SENATOR FROM THE STATE OF OREGON

Senator MORSE. I want to make a statement, because I heard a few moments ago the administration, through Mr. Alexander and other witnesses, is giving an adverse report on S. 2737 and S. 3105, and I want to say, Mr. Chairman, that in my judgment means an adverse report permanently. I have had a fishline thrown out to me before about temporary, tentative opinions. I haven't been here for 18 years not to know what Mr. Alexander's testimony really means.

To the committee I say that I appreciate very much the full opportunity you have given me to participate in the extensive hearings you have held on the lumber situation.

There is no doubt that the lumber industry in the Northwest is at a disadvantage with Canada. In particular, the substantial segment which historically has shipped its lumber to the east coast by water is unable to compete with Canadian water shippers. This segment ac-

counts for 10 percent of all the lumber producers in the West. It accounts for a greater amount of the Oregon and Washington production.

Previously we enjoyed over 90 percent of the market compared to Canada, today less than 30 percent of the market is ours.

In view of the foregoing facts, I urge that your committee act on the evidence before it and report either S. 2737 or any other bill which will effectively restore the ability of our water shipping lumber mills to more successfully compete with Canada.

Mr. Chairman, and members of the committee, I would have you keep in mind during the last 12 months, more than 200 lumber mills in the State of Oregon and Washington closed their doors. They have gone broke.

Yet I hear spokesmen for the administration, up to the White House level, tell us that Canada is in a very difficult financial position and had it not been for the loans that we made to Canada recently, Canada would have gone broke.

Well, I want to say from this witness chair today that I invite the President of the United States to come on out to Oregon and tell that to the people of Oregon. Let him tell the people of Oregon that our great concern about the financial condition of Canada should be placed ahead of the concern of the operators of the lumber industry in Oregon and Washington.

I don't intend to support the President in any such position. I have made that clear to him, and I make it clear now on a public record.

I don't intend to support the President of the United States and his administration in liquidating the lumber industry of Oregon for the benefit of Canada. I would also have this record show that Canada has been pouring into Communist China her wheat and getting gold in return. That is Canada's business. But it happens to be our business to protect the economy of our country.

I took the President at his word, when early in the discussion of the foreign trade bill and every member of this committee was there and heard it from his own lips, when he briefed us on the foreign trade bill, that he did not propose to do irreparable injury to American industry. I say from this witness stand, this noon, that we are doing irreparable injury to the lumber industry of my State and I don't intend to support a foreign trade bill that liquidates the economy of my State because lumber happens to be the greatest source of income in Oregon.

Let this be the notice to this administration that the senior Senator from Oregon does not intend to support this administration in wrecking the lumber industry of my home State.

And to Mr. Alexander and the Maritime Board, and the Department of Agriculture, and every other department of this executive branch of the Government, permit me to say they have an obligation to come before this committee with some alternatives as to what we should do about the lumber industry of this country.

I don't intend, may I say, to support my administration and the great mistake it is making in connection with the irreparable damage that it is doing to the lumber industry of the United States. To the

President I say from this witness chair today, "Mr. President; your program is doing irreparable damage to the lumber industry of the Pacific Northwest and it is about time that you start issuing some orders to the various departments of your administration to see to it that this injury is stopped."

That is my testimony and I shall stand on it, Mr. Chairman. If the administration wants to fight on this issue, then we will have to join the issue, because I want to say to my administration, they have not a leg to stand on from the standpoint of making the tremendous loans that they made to Canada, to supposedly build up the economic condition of Canada and not at the same time take steps to protect our own lumber industry.

Within a very few hours after they made the loans to Canada, what did Canada do? Canada proceeded to put import duties on one American product after another, going into Canada.

I ask, Mr. President, is this foreign trade program a two-way street or isn't it? The time has come for the Commerce Department, and for the Secretary of Commerce, and for the other Cabinet officers of this Government, to give us some support on this lumber issue. For example, we could have temporary quotas on lumber coming to the United States from Canada.

In setting the quota, we could select a historic figure that would show the average import from Canada into the United States for a representative period such as the last 10 years.

Let the lumber come in free until that figure is reached; at that point we should impose a temporary quota until we can get time to pass the necessary legislation to protect our U.S. lumber industry. We cannot sit here and justify liquidating the lumber economy of this country.

If my Government wants a few suggestions from me as to how we can handle the matter of U.S. finances, I refer them to the speech I made on the floor of the Senate a few days ago in which I discussed the subject of foreign aid. As a member of the Foreign Relations Committee of the Senate, I want by administration to know that I think a very serious revision of the whole foreign trade program is in order so that we will make great savings out of that foreign aid program instead of sending down the drain the millions and millions of dollars that we are now sending down the drain at the expense of the American taxpayer. We have allies that we have economically rehabilitated. They are in a better position now to aid some of the underdeveloped countries than the United States.

I am sorry, Mr. Chairman, that we have come to this parting of the ways over this lumber issue but we have reached it, as far as the senior Senator from Oregon is concerned, when such a great economic injustice is done to my section of the country.

I will be glad to answer questions. I have a lot more that can be said on this important issue.

The CHAIRMAN. Well, I think my friend from Oregon has summed up what we have been talking about here all morning, and I suggested to Mr. Alexander the same thing, that there ought to be some alternatives here, if our proposals are not good, rather than just say we are against them, because this is getting to be a matter and I want to

add, I don't see how anyone could represent the Pacific Northwest and this peculiar problem, does not have anything to do with world trade, when the trade bill, if and when it should come to the Senate floor, I know I speak for all of us, we would not have to attempt an amendment or something of this kind.

I don't see how we could represent our people and not do that, because this is a peculiar problem.

However, it has nothing to do with trade in the world. It is our own market. It is somewhat similar to the textile thing, and it is just getting worse and worse. This is one facet of it, I will agree with you, and I don't know what more we can do up here to point out the facts involved and I don't think anybody disputes the facts.

I think we have just got to come up with some answers and most of them are not legislative, they are administrative in this particular case on this whole situation. We can't study it much longer.

I hope that the Commerce Department, in view of the fact that they are studying part of this, will come up with maybe some alternatives in the next 3 or 4 days, to give us a little help up here in this matter.

Because no one intended to have any kind of policy that would completely liquidate an American industry of this import. This is the fourth largest industry in these United States and I have in my file—I did not bring it up today—letters from many, many Senators from the southern pine area that are now wanting to join with us, because they are getting the same business and they can see it coming.

As I said earlier in hearings long ago, I suppose if Canada had a merchant marine, we would not have this problem on water, they would require them to ship on their own ships. That is typical of Canada, Great Britain, and those maritime people, and if we were taking their market, their eastern Canadian market, the same way they are usurping ours, over and above our historical participation, they would not hesitate 24 hours before they would put something on us, which they did right after the election, tariffs on other things.

Well, this is not all of Maritime's fault, but I am sure that you can come up with some better suggestions than we had today, if what we are suggesting is wrong.

Thank you, Mr. Alexander.

Mr. ALEXANDER. Thank you, Mr. Chairman.

The CHAIRMAN. The next witness is Congressman Walter Norblad, from the State of Oregon.

STATEMENT OF HON. WALTER NORBLAD, CONGRESSMAN FROM THE STATE OF OREGON

Mr. NORBLAD. Mr. Chairman, I appreciate very much this opportunity to stress to your committee the urgent necessity for amending the Jones Act to permit American lumber producers to use foreign flag ships as do Canadian lumber producers at much lower foreign freight rates.

Because of the Jones Act, Canadian lumber producers enjoy tremendous shipping advantages which have helped them to capture well over 50 percent of our east coast lumber market. American softwood producers must pay about \$36 per thousand board feet on ship-

ments between the Columbia River ports and Brooklyn while the Canadians, who are permitted to charter ships in the highly competitive world market, can ship at rates ranging from \$4 to \$11.

In terms of jobs, the Canadian share of the eastern market provides employment for approximately 8,000 lumber workers and for an additional 20,000 in community and related jobs. A corresponding loss of jobs for American workers has taken place over the last 10 years. In the States of Oregon and Washington the payroll loss runs into the multimillion dollar figure. Unless the Jones Act is amended to permit American lumber producers, shippingwise, to compete with Canadian lumber producers more of the eastern lumber market and more jobs will be lost to the Canadians.

Although I have introduced a bill in the House of Representatives to amend the Jones Act to permit American lumber producers to also use foreign flag ships, I would support wholeheartedly any reasonable legislation to amend the Jones Act which would have the same end result as my proposal—to assist the lumber industry of the Pacific Northwest to compete on more even terms shippingwise with Canadian lumber producers.

The CHAIRMAN. Thank you, Congressman Norblad.

I want to insert in the record at this point a statement submitted by Mr. William G. Reed, chairman of Simpson Timber Co. of Seattle, Wash.

In addition, I will insert in the hearing record 5 letters and 22 telegrams, all in support of either S. 2737 or S. 3105 as essential to equalize shipping costs and let American cargo lumber shippers regain their lost markets, and one telegram opposing the Jones Act bills.

(The matter referred to follows:)

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, March 15, 1962.

HON. WARREN G. MAGNUSON,
*Chairman, Committee on Commerce,
U.S. Senate.*

DEAR MR. CHAIRMAN: Further reference is made to your letter of January 25, 1962, acknowledged on January 26, requesting the comments of the General Accounting Office concerning S. 2737, 87th Congress, 2d session, entitled "A bill to encourage the use of American-flag vessels by domestic industries, and for other purposes."

The proposed amendment would authorize the Secretary of Commerce to grant a subsidy to the transportation (in the domestic trades subject to the Merchant Marine Act, 1920) of the merchandise of any industry within the United States if he determines after notice and hearing that the requirements of section 27, Merchant Marine Act, 1920 (46 U.S.C. 883), are causing such industry to lose a substantial portion of its business to foreign competitors. The excess of the charge or rate of the domestic carrier over the theoretical rate of a low-cost foreign carrier shall be the total subsidy for the transportation, payable to all carriers in that trade and participating in that traffic.

As you know, the Merchant Marine Act, 1936, as amended, presently provides for payment by the Government of operating-differential subsidy, which represents the difference between the cost of operating a U.S. vessel in the foreign commerce of the United States and the estimated cost of operating the same vessel in the same service under competitive foreign flags.

Under the proposed legislation, operating subsidy would be extended to American-flag vessels operating in domestic commerce from which foreign-flag vessels are excluded, and the amount of subsidy would be based on the excess of the rates of American-flag domestic carriers over computed rates that presumably

would be charged by undesignated foreign-flag carriers, for the movement of certain types of merchandise between certain domestic ports.

The measurement of subsidy in such hypothetical circumstances, in our opinion, may pose difficult problems. However, the basic question is whether it is appropriate or desirable for the Government to subsidize domestic waterborne commerce; and since this is a matter for determination by the Congress, we offer no recommendation as to the enactment of the subject bill. We would suggest, however, that in its consideration of the bill the committee take into account the effect of the proposed subsidy on other forms of transportation, such as railroads and trucks.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, May 4, 1962.

HON. WARREN G. MAGNUSON,
*Chairman, Committee on Commerce,
U.S. Senate.*

DEAR MR. CHAIRMAN: Further reference is made to your letter of April 4, 1962, acknowledged April 5, enclosing, among other documents, a copy of S. 3105, 87th Congress, 2d session, entitled "A bill to provide that the law limiting the transportation of merchandise in the coastwide trade to certain U.S. vessels shall not apply to such transportation between a port on the east coast of the United States and a port on the west coast of the United States," and requesting our comments thereon.

The proposed bill would eliminate the present restriction which limits coastwise trade to American-flag vessels in those instances where merchandise is transported between any two points in the United States. See also, our report of March 15, 1962, to you, on S. 2737.

We have no special information or knowledge as to the desirability of the proposed legislation and, therefore, we make no recommendation with respect to its enactment.

We do call to your attention, however, our comments on the bill, S. 2737, which proposed to grant subsidy to domestic water carriers, which were furnished to you by our report of March 15, 1962.

Thirty additional copies of our reply are enclosed, as requested.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

ASSOCIATION OF AMERICAN RAILROADS,
Washington, D.C., July 20, 1962.

HON. WARREN G. MAGNUSON,
*Chairman, Senate Committee on Commerce,
Washington, D.C.*

DEAR SENATOR MAGNUSON: This letter is written by the Association of American Railroads, on behalf of its member railroads, to express opposition to S. 2737 and S. 3105, bills now pending before the Senate Committee on Commerce having to do with domestic water transportation, and to urge that the committee should not act favorably upon them. The railroads are entirely convinced that the proposals are contrary to the public interest and should not receive favorable attention from your committee or the Congress.

The essential reason for our opposition to S. 2737 is that it provides for a financial, or cash, subsidy to domestic water carriers engaged in domestic water transportation (i.e., between points located in the United States) in direct competition with railroads. How this bill would actually be applied is not entirely clear from its terms. It is plainly intended to enable certain segments of the American shipping public to obtain water transportation at lower rates than

those they now pay. It expressly provides that the charge or rate paid by the shipper in the case of transportation entitled to the subsidy shall be no more than he would have paid a low-cost foreign flag carrier. The amount paid by the Government to the domestic carrier is flatly labeled as a "domestic trades subsidy." We are vigorously opposed to this bill because it would create another unjust area of subsidized transportation in competition with the railroads. It is contrary to the settled policy of Congress that domestic water transportation shall not be subsidized. It is contrary to the basic objectives of the national transportation policy as urged in the President's transportation message of April 5, 1962, where, in referring to such objectives, he said:

"This means a more coordinated Federal policy and a less segmented approach. It means equality of opportunity for all forms of transportation and their users and undue preference to none. It means greater reliance on the forces of competition and less reliance on the restraints of regulation. And it means that, to the extent possible, the users of transportation services should bear the full costs of the services they use, whether those services are provided privately or publicly."

S. 3105 would, in effect, partially repeal section 27 of the Merchant Marine Act of 1920 (46 U.S.C.A. sec. 883) by allowing the transportation of merchandise between ports on the east coast of the United States and ports on the west coast of the United States, including Alaska, in vessels other than vessels built in and documented under laws of the United States and owned by citizens of the United States. Water transportation between the east and west coast would be open to foreign water carriers. These foreign carriers may be subsidized by foreign governments or may enjoy other special advantages under the laws of their country of origin that would give them unfair competitive advantages over American carriers, including the railroads. Those foreign carriers would presumably be free to serve or not to serve the shipping public, at their own will and convenience. They could discontinue such service whenever they choose. As a result, the supply of domestic water transportation, which is a matter of public interest, would be placed beyond effective control of U.S. regulatory authorities.

This bill would substantially reverse a fundamental and historic national policy that domestic water transportation in the United States shall be limited to U.S. water carriers. The longstanding statutes in which this policy is incorporated are part of the network of statutes governing the American transportation system, made up of closely related parts whose interactions are reciprocal and interdependent. Substantial changes in the character of intercoastal water transportation and the laws governing such transportation would necessarily affect the railroads in respect to numerous complex matters relating to rates and commercial relationships. The historic policy embodied in existing law should not be modified or set aside except upon a showing of the most substantial justification. No such showing has been made in support of this bill.

As we understand it, the purpose of the bill is to overcome competitive disadvantages of certain Northwest U.S. lumber producers vis-a-vis certain Canadian lumber producers. We recognize the problem of these particular lumber producers, and we believe that every serious effort should be made to help them solve it. The problem itself has many facets. It is not essentially a transportation problem, and we believe that any attempt to solve it in terms of transportation would almost certainly be unsuccessful. We are strongly of the view that a basic national transportation statute, dealing with the transportation of all commodities, such as section 27 of the Merchant Marine Act of 1920, should not be cast aside in an effort to deal with a local and particularized problem, involving a single commodity, such as the one confronting the northwestern lumber producers. For these reasons, the railroads vigorously oppose S. 3105, and recommend that your committee should not act favorably upon it.

It is respectfully requested that this letter be included in the record of the hearings on these bills.

Very truly yours,

GREGORY S. PRINCE.

SHIPBUILDERS COUNCIL OF AMERICA,
July 17, 1962.

Hon. WARREN G. MAGNUSON,
Chairman, Committee on Commerce,
U.S. Senate, Washington, D.C.:

Our members vigorously oppose S. 3105. This measure would thoroughly emasculate a basic maritime policy which has effectively prevailed for nearly 175 years. It would destroy the integrity of historic coastwise rights for vessels built in this country and accelerate the demise of the U.S. domestic fleet and depressed conditions in U.S. shipyards. It is a well-intentioned though unwise attempt to solve a tenuous problem in a piecemeal fashion. Repeal of the Jones Act would indeed create chaos as you suggested recently and we hope the Committee on Commerce will unanimously reject S. 3105. It is requested that this telegram be made a part of your proceedings.

EDWIN M. HOOD, *President.*

STATEMENT OF W. G. REED

My name is William G. Reed and I am chairman of Simpson Timber Co. of Seattle, Wash.

I presented testimony regarding our company's operations and import problems affecting the Pacific Northwest lumber industry at the Senate Commerce Committee hearing in Olympia, Wash., on April 20, 1962. That testimony is pertinent to this hearing and I respectfully request that it be inserted as a part of the record.

Permission is requested to extend my statement now with reference to the Jones Act and its negative effect upon the ability of west coast cargo lumber mills to compete with British Columbia shippers in the east coast markets of our own country.

Your committee is the only source of help for west coast cargo lumber shippers. Other solutions sought by the industry, such as quotas and equitable stumpage practices, can be attained through administrative action.

But even if these solutions are achieved, the west coast cargo industry will still be unable to compete with British Columbia until high-cost shipping restrictions imposed by the Jones Act are relaxed. Equalizing of our transportation costs with Canadian lumber mills can be accomplished only by congressional action on the Jones Act.

The fact we face today is 18 months of evidence that British Columbia has for the first time in history gained complete control of our east coast cargo market, resulting in extensive American sawmill closures and unemployment. This threatens to reduce to a skeleton a once-thriving Pacific Northwest section of the lumber industry.

With British Columbia holding 70 percent of this particular market midway in 1962 it is plain as a knot on a log that either the Jones Act must be altered or the cargo mills of Washington, Oregon, and California must go out of this business forever. The British Columbia advantage is not due to any superiority in materials or men or facilities. It is due to a U.S. law which imposes an impossible handicap on U.S. shippers and gives windfall profits to foreigners. The Jones Act is an unthinkable kind of tariff wall: it keeps U.S. products out of U.S. markets. It protects foreign merchandise from our competition in our own country.

A consequence of this is the alternative facing cargo mills: either to die or to enter the dry-lumber business and ship to midwestern markets by rail, thus intensifying the competition among U.S. inland sawmills which already have enough trouble battling Canadian rail competition.

Accompanying this statement is an up-to-date record of waterborne cargo lumber shipping from west coast and British Columbia ports to the U.S. Atlantic coast.

I thank your committee for holding a hearing on the Jones Act and respectfully urge that there be a favorable report to the Senate on legislation which will help prolong the life of west coast sawmills employing thousands of U.S. workmen.

EXHIBIT A.—Lumber shipments by water to U.S. Atlantic coast summarized at 5-year intervals (from Pacific Lumber Inspection Bureau records)

[In board feet]

Year	From northern California, Oregon, and Washington	From British Columbia
1920	49,054,906	651,675
1925	1,375,028,957	326,313,841
1930	1,342,070,584	208,408,961
1935	825,561,062	39,676,619
1940	1,085,765,893	40,358,313
1945 ¹	7,837,153	0
1950	1,054,539,332	730,521,958
1955	1,031,138,872	344,920,093
1960	848,988,915	694,603,724
1961 ²	594,856,302	794,337,825
1962 ³ (projected)	475,000,000	1,100,000,000

¹ World War 2 restrictions on shipments. Canada shipped no lumber into U.S. Atlantic coast market from 1941 until 1948.

² 1st time in history British Columbia outshipped west coast mills into this market.

³ Actual shipments 1st 5 months of 1962:

British Columbia	Board feet
California, Oregon, and Washington	453,621,000
	222,267,000

Source: From Simpson Timber Co., Seattle, Wash., July 13, 1962.

[From the Oregonian, July 13, 1962]

GHOST STATUS SAID TO THREATEN LUMBER INDUSTRY IN NORTHWEST

Bradwood, the last of the mill towns on the lower Columbia River, will become a ghost town if relief is not forthcoming from the Federal Government, Clyde M. Shumaker, executive vice president and general manager of the Columbia-Hudson Lumber Co., told the Oregonian Thursday.

The company's mill, last of the lumber and sawmills on the lower river, shut down June 29, throwing about 150 employees out of work. The board of directors will meet Monday to decide whether to make the closure permanent, Shumaker said.

"Unless there is some prospect of relief from Canadian competition we will have no choice but to quit," Shumaker said.

Columbia-Hudson is one of the few mills which ships two-thirds of its 40 to 45 million board feet annual cut on American bottoms to the east coast, as required by the Jones Act.

"Canada, which is free to ship in foreign vessels at cheaper rates, has captured the Atlantic coast market and is making a strong bid for export business," Shumaker pointed out. "Canadian mills have the further advantage of cheaper wages—30 to 40 cents an hour cheaper," Shumaker said, "as well as lower prices for timber in the woods."

"We have been losing ground for several years battling the Canadians with all their advantages," Shumaker said.

"We are still running the dry kiln and shipping department, but we can't go on without some protection from Canadian competition."

Bradwood is the last of the company towns, built by Columbia-Hudson in 1935 and operated continuously ever since, except for a 5-month shut down last year to repair and modernize part of the plant.

"BLEEDING TO DEATH"

The west coast lumber industry "is literally bleeding to death," Alfred N. Sachs, company treasurer, declared in a wire to President Kennedy asking for relief.

Closure of the Bradwood mill and four others in the Northwest in the past few weeks "has cast deepening shadows of economic despair over an industry already suffering from excessive imports of cheaper Canadian lumber," G. C. Edgett, executive vice president of West Coast Lumbermen's Association, said in a statement issued Thursday.

The Nettleton Lumber Co. mill in Seattle; the Olympic Hardwood Co. of Raymond, Wash.; the E. C. Miller Cedar Lumber Co., Aberdeen, Wash., and the Georgia-Pacific Corp. mill at Toledo, Oreg.; all were forced to close recently, Edgett pointed out.

The Nettleton mill, dating back to 1910, closed last week for a vacation, announcing it would resume operation Monday, July 16, but will only operate its dry kilns and related departments, to provide jobs for about half of its 110 employees, the WLCA reported.

"One small company lost its entire capital, about \$700,000 during the past 3 years, mainly because of unfair competition from Canadian imports to the east coast," the Columbia-Hudson wire to President Kennedy, points out.

"Our sawmill at Bradwood represents an investment of about \$1,500,000, and an annual volume of about \$30 million.

PLEA FOR FEDERAL AID

"Under circumstances completely beyond our control, we just closed our mill and cannot reopen unless our entire industry receives immediate relief through executive and congressional action," the wire reads.

"Many Senators, Congressmen and executive officials have been considering this matter during the past 6 to 12 months, but so far nothing has been achieved, while the industry is literally bleeding to death."

The wire asks for legislation to exempt lumber shipments from the west to east coast from the Jones Act; immediate Government subsidy to American ships hauling lumber from coast to coast; a temporary quota system to limit importation of lumber from Canada to the east coast by ship; and an immediate Executive order to put a 10 percent tariff on imports of Canadian lumber.

Treasurer Sachs asks for immediate relief. "It will be too late for any relief to this industry and its employees after many more west coast sawmills are closed, dismantled, and sold as junk, and their workers placed on public relief," he concluded.

He offered to appear before any congressional committee and give sworn testimony to confirm his pleas for assistance.

The West Coast Lumbermen's Association has made many appeals to Washington, apparently without action, Edgett said Thursday.

THE MONTESANO VIDETTE,
Montesano, Wash., July 13, 1962.

DEAR SENATOR MAGNUSON: Interest is keen in the outcome of the hearings on the Jones Act and the proposed shipping subsidy, as means to relieve the lumber situation. I hope this will be the first step toward a solution of the problem which is depressing this area.

This week's Raymond Herald carries a story about the closing of the Olympic hardwood plant there, employing 50 persons. Loss of sales on the Atlantic coast to Canadian competition was given as the reason.

Only this morning, I was talking to a large lumber operator in Aberdeen who told me that his lumber for export to Europe is shipped to New Westminster, British Columbia, because of the substantially lower transportation costs out of that port. These, of course, involve other factors than freight rates, the currency differential being one.

If this condition persists, it seems to me that it not only will continue to depress communities dependent upon forest production, but it could ultimately have a serious effect on the long-range tree farm program, which has been so successful, and even on management of Federal and State forest lands.

Sincerely,

CHAPIN COLLINS.

LAKE CARRIERS' ASSOCIATION,
Cleveland, Ohio, July 20, 1962.

Subject: S. 3105.

HON. WARREN G. MAGNUSON,
Chairman, Committee on Commerce,
U.S. Senate, Washington, D.C.

DEAR SENATOR MAGNUSON: This association, representative of approximately 98 percent of American-flag bulk cargo vessels engaged in commerce and naviga-

tion on the Great Lakes, wishes to express its firm opposition to S. 3105. While, on its face, the bill is limited to intercoastal shipping, the principle which it would enact threatens the very existence of our coastwise laws, principally the Jones Act, 46 U.S.C.A. 883.

If the distressed lumber industry of the Northwest is to be permitted to utilize foreign-flag vessels in intercoastal trade, then no valid reason exists why every other distressed industry dependent upon coastwise shipping should not be permitted to use foreign-flag carriers. Such a policy would soon wipe out completely our domestic merchant marine, including that on the Great Lakes.

Since adoption of the Merchant Marine Act of 1936, it has been the declared policy of the United States to foster the development and encourage the maintenance of a merchant marine adequate to our national purpose. The success of the 1936 act in implementing that policy may be open to question, but in view of the devastating foreign-flag competition encountered on the international trade routes of the world, it becomes abundantly clear that the coastwise laws are the true bulwark of the American-flag merchant marine. Nowhere is this more true than on the Great Lakes where last year American-flag vessels carried only 18 percent of the international trade in bulk commodities between the United States and Canada. Unable to compete for this trade with the highly subsidized Canadian fleet, American operators are rapidly being relegated to the domestic commerce of the lakes, preserved to them by the coastwise laws.

S. 3105 is not just an innocent bill to permit a particular industry to utilize foreign-flag vessels in the intercoastal trade. It puts in issue the question of whether or not we are to have a merchant marine at all. We believe a strong, healthy merchant marine is essential to the future welfare of the United States. In order to have such a merchant marine, the integrity of the coastwise laws must be preserved. For that reason this association is vigorously opposed to S. 3105, and we urge that the Commerce Committee unanimously reject the bill.

It is requested that this letter be included in the record of the hearings held recently on this bill.

Very truly yours,

J. A. HIRSHFIELD,

Vice Admiral, U.S. Coast Guard (retired), President.

DELSON LUMBER CO.,

Olympia, Wash., July 13, 1962.

Senator WARREN G. MAGNUSON,

*Senate Interstate and Foreign Commerce Committee,
Senate Office Building, Washington, D.C.:*

We wish to support the bill you have authored in regard to relief for shipping cost of lumber to the east coast. You deserve the appreciation of our entire industry for the firm position you have taken on matters vital to our survival.

WAYNE SMITH,

ABERDEEN, WASH., July 13, 1962.

HON. WARREN G. MAGNUSON,
*U.S. Senator, Senate Office Building,
Washington, D.C.:*

Economy of lumber area continues to deteriorate. Any action a committee can take on present legislation to relieve inequities in shipping will be helpful.

Yours truly,

ROBERT L. CHARETTE.

GRAYS HARBOR BRANCH, NATIONAL BANK OF COMMERCE,
Aberdeen, Wash., July 13, 1962.

Senator WARREN G. MAGNUSON,
*Chairman, Senate Commerce Committee,
Senate Office Building, Washington, D.C.:*

Three more mills in Washington, one in Portland, and one on California coast have closed in past months due to prohibitory cost of water shipment of lumber to Atlantic coast. Unless Congress provides some means of overcoming this shipping differential Pacific coast cargo mills which are the basic mills of the

lumber industry cannot continue to operate. Very important that your committee find some solution to this problem, and I strongly urge immediate action.

R. M. LANDBERG,
Vice President and Manager.

OLYMPIA, WASH., July 13, 1962.

Senator WARREN G. MAGNUSON,
Chairman, Senate Interstate and Foreign Commerce Committee, Senate Office Building, Washington, D.C.:

Re your committee's hearing next week on bills S. 3105 and S. 2737: Our basic cargo for 40 years, coast lumber, still continues to decline from a postwar high in 1957 of 154 million feet. This tonnage dropped in 1961 to 79 million feet, and this year through June to 29 million feet.

Our cargo mills advise that they cannot compete with Canadian mills' cheaper shipping rates and promise further tonnage declines under existing conditions. We urge—repeat—urge your prompt action.

PORT OF OLYMPIA COMMISSION,
G. W. SIBOLD, Manager.

PORTLAND, OREG., July 13, 1962.

Senator WARREN G. MAGNUSON,
Senate Office Building, Washington, D.C.:

Have appeared many times before your committee urging legislation which would permit cargo lumber shipper to compete on an equal basis with Canada. Understand hearings on Neuberger bill and Magnuson bill be held Tuesday. Urge favorable report on Neuberger bill but any assistance greatly appreciated. Four more mills have closed during June and latest statistics for Oregon show employment down 5,000 over year ago. The need is urgent.

Regards,

R. F. DWYER.

LEWISTON, IDAHO, July 13, 1962.

Hon. WARREN MAGNUSON,
U.S. Senate, Washington, D.C.:

We believe the Jones Act is harmful to inland as well as coastal operators and favor its repeal or amendments to protect our industry.

POTLATCH FORESTS, INC.

RAINIER, OREG., July 13, 1962.

Senator WARREN G. MAGNUSON,
Senate Office Building, Washington, D.C.:

Gratifying to learn your proposed bill on shipping aid to lumber industry now in committee. Have wired western Senators urging their support. Four more mills closed down this last week so immediate relief imperative. You have our support.

RAINIER MANUFACTURING Co.,
DON BELLAMY, Vice President.

OLYMPIA, WASH., July 13, 1962.

Senator WARREN G. MAGNUSON,
Chairman, Senate Committee on Foreign and Interstate Commerce,
Senate Office Building, Washington, D.C.:

We strongly urge your committee to give forceful and immediate consideration to the problems of the west coast lumber industry. If relief does not come soon more local lumber mills will close and our unemployment will reach new startling proportions. Directly affected by the Canadian imports are 2,000 Olympia families and our 1,400 local businesses already are feeling the economic loss.

OLYMPIA AREA CHAMBER OF COMMERCE,
BILL JOHNSON, Manager.

ABERDEEN, WASH., July 17, 1962.

Senator WARREN G. MAGNUSON,
Chairman, Commerce Committee, Senate Office Building,
Washington, D.C.:

Unwillingness of administration to consider quota solution to Canadian lumber influx puts solution back in area covered by your bill and that of Senator Neuberger. Three mills in Washington have closed in past month citing Canadian competition as reason. If something is not done and done immediately all efforts to salvage economy in the lumber areas will be nullified by other closures. It is mandatory that some action be taken by Congress in view of administration reluctance and we urge that your committee decide which of two avenues outlined in the Senate bills is most acceptable and push for passage in present session.

BOARD OF COUNTY COMMISSIONERS,
LEIGHTON H. POWELL, *Chairman*.

SEATTLE, WASH., July 17, 1962.

Senator WARREN G. MAGNUSON,
Washington, D.C.:

Urge relief for lumber industries in Pacific Northwest. Canadian imports on lumber continue to grow. We hope something can be done to correct this injustice.

Representative ROY RITNER.

OLYMPIA, WASH., July 13, 1962.

Senator WARREN G. MAGNUSON,
Chairman, Senate Committee on Commerce, Foreign and Interstate,
Senate Office Building, Washington, D.C.:

We are urging the members of the Senate committee to give immediate consideration to the problems of the west coast lumber industry. Again repeating, if some relief is not given soon more mills will go out of business and unemployment will reach staggering proportions.

BUCHANAN LUMBER Co.,
DONALD BUCHANAN, *President*.

LONGVIEW, WASH., July 16, 1962.

Hon. WARREN G. MAGNUSON,
Chairman, Senate Commerce Committee,
Washington, D.C.:

Everything within your power to enact legislation to make us competitive with the Canadians in waterborne lumber would be greatly appreciated.

STAN ROSE,
President, Exeter Lumber Sales Co.

ABERDEEN, WASH., July 16, 1962.

Senator WARREN G. MAGNUSON,
Senate Office Building, Washington, D.C.:

Imperative and essential that your amendment for subsidy or Senator Neuberger's repeal of Jones Act be passed immediately. We urge immediate action on one or the other.

C. W. ERICKSON,
President, Western Lumber, Inc.

SHELTON, WASH., July 16, 1962.

Senator WARREN MAGNUSON,
Chairman, Senate Commerce Committee, Washington, D.C.:

Impact of unequal lumber shipping suffered by west coast mills as against advantages by Canadian mills continues to shut down mills and lay off our workers. We urge your committee to recommend action which will restore competitive equality for our industry.

CHARLES R. SAVAGE,
Business Agent, International Woodworkers of America.

SHELTON, WASH., July 16, 1962.

SENATOR WARREN MAGNUSON,
Chairman, Senate Commerce Committee, Washington, D.C.:

Our communities urge your committee to restore equal competition for west coast lumber mills under any revision of Jones Act that will give the industry equal opportunity.

M. V. GRUNKEMEIER,
President, Shelton-Mason County Chamber of Commerce.

EUREKA, CALIF., July 16, 1962.

WARREN G. MAGNUSON,
*Senate Commerce Committee,
 Senate Post Office, Washington, D.C.:*

The Humboldt County Board of Trade supports the position of the lumber industry of Humboldt County, Calif., and requests that the Senate Commerce Committee give all possible thought to passing legislation which would help the lumber producers of the west coast to compete on equal basis with the Canadian shippers.

HUMBOLDT COUNTY BOARD OF TRADE,
 R. C. NICHOLAS, *Chairman,*
 R. F. DENBO, *Manager.*

EUREKA, CALIF., July 16, 1962.

WARREN G. MAGNUSON,
*Senate Commerce Committee,
 Senate Post Office, Washington, D.C.:*

It is requested by the city of Eureka, Humboldt County, Calif., that the Senate Commerce Committee give all possible consideration to passing remedial legislation under the Jones Act which would enable west coast lumber producers to compete equally with Canadian shippers.

HENRY A. TERHAYDEN,
Mayor, city of Eureka.

EUREKA, CALIF., July 16, 1962.

WARREN G. MAGNUSON,
*Senate Commerce Committee,
 Senate Post Office, Washington, D.C.:*

The Board of Supervisors of Humboldt County, Calif., urge that the Senate Commerce Committee give full consideration to passing the remedial legislation under the Jones Act which would enable timber producers of northern California and the west coast to be competitive with Canadian shippers.

EDWARD M. PEDERSON,
Chairman, Board of Supervisors, Humboldt County.

EUREKA, CALIF., July 16, 1962.

WARREN G. MAGNUSON,
*Chairman, Senate Commerce Committee,
 Senate Post Office, Washington, D.C.:*

The Eureka Chamber of Commerce would appreciate the Senate Commerce Committee passing remedial legislation under the Jones Act that will make shipping for northern California lumber producers competitive with Canada—Humboldt County, Calif., economy of 75 percent forest products.

DON CAVE,
President, Eureka Chamber of Commerce.

LARRY T. MARSHALL,
Chairman, Eureka Chamber of Commerce Natural Resources Committee,
 R. F. DENBO, *Manager.*

FORTUNA, CALIF., July 16, 1962.

Senator WARREN G. MAGNUSON,
Senate Commerce Committee,
Senate Post Office, Washington, D.C.:

Fairhurst Lumber Co. will appreciate your committee giving consideration to remedial legislation on the Jones Act so that the west coast lumber industry can compete with Canadian imports.

FAIRHURST LUMBER CO.
 F. C. RILEY,
Executive Vice President.

MEDFORD, OREG., July 16, 1962.

WARREN G. MAGNUSON,
Senate Interstate and Foreign Commerce Committee,
Senate Office Building, Washington, D.C.:

Congratulations on Commerce Committee hearing seeking to alleviate problem imposed on lumber industry. We urge every effort toward early easement of this intolerable situation, outcome of which bears directly on economic vigor of our region. We have confidence that these hearings can bring to light an equitable course of action.

DON McNEIL,
Manager, Medford Chamber of Commerce.

PORTLAND, OREG., July 14, 1962.

Senator WARREN MAGNUSON,
Senate Office Building, Washington, D.C.:

We cannot too strongly urge that the disastrous competitive inequities to which the American cargo lumber mills are subjected in their daily losing battle with their Canadian competitors be eliminated. We exhort you as chairman of the Senate Commerce Committee to do all in your power to insure the enactment, at the very earliest possible moment, of legislation that will permit the very badly thinned ranks of the Pacific Northwest lumber operators to remain as employing units, rather than follow the great number of their fellow operators into economic collapse and liquidation.

IDAPINE MILLS, INC.
 SIERRA MOUNTAIN MILLS.
 JOHN T. CASEY.

The CHAIRMAN. We will go ahead and continue this tomorrow, briefly.

We want to hear from the ICC on this rate problem, and then I understand there are some industry witnesses that would like to say something briefly.

I don't think you need to have a long time.

I think we all understand what this is all about, all of us.

We will do that tomorrow at 10:30.

Thank you.

(Whereupon, at 12:30 p.m., the committee was adjourned, to reconvene at 10:30 a.m., Wednesday, July 18, 1962.)

PROBLEMS OF THE SOFTWOOD LUMBER INDUSTRY

WEDNESDAY, JULY 18, 1962

U.S. SENATE,
COMMITTEE ON COMMERCE,
Washington, D.C.

The committee met, pursuant to recess, at 10:30 a.m., in room 5112, New Senate Office Building, Hon. Warren G. Magnuson, chairman of the committee, presiding.

The CHAIRMAN. The committee will be in order.

The first witness will be Alvin Shapiro, who is vice president of the American Merchant Marine Institute, Inc.

STATEMENT OF ALVIN SHAPIRO, VICE PRESIDENT, AMERICAN MERCHANT MARINE INSTITUTE, INC., WASHINGTON, D.C.

Mr. SHAPIRO. Mr. Chairman, I regret that I haven't a prepared statement.

The American Merchant Marine Institute, Inc., is the largest of the national trade associations representing owners and operators of American-flag vessels. The combined fleet of our members includes about two-thirds of all U.S.-flag vessels in our deep-sea trades.

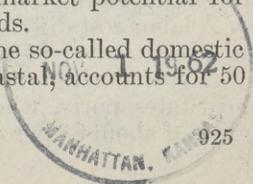
Although the legislation dealing with the Jones Act, here under consideration, S. 3105, or a subsidy for the domestic trade, S. 2737, were both introduced some time back, I regret that we did not know a formal hearing on these specific proposals would be forthcoming until a few days back. That is why I do not have a formally prepared statement for the committee, and will therefore touch only on some of the highlights.

The modification of the Jones Act affects half of the fleet we represent. I therefore am not dealing with any theory when I indicate our vigorous opposition to the elimination of the cabotage principle.

Incidentally, I think it essential to point out that this principle has been reaffirmed and strengthened by this very committee in very recent years on several different occasions. In 1956, 1960, and 1961, all of those actions became law.

Confinement of the domestic trade to citizen-owned American-built or rebuilt and American-flag ships accounts exclusively for the existence of 40 percent of all American-flag vessels by number and 50 percent by tonnage. It thus is responsible for one out of every two jobs at sea and for one-half of the commercial market potential for new construction and repair in American shipyards.

The CHAIRMAN. By that you mean that the so-called domestic part of the merchant marine, coastal and intercoastal, accounts for 50 percent?



Mr. SHAPIRO. It is half of our fleet, and there is no way of hiding this.

The CHAIRMAN. This includes the St. Lawrence, too?

Mr. SHAPIRO. No, it does not. But this does affect the manpower requirements and the payrolls in American shipyards.

And I must say, if we were to add the Great Lakes to this, which I had not yet done, and they are just as affected by domestic trading requirements, the proportions would be larger and the impact of this legislation would be even greater.

Efforts to eliminate the Jones Act principle (cabotage) today cluster around the reduced marketings of Northwest lumber on the eastern coast of the United States. The loss has been largely to Canadian suppliers who are in an advantageous position vis-a-vis American suppliers in the Northwest.

Now, nobody has to tell us about foreign competition because we live with it every day of the year in our foreign trades. The only unique aspect of this competition is the proximity of the competitor. I would not have any of you believe that we fail to appreciate or are not sympathetic with the state the Northwest lumber finds itself in today. I feel reasonably certain, however, that as a result of the hearings that have already been held and those that will be held in the future, it will become obvious that an attack on the Jones Act, even if successful, will destroy half of the American merchant marine and do very little if anything for lumbering in the Northwest.

I say "destroy" and "half" after very serious consideration. Bear this in mind. It is an undeniable fact that a foreign-flag vessel, on the basis of its acquisition cost and operating cost, is in an economic position to offer lower rates than an American-flag operator. And this is an outgrowth primarily of high American wages and working conditions of citizen labor which also happens to be highly unionized. But the naked position of lower shipping costs has never been accepted by this committee or by the Congress without a thorough evaluation of the consequences of achieving these results.

I cannot refrain, knowing this committee's great concern with our railroad problem, from indicating that along these same lines if a solution were to be sought for the railroad industry, it could be achieved in overwhelming part by the use of foreign railroaders working on U.S. railroads under foreign rather than American wages, rules, and working conditions. Now, this is so remote that it sounds facetious. Yet, the repeal of the Jones Act does precisely this to the merchant marine.

This committee is of course keenly aware of the fact that the situation west coast lumbering finds itself in vis-a-vis east coast markets does not basically result from the mandatory use of U.S.-flag vessels. The following primary factors contribute more heavily to this:

(a) The British Columbia competitor has a far lesser stumpage cost than the American, varying between \$5 and \$17 per thousand board feet, depending on the type of wood;

(b) A labor cost differential favoring the Canadian producer, which is equivalent to over \$4 per thousand board feet;

(c) A stevedoring cost advantage in the use of Canadian versus United States ports, when Canadian rather than American lumber is loaded, of about \$5 per thousand board feet; and

(d) An exchange rate advantage as a result of the devaluation of the Canadian dollar of some \$6 per thousand board feet in favor of the Canadian producer.

If we are dealing with fir, accumulation of these four factors favors the Canadian producer by over \$30 per thousand board feet, before we even touch upon his local and Federal tax advantage. American-flag shipping gives him at most an \$8 per thousand board feet water transportation advantage on the present basis of delivery. This is identical with the \$13 Senator Neuberger talked about, except her figure includes stevedoring. She spoke about 13. You take off the stevedoring advantage, which you can't escape from, because you are going to use American ports for Northwest lumber, and you get down to \$8. This is the real water transportation advantage. Eight dollars at the most.

I believe it is presumptive for west coast lumbering to conclude that any substantial part of their present marketing disadvantage, vis-à-vis Canadian producers, could be dissolved by ending the cabotage principle.

It is, in my opinion, worthy of note that the \$36 rate charged by the American operator is a tariff rate on file with the I.C.C. Unlike most other items we know of, it was placed in effect in 1957 and has not been increased since. I am given to understand by people in the trade that this rate does not cover costs but is attractive to the intercoastal operator largely because it is less expensive than to return to the Atlantic coast substantially in ballast.

I believe it is essential for this committee to consider the fact that there has been a serious lessening of the marketability of Northwest lumber in other areas of the world beyond the United States. I note, for instance, that the basic Northwest share of the United Kingdom market by 1960 had fallen to half of what it averaged in the 1950-59 period, and throughout all of Europe the basic Northwest portion in that period had fallen by about 10 percent, and in 1961 another 10 percent.

Surely in these cases, where all shippers are free to use any vessel, the decline cannot be attributed to the mandatory use of U.S.-flag ships.

The CHAIRMAN. You will find that that is mainly due to the entrance of the Soviet into the lumber market.

Mr. SHAPIRO. That and a variety of other factors.

The CHAIRMAN. Into the European lumber market I am talking about.

Mr. SHAPIRO. This, it seems to me, is extremely important—

The CHAIRMAN. Using their own ships on which we have no way to determine costs, comparative costs.

Mr. SHAPIRO. Canadian British Columbia producers increased their productivity 400,000 board feet in the last 2 years. Only about 25 percent of this increase—400 million; pardon me. Only about 25 percent of this went into east coast markets. In other words, of this very large increase, only a quarter of it resulted in the increases in east coast Atlantic marketing. Seventy-five percent of this increase in productivity went into other markets where water transportation in terms of the cabotage principle was absolutely not involved.

During this same period U.S. west coast producers lost 700,000 board feet in production. Less than 10 percent of this loss was by reduced water shipments to the east coast: the point being the west coast loss does not manifest itself on the east coast exclusively. Ninety percent of that marketing loss turns up elsewhere, and this has nothing to do with cabotage; it has nothing to do with the use of U.S.-flag vessels.

I would like to stress the highly unfair implications of eliminating cabotage after its long history in our land. What do you say by way of explanation to the large and the numerous small investors in merchant ships for our domestic trade who beyond any question consistently counted on not changing the ground rules in regard to this established maritime principle?

Another very serious implication of exposing our domestic waterborne trade to foreign-flag vessels is the tremendous traffic pattern upheaval that may result. This will have its effect not only on American sea carriers but on our railroads. It will also have serious implication for inland suppliers of identical commodities not so fortunately located as to be able to take advantage of the potentially reduced rate the foreign ship may offer.

Now I must in all good conscience caution those who would allow foreign-flag vessels to participate in our domestic trade, because it becomes not a question of their participation, but on a pure economic basis, their total usurpation, in very short time, of this entire trade.

I would leave to others perhaps more knowledgeable in interstate commerce regulation the feasibility or practicability of an American agency regulating foreign carriers, as the ICC has since 1941 regulated U.S. intercoastal carriers. But of even greater significance, the inevitable monopolization of the domestic water trade by foreign carriers will leave our domestic shippers at the mercy of the foreign-flag operator, controlled by his own national government. Under any emergency such as that which we had in the very short period, very recent history, in the emergency after the war, through 1948, the Korean war period, and the Suez crisis, the American shipper could have been, and I suspect would have been, left totally unprotected so far as service is concerned; or at the very least, have found himself paying impossibly high freight rates when the foreign operator found demand and supply factors made other routes more attractive ratewise.

Let me be very specific. Suppose under the principles of S. 3105 our domestic petroleum movements were totally or even substantially in the hands of British and French tankers. Where would the domestic petroleum shipper or the American consumer have been at the time of the Suez crisis? Remember, it just so happens that everybody is talking from the point of view of today's perspective. Today's perspective leaves rates at less than 50 percent of what they were in 1957, less than 50 percent of what they were in 1957.

Nobody is guaranteeing the lumber shipment that rates are going to stay at the present level. The gyrations in the lumber trade in the lump-sum market have been tremendous, and Heaven help the lumber shipper if he repeals the Jones Act, and finds himself depending on foreign-flag vessels. Another little crisis comes along and I tell you he will be coming here and asking you to break out vessels from the reserve fleet in order to service him.

Finally, may I turn specifically to the subsidy-type proposal, as embodied in your bill, Senator Magnuson, S. 2737.

In principle, it would appear to me to be infinitely more sound than the elimination of cabotage. The bill does, however, raise a number of very serious questions in terms of administration, and requires findings which are perhaps difficult or impossible to make. It is, however, to the nomination of the recipient of the subsidy that we have the greatest objection. The American ship operator in the lumber trade is, as I have noted, not making a profit on his operation. But this is a question which should be resolved in the normal rate-making basis by the interplay of supply and demand, subject to ICC regulation. He should receive a fair and reasonable and profit-yielding rate. If the payment of such a rate is a barrier to the marketability of the products of the Northwest lumber industry, it is that industry, not the carrier, who should be subsidized.

Further, the bill of lading or dock receipt would appear to be the best document from which an administration could compensate him directly for paying ocean freight rates which, no matter how reasonable, are available from foreign sources at lower levels. Perhaps to express this in more familiar terms, in our foreign trade the American operator is subsidized to keep American ships sailing. In this situation, if the subsidy is to be paid it should go to the lumber shipper. And it should be designed to compensate him for the difference which the Government says he can afford on the one hand and the fair and reasonable rate which an American carrier must or is permitted by our Government to charge on the other—all dedicated to maintaining intercoastal lumber shipping. I must add, however, that a transportation subsidy will not, in my opinion, accomplish the resolution of the problem facing the Northwest lumber shipper. If I were to choose at this moment as to which approach should be taken in an attempt in that direction, certainly the principles embodied under 1737 are more valid than the ones embodied in the other bill before you.

There are, nevertheless, many, many facets of this type of program that require the closest possible scrutiny, from a fiscal and policy point of view. I can only add at this time that we would be delighted to work with committee staff calling attention to some of the problems raised and seeking a resolution to them, and particularly in connection with the determinations which must be made within the framework of the drafted bill or any modifications to that bill that may be forthcoming.

I appreciate this opportunity to appear before you.

The CHAIRMAN. Thank you, Mr. Shapiro.

Regarding S. 3105, if that were limited to raw, green lumber shipments only, would your opposition to it still continue?

Mr. SHAPIRO. Yes. I think it would because I don't quite understand why anybody would contemplate providing potential lower cost ocean transportation for the movement of a particular commodity. You have the same thing, Senator, where some have said this will not affect the very large tanker business because that is a coastwise business rather than intercoastal. These commodities are shipped from many, many sources. Except for the nature of the commodity itself, the specific brand of wood, I would not be in favor of giving the Northwest lumber producer or shipper of green wood the availability of low-

cost transportation on foreign-flag vessels if I weren't doing precisely the same thing for the pine shipper out of South Carolina.

I think we have to be very fair about this.

The CHAIRMAN. Let's narrow it down to that. What if it applied only to lumber shipments, coastal, and intercoastal water shipments?

Mr. SHAPIRO. This again interposes some very, very unfair criteria. Why lumber? The foreign-flag ship can offer and produce a cheaper service. There is no question about this. There isn't a soul who knows anything about this who would deny it. Surely you can appreciate this completely.

The CHAIRMAN. We say why lumber because we don't know of any other commodity that is affected this way.

Mr. SHAPIRO. Every other commodity is affected this way, Senator.

The CHAIRMAN. What would be the other commodities?

Let's take intercoastal. I can't think of any other commodity moving through the canal, using this type of ship, which as you know is not a special type but all ships wouldn't accept it—there would be some canners. That is all I can think of.

Mr. SHAPIRO. To be very specific about this, should a shipper of oranges out of California be privileged to use a foreign-flag vessel when an orange shipper out of Florida has to use American?

The CHAIRMAN. I am talking about all of them as far as canned goods are concerned.

Mr. SHAPIRO. You have this problem.

The CHAIRMAN. Is there any east coast movement of canned goods out of Florida?

Mr. SHAPIRO. Yes.

The CHAIRMAN. Coastal?

Mr. SHAPIRO. Very limited. There is some.

The CHAIRMAN. Mostly by truck?

Mr. SHAPIRO. You get the same thing in petroleum. Petroleum moves out of California. It also moves in great proportions out of the gulf. Why is one shipper entitled to lower transportation costs?

The CHAIRMAN. The tanker thing is a little different.

Mr. SHAPIRO. Senator, I am speaking of this from a consumer point of view. If I were living in New York or Boston, I would like the low cost, or potentially low cost of transportation, regardless of whether I am buying Florida or California oranges, or whether I am buying pine or a particular wood, and these are largely interchangeable in many respects, out of the Northwest or out of South Carolina.

You can actually destroy, through transportation, the South Carolina market—I am going to be specific, but I really shouldn't be—you can destroy the New York market for South Carolina pine by enabling a potentially competitive wood out of the Northwest to use cheaper transportation. You can destroy that market, and I know you don't want to do this, and I know you don't want to upset these normal patterns.

The CHAIRMAN. The southern pine people don't think that.

Mr. SHAPIRO. Let's say I know you better than the southern pine.

The CHAIRMAN. The southern pine people, as a matter of fact, have in the past 60 or 90 days bestirred themselves also to this problem. We have several requests from several Senators representing the southern pine States not only to hold hearings down there on their plight due to

Canadian lumber, but to participate with us in whatever solutions we might be able to find here.

I think we might as well be factual here. I don't think that the members of this committee—I speak only for myself—I am sure that the repeal of the Jones Act as such would not meet with any majority favor in this committee. We understand it too well, we understand its purposes too well, and the effects we understand would be as I have said on many occasions, and I am sure Senator Bartlett has, too—this would have very serious ramifications on the entire American merchant marine.

But we are faced in trade from time to time with peculiar problems. And we have suspended the Jones Act, let's say, on certain occasions where there has been a peculiar, unusual set of circumstances and lack of service.

Senator BARTLETT. Hyder, Alaska.

The CHAIRMAN. And the city of New Orleans.

Mr. SHAPIRO. Not yet. We did it on the Great Lakes.

The CHAIRMAN. We did it on the Great Lakes for a peculiar set of circumstances.

Mr. SHAPIRO. Senator, if this was the situation—

The CHAIRMAN. Wait a minute. Let me finish. So we are talking here about a peculiar situation, and we are faced with the problem of what do we do about transportation, reasonable transportation, to meet foreign competition—that is what this is—in these cases.

Everybody, as I said yesterday, opposes doing certain things. They want to keep the Jones Act absolutely sacred. You can't do that in certain cases. For instance, the American producers, pine, fir, lumber, any lumber producer, are not selling one stick of lumber to Puerto Rico right now. Not a stick, because no one will transport it. There is no transportation, and no chance of getting it in there. And yet Puerto Rico is experiencing a fairly good-sized building boom financed by American capital.

Alaska has this perennial problem. As to Hawaii, we have never solved the island transportation problem. So we have a peculiar situation here.

No one wants to repeal the principles of the Jones Act or no one would suggest it if we thought it would lead to a deterioration of the act. But we do have peculiar circumstances and we have got to meet them as we see them. And nobody gives us the answer any more than they do in the Alaskan situation.

I know this bill that I introduced is merely a suggestion toward that solution. I haven't any pride of authorship, it poses a lot of questions, too, but it does give the Secretary of Commerce a chance where there are peculiar situations to cut the cloth to fit the particular case.

You have to have some kind of flexibility in this fast-moving, flexible, trade problem we are facing. The other countries are doing things to us. Without consulting us, or changing any laws, they go ahead and do them. So we are faced with this problem. When somebody in the merchant marine, and I think I know the merchant marine fairly well as a layman—I should know it, I have been exposed to it long enough—when we have a problem, they just come up and arbitrarily oppose anything we try to do.

I would like to have them tell us what we should do, give us some alternatives.

Mr. SHAPIRO. I know your problem and agree with it 100 percent. I would have a totally different point of view if the issue here that we are exposed to was a lack of service. I have never come before this committee in 14 years and said: "Keep the Jones Act in spite of the fact there is no American service." I have never done that and I will never do it.

The CHAIRMAN. You say there is not a lack of service for lumber now?

Mr. SHAPIRO. No, I have never heard a single complaint about a lack of service for lack of lumber. Not one. I doubt that you have, either.

I will show you ships coming back from the coast half empty, looking for lumber, dying for lumber.

The CHAIRMAN. I know it has been the reverse. I know that they have taken lumber and come back empty to the west coast.

Mr. SHAPIRO. This is absolutely true.

The CHAIRMAN. It is my understanding, from some of the Puget Sound tidewater lumber mills, that no one will call.

Mr. SHAPIRO. This may be another problem. This may be a port problem rather than a pure service problem.

Senator, your real problem is the marketability of the Northwest lumber. And whatever could be done to improve that situation is fine. The thing that I object to most vigorously is that everybody said here that is your real problem, transportation.

The CHAIRMAN. No, no; we never said that. We have said that ocean transportation, water transportation, is a problem, is the main problem in the eastern market for about, say, 12 percent of the lumber.

Mr. SHAPIRO. Right.

The CHAIRMAN. Ten or twelve. And as a result of the failure of ocean transportation, the lack of it or the cost of it, the Canadians have taken over, from something like 17 percent, to 80 percent of the lumber in the eastern market that was historically moved by water.

Mr. SHAPIRO. Senator—

The CHAIRMAN. And the tidewater mills are all closing. They can't meet this competition. They are geared to shipping by water. This is one fact, I agree, of the problem.

How do we get our own product from tidewater mills to the eastern market to compete at all, or should we give it up?

Mr. SHAPIRO. I will add this, and I don't mean to pose as a lumber authority: You can take that transportation for almost nothing from the Northwest to the east coast and you still won't solve the Northwest lumber problem.

The CHAIRMAN. I am talking about this facet.

Mr. SHAPIRO. I am speaking exclusively to this facet. If you solve the water transportation facet of this, Senator, as I have just indicated with some figures—

The CHAIRMAN. I don't think you know exactly what you are saying there, that this is the big problem of the lumber for the tidewater mills. We have got the stumpage taken care of. We are moving on that very fast. There isn't much difference. There isn't much difference in

labor costs. As a matter of fact, to get it to shipside, to get it to tide-water, costs the Canadians a little more because they are a little farther away and, too, they haven't got the land transportation facilities. The roads aren't as built up as ours, and it costs them a little more to get it to dockside.

So it is purely this 10 or 12 percent that usually moves by water, that the Canadians will take it all over in the next few months, due mainly to the water transportation cost.

Should we just tell them at home to close up?

Mr. SHAPIRO. No; absolutely not.

The CHAIRMAN. What do you suggest they do?

Mr. SHAPIRO. If, Senator, the facts as you indicate them—we just have a misunderstanding about these facts, but taken for granted that you are right, and I certainly could not contend with them, not at this moment—if this is right, by all means do something about them. Let me make a specific suggestion. Everybody is looking for specific suggestions.

The CHAIRMAN. All right.

Mr. SHAPIRO. How much construction by the military and for the military goes on in this country that uses Canadian lumber? Is there a single reason for that?

The CHAIRMAN. No, and as a matter of fact the chairman of this committee just recently sent a long letter to Mr. McNamara urging that defense contracts stipulate the use of American lumber. I haven't an answer back, naturally, but I understand that they are very sympathetic to issuing such an order.

I don't know what percentage of Canadian lumber is used, but it is substantial. They run, of course, into the competitive bidding thing where if Canadian lumber is cheaper, naturally the bid on a contract can be cheaper than uses lumber. It would up those bids, but not substantially. This is one thing.

Mr. SHAPIRO. May I make another suggestion?

The CHAIRMAN. Yes.

Mr. SHAPIRO. FHA financing building—why shouldn't this provide that American lumber be used?

The CHAIRMAN. There is an administrative ruling down there. I don't know whether it is written down, but it is surely the policy to use what they call follow out the buy-American policy.

Mr. SHAPIRO. I have been in and out of an awful lot of construction under FHA and other Government-financed programs and I can tell you I see Canadian lumber coming out of their ears when I walk around these things. There may be a regulation to this effect. I don't know.

The CHAIRMAN. I don't know, either. These are some of the real things that you can do. There is nothing wrong with the quota if you want to protect the Canadians.

Mr. SHAPIRO. I am a little tired, Senator, and I speak now purely as a citizen, of some of the attitude within our Government that you can't touch on anything the Canadians are doing. Every time they have had an opportunity to do some of the things that they wanted to do, they did it. We couldn't bring any of their immigrants to an American port because they wanted to develop the port of Halifax. We begged them to let a Canadian immigrant come to the United States.

They said absolutely no, we want to develop the port of Halifax. They have to come to Halifax.

We are sitting with wheat coming out of our ears and they are selling wheat wherever they choose to sell it.

The CHAIRMAN. They devalue the dollar for their export-import market when they feel like it, and they have set a few tariffs in the last recent days without consultation with us.

Mr. SHAPIRO. I will summarize; I know you are terribly busy.

I honestly feel that no matter what you do with the water transportation picture you will not solve the Northwest lumber problem. You will help a little but you will not solve it.

The CHAIRMAN. We appreciate that isn't the whole problem. Of course I have said, as you know, and many members of this committee know, that even if this lumber situation wasn't there, we ought to come up with some answers to our intercoastal and coastal trade.

Mr. SHAPIRO. By all means, and this is the primary reason why your subsidy and assistance approach is infinitely more attractive to me and I think to all of us, than destroying the trade, because it isn't sufficient.

The CHAIRMAN. What we had in mind was that the Secretary of Commerce would be authorized to look at a situation and encompass into the principles of the 1936 act a situation where foreign competition caused the trouble.

In other words, where they were the villains, and only in that particular case.

Mr. SHAPIRO. Senator, this sounds very good, and believe me it is a very logical kind of approach. But spare me from the determinations of any Secretary of Commerce. I am not speaking of this particular one; any Secretary of Commerce.

The CHAIRMAN. We have to give the authority to someone.

Mr. SHAPIRO. That is right; I quite agree with that.

The CHAIRMAN. I am sure Congress would have to delegate it.

Let's take the Puerto Rican situation. Something has to be done there in water transportation. I think that we had better come up pretty soon with a national policy on what we call noncontiguous transportation problems, namely, Puerto Rico, Hawaii, and Alaska.

Mr. SHAPIRO. Nobody is more sympathetic to those endeavors, I think, than Senator Bartlett, with whom I have had several conversations about this. He appreciates my point of view and the industry's point of view. Something has to be done about this. There is no question about it.

The CHAIRMAN. And we haven't any policy on it, national policy, and there has got to be some concession made for that.

Mr. SHAPIRO. You requested a national policy of the Secretary of Commerce about 4 years ago.

The CHAIRMAN. I never got it.

Mr. SHAPIRO. It is still "coming forth." These trades need assistance, not destruction. And insofar as your approach is one of assistance, I am 100 percent in favor of it. I think it has some wrinkles in it that perhaps need some recasting. But as an approach, as a policy, as a principle, I agree with it 100 percent.

The CHAIRMAN. On lumber, the best we can figure out, normal movements from the Pacific Northwest, the subsidy would run around

from \$6 to \$8 million a year. That is the best figure. It is guessing, but figuring the amount normally of the tonnage.

Mr. SHAPIRO. And the lumber shipper validly should receive this assistance in my opinion, unless we take other steps. My fear is that you will give him this assistance and it will not solve his problem.

The CHAIRMAN. Only as to the tidewater mills.

Mr. SHAPIRO. I am speaking only of tidewater mills, only water transportation, and only U.S. Atlantic markets. It will not resolve his problem.

The CHAIRMAN. I have a bill before the committee which I think we can pass out, another angle of this, in which we adopt the principle of the Saltonstall Act and take part of the tariff that is collected on foreign lumber to use it for research projects to find new uses of lumber. There are many ways we can attack it. But the tidewater mills are really the real problem, and this is where the violent change is taking place.

Bob, do you have any questions?

Senator BARTLETT. Just a few.

The CHAIRMAN. I mean of Mr. Shapiro.

Senator BARTLETT. Yes, of Mr. Shapiro.

Mr. Shapiro, first I want to subscribe to what you have said concerning your cooperative attitude in seeking a solution for the maritime problems and the very real ones that beset the noncontiguous trade, so-called. You have given me tremendous help and cooperated and give much of your time.

I wonder if you would explain to us a little bit more in detail how your substitute suggestion relating to the chairman's bill would work out; that is to say, it is my understanding that you recommended that the subsidy, if provided, not go to the shipping company but go to the shipper.

Just how would this be accomplished?

Mr. SHAPIRO. Let me be very specific. The Department of Commerce makes a determination—Maritime is very skilled, it is very knowledgeable in this, that the foreign-flag rate is \$25, if available to the American shipper.

You look at the tariff and you see that he is now paying \$36. There is an \$11 difference. Every time he ships lumber at \$36 instead of \$25 he has a bill of lading or a dock receipt, one or the other—you have to find the right document, and I would favor the bill of lading.

There are some legal issues involved in whether the bill of lading is the right document. The point is there is an existing document. Every ton that I ship from the Northwest at \$36, instead of \$25, which I could have shipped at, presumably, I take this bill of lading and bank it, and I get \$11 and I don't have to wait a month or a year or so for the Department of Commerce finding. I can bank this in 3 days, and every ton I ship I go to the bank with a bill of lading, stamped by a proper authority, by one man stationed in Tacoma or elsewhere, and get \$11 for every ton shipped. Don't fool around with determinations all over the sky.

You can look in the market in one day and you can find out what he could have shipped it for if not bound by the Jones Act. You can look at the tariff and find out what he has to ship it for when he is under the Jones Act; that is, the \$36 versus \$25. There is an \$11

difference. Bank the document. It is a legal document, the bill of lading.

Senator BARTLETT. The bank to be made whole by the Treasury Department?

Mr. SHAPIRO. By the Treasury Department. I am not concerned about the bank being made whole. I am concerned about the shipper being made whole.

Senator BARTLETT. So the Treasury Department will have to have an annual appropriation to depend upon for reimbursement.

Mr. SHAPIRO. Precisely.

Senator BARTLETT. If lumber is carried from the Pacific Northwest ports to the east coast, which isn't occurring too frequently these days, is there any specific type of ship that specializes in this carriage, or is it a general freighter?

Mr. SHAPIRO. I would say the Weyerhaeuser ship is about as specialized a ship as you can get. It is really a generalized freighter.

Senator BARTLETT. Any freighter can and does put into a given port to pick up lumber.

Mr. SHAPIRO. With very minor exception any freighter will do this.

Senator BARTLETT. Some of the companies belonging to your association have freighters engaged in this trade?

Mr. SHAPIRO. Yes. The biggest lumber carriers, with the exception of Weyerhaeuser, the biggest so-called common carrier in the lumber trade is a member of our organization.

The CHAIRMAN. Right there could I ask this question: Weyerhaeuser doesn't pick up any other cargo but its own?

Mr. SHAPIRO. I can't answer this question. The point is they are free to do this.

The CHAIRMAN. They could?

Mr. SHAPIRO. Oh, yes, providing they don't become a common carrier—they can become a contract carrier.

Senator BARTLETT. You and the chairman engaged briefly in a discussion about the general problem relating to the coastwise intercoastal trade aside from this lumber emergency and I think we all agreed that it is declining, has declined for more than 20 years, is rapidly disappearing. I would like to ask you this specific question: Do you believe that this trade can survive if the National Government fails to do anything at all concerning it?

Mr. SHAPIRO. No. It is as dead as a doornail.

Senator BARTLETT. Do you believe it is worth while protecting?

Mr. SHAPIRO. Absolutely.

Senator BARTLETT. And maintaining and increasing?

Mr. SHAPIRO. Yes.

The CHAIRMAN. You are talking about shipping intercoastal?

Senator BARTLETT. I am talking specifically about shipping.

The CHAIRMAN. Intercoastal trade. This would be all products in intercoastal trade?

Mr. SHAPIRO. And coastwise.

Senator BARTLETT. We are not dealing specifically with Pacific lumber, although that is certainly an important segment. And I am not talking especially about petroleum products.

Mr. SHAPIRO. But never forget it, Senator, it is over a third of our fleet.

Senator BARTLETT. I understand that. Do you believe enough attention has been devoted by the Congress and by the executive branch of Government during the last several years particularly to this segment of our maritime trade?

Mr. SHAPIRO. By the Congress, yes. By the administration or the executive branch, none. Not only not enough, none.

Senator BARTLETT. Of course, I am including in my questions to you the entire noncontiguous areas.

Mr. SHAPIRO. Of course.

Senator BARTLETT. Do you believe that the proposals, if such they may be termed, presented in the President's message, offer any hope at all in this direction?

Mr. SHAPIRO. Very little, because really the only thing that he touched upon in this area was again the admonition that something should be done about it.

Senator BARTLETT. That a study should be made?

Mr. SHAPIRO. Yes.

Senator BARTLETT. Do you think the time has come if this trade is to survive that something specific had better be recommended and acted upon?

Mr. SHAPIRO. Very definitely.

The CHAIRMAN. The President of the United States, in his message to Congress, on page 14, largely I think at the request of myself and others interested, had this to say:

At my request the Secretary of Commerce has undertaken a study of the current problems of the American merchant marine. This review will involve such specific issues as the state of coastal and intercoastal shipping and the costs of service to our noncontiguous territories.

Mr. SHAPIRO. Senator, nobody has to study this.

Senator BARTLETT. I was kind of bowled over by that phrase, "the cost of service to noncontiguous territories." That would be very easily ascertainable. That isn't by way of providing a solution at all.

Mr. SHAPIRO. And the only other part was the status, and we know the status. It is very obvious.

Senator BARTLETT. Shocking, profoundly shocking.

Mr. SHAPIRO. Yes.

Senator BARTLETT. Mr. Shapiro, do you believe that this coastal fleet—and I use that in an inclusive sense—is important for national defense?

Mr. SHAPIRO. Yes. I certainly think it is important for national defense. I am a little less concerned about the national defense implications of this than I once was. I am much more concerned about it from the commercial transportation point of view. Water transportation is economical. Water transportation is something that every citizen in the land, be he in Alaska, Hawaii, Brooklyn, Tacoma, or Seattle, is entitled to get the advantage of. And nothing is being done about it.

Senator BARTLETT. But our national transportation policy, maritime policy, has been effectuated with the idea that there is an imperative and continuing and always existing need for a fleet in being for national defense.

Mr. SHAPIRO. Yes.

Senator BARTLETT. Isn't it much more likely that that fleet would be ready for use if it were serving coastal ports?

Mr. SHAPIRO. By all means.

Senator BARTLETT. Because it isn't far away, couldn't possibly be reached by an enemy. Wouldn't it readily be available for emergency purposes?

Mr. SHAPIRO. Yes.

Senator BARTLETT. I have no further questions.

The CHAIRMAN. I want to ask Mr. Shapiro to clear this up. Maybe he can do it for me.

Senator Neuberger yesterday made a statement that only x number of people were involved in the shipping phase of this——

Mr. SHAPIRO. She was talking about——

The CHAIRMAN. As against 3,500, she said, unemployed in her State, and repealing the Jones Act as to this part would involve only 300, I believe she said. We will get the correct figure.

Mr. SHAPIRO. She said 1,000.

The CHAIRMAN. What do you have to say about that?

Mr. SHAPIRO. She was dealing with the 22 dry cargo ships that are in the intercoastal trade. If you will multiply those 22 by roughly 40 men per ship you would get 1,000 men who would be thrown out of work if the intercoastal trade disappeared versus her 3,500 employed in the lumbering trade. This isn't really quite the answer because you can't segmentize this and repeal it here and repeal it there and repeal it at one moment for one commodity. If you are going to repeal this, repeal it. Don't fool around with the act. If it is no good, it is no good. If it is hurting the lumber business, it is hurting an awful lot of other businesses that haven't yet started to cry.

The CHAIRMAN. I think you are correct in that.

Senator BARTLETT. Could I ask one more question?

The CHAIRMAN. Yes.

Senator BARTLETT. Mr. Shapiro, you told me that if something is not done, this coastwise trade will disappear. I think that is a statement of fact; it is disappearing. But if this continues, and 10 years from now there is just one old tramp freighter going from coast to coast and still there is a requirement and desire to ship by water, then it means that we have to repeal the Jones Act.

Mr. SHAPIRO. That's right.

Senator BARTLETT. If we haven't moved beforehand in coming out with a national policy.

Mr. SHAPIRO. You are absolutely right. In other words, before you get to the stage where you have to repeal it for lack of service, let's see if we can renew this service, which is worth while from the commercial point of view, worth while from the national defense point of view. You are not going to do it by standing around waiting for studies from the Commerce Department. This is not going to happen.

I will show you official governmental studies that are 10 years old recommending a construction subsidy for the domestic trade.

The CHAIRMAN. Here is a report from this committee in 1960, after weeks of hearings I held, with a lot of specific recommendations, posing the whole problem.

I don't think we should take any plaudits as being prophets that it was obvious what was going to happen; it happened.

Mr. SHAPIRO. And it will get worse, no question about it.

The CHAIRMAN. This report covered, I think, every facet of it. If some of the recommendations had been carried out we wouldn't have had problems specifically as to lumber.

Mr. SHAPIRO. I quite agree with you, and this is going to go on and this will get worse unless something is done about it. Nobody has to study ship automation, and nobody has to look into a dozen miscellaneous facets of this program. We know the three or four root causes of this thing.

The CHAIRMAN. Have you any opinions as to one of the solutions, the changing of the procedures of joint rail-water rates, or any suggested modifications or procedures of the ICC or anyone? Would that be helpful?

Mr. SHAPIRO. Specifically in connection with joint water-land rates?

The CHAIRMAN. Yes.

Mr. SHAPIRO. If I remember correctly the Congress is in the process of handling that by authorizing a procedure for the establishment of these joint rates. This will be extremely helpful in certain trades, most notably the Alaskan trade.

The CHAIRMAN. I will ask the Commission about that. They testified at length.

Mr. SHAPIRO. I think you have a problem of rail competition in here. There is no question. Your study made reference to it as being a primary facet, and I think it is a primary facet. But there are other things that can be done. You have to resolve this as a total problem.

We had an intercoastal shipping business. It has been perpetuated as being part of a total national transportation policy. And it must be handled in that particular facet. If you are going to give it up, give it up; but give it up today. Don't wait 3 or 4 years or 5 years, because you are just wasting your time. You get constructive or destructive, one or the other. I am not looking for any resolutions from any Commerce Department, and I am not speaking against this one.

The CHAIRMAN. I don't have any further questions.

Thank you.

I want to say, Al, we appreciate your very good analysis of this one facet of this problem. I am sure you have been helpful in putting it in perspective.

Mr. SHAPIRO. Thank you.

The CHAIRMAN. John N. Thurman, vice president of Pacific American Steamship Association.

STATEMENT OF JOHN N. THURMAN, VICE PRESIDENT, PACIFIC AMERICAN STEAMSHIP ASSOCIATION

Mr. THURMAN. My name is John Thurman. I am vice president of Pacific American Steamship Association.

Mr. Chairman, Senator Bartlett, Pacific American Steamship Association, comprising the major U.S.-flag ship operators on the Pacific

coast, takes this opportunity to express its opposition to the bills, S. 3105 and S. 2737.

I will direct my testimony to S. 3105 first.

S. 3105 removes from the intercoastal trade the requirement under the 1920 Merchant Marine Act for exclusive use of American-built and American-owned vessels. It would also permit the use of foreign-built and foreign-owned vessels in trade between Alaska and the east coast of the United States.

In the letter, dated January 31, 1962, to the committee when this idea was first presented, as well as in testimony before this committee on June 4, 1962, in Portland, Oreg., our association pointed to the fallacies in the economic reasoning which has prompted the clamor for this legislation and pointed to the pitfalls which the shipper of lumber eastbound and iron and steel products westbound faces from the introduction of opportune foreign-flag vessels in the intercoastal trade.

The CHAIRMAN. If it is agreeable with Senator Bartlett and I am sure it is with the rest of the committee, I would have the staff prepare a letter to be sent to the Secretary of Commerce for a progress report on the study of coastal-intercoastal shipping, to be sent up here immediately, as directed by the President's message which came up April 5.

Senator BARTLETT. I wouldn't want to be the lone dissenter to that request. I agree, too.

The CHAIRMAN. The staff will prepare such a letter and we will see what they are doing, if anything.

Go ahead.

Mr. THURMAN. In prior testimony we pointed out that shipping rates were only a small part of the total problem, to wit:

(a) There is a competitive disadvantage to the American lumber producers of an average of \$15 per thousand board feet in the stumpage price paid by Americans compared with the British Columbia stumpage prices.

I was happy to hear this morning that this problem is being handled and probably will be worked out.

The CHAIRMAN. We are making progress.

Mr. THURMAN. We are making inroads into the problem.

The CHAIRMAN. This reorganization I think is one of the finest things that can happen to us, on this stumpage problem.

Mr. THURMAN. I agree wholeheartedly.

(b) The hourly rates of labor are approximately 14 percent higher in the United States than in the coastal region of British Columbia.

The CHAIRMAN. For the record, there have been a lot of records given us about the difference in the labor costs. We will stick to shipping. Is there any difference in the shipping labor costs? I mean dockside?

Mr. THURMAN. Yes, sir.

The CHAIRMAN. How much is there dockside?

Mr. THURMAN. I don't have the figures.

The CHAIRMAN. Somebody will get the figure and we will put it in the record. Let's get it accurately. We know there is a difference in the foreign ships.

Mr. THURMAN. No question.

The CHAIRMAN. When you talk about 14 percent, are you talking about the workers in the woods?

Mr. THURMAN. This covers the workers in the woods, this figure.

The CHAIRMAN. OK.

Mr. THURMAN. As an off-the-cuff opinion on longshore costs, Senator Neuberger yesterday stated her figures were something like \$13 per thousand board feet cheaper. My figures run between \$3 and \$4, and Congressman Tollefson had a figure of about \$6 to \$7. So I think that is the figure of the longshore cost. In other words, it would be somewhere in the neighborhood of \$6 to \$7.

The CHAIRMAN. For the record, when we started this, though they haven't come forth with any formal statement, the longshoremen groups in the United States told us repeatedly they would be glad to participate and cooperate with shippers of lumber to see if they couldn't work out a better way, or a less costly way to help in this problem. They have always been very cooperative about that.

Mr. Shapiro suggests for the record that the longshore costs are between \$4.50 and \$5 different per thousand board feet.

Mr. THURMAN. That compares very favorably with my statistics.

(c) The present exchange rate differential of approximately 8 percent in favor of the Canadians militates against the Americans' price advantage in serving Atlantic coast markets. It is another thing we can't do anything about.

(d) There is an unfair differential in tariffs upon U.S. forest products as compared with Canadian forest products in trade between the two countries.

(3) We recognize that there is a differential in the ocean transport costs of British Columbia lumber as compared with Pacific Northwest lumber, but we do not believe it represents the \$10 to \$13 differential referred to so often by lumber spokesmen. Rather it represents between \$3 and \$4. I believe longshore rates will bear that out.

We further have previously stated and restate here that the root causes of the existing competitive disparity are far more extensive than could be corrected by the introduction of foreign-flag vessels into the intercoastal trade. When one analyzes the trend of American participation in foreign markets, for example, one finds that the British Columbia mills have increased their share of a number of foreign markets by a far greater degree than they have increased their share in the U.S. North Atlantic market. Since foreign-flag shipping can be used from both American and Canadian ports in serving these oversea markets, it is clearly evident that shipping differential is not the true measure nor is it a significant criterion in the competitive problems faced by the Pacific Northwest lumber industry.

The CHAIRMAN. I hate to inject another angle in this thing, but I just don't know what the effect will be if Britain goes into the Common Market because Canada would have a preferential with the United Kingdom which uses a lot of lumber. They would probably be on the same basis then—supposing they went into the Common Market—with the Common Market as we would be. This would be helpful and put us in the same competitive status with the Common Market as the Canadian mills, whereas now, under the present rules, as a commonwealth, they have a preferential.

Mr. THURMAN. It could be very advantageous.

The CHAIRMAN. This could be helpful in off-sea trade.

Mr. THURMAN. One more development that we hope will help an industry that needs all the help it can get.

If foreign-flag vessels are introduced to the intercoastal trade, it would be a near certainty that the foreign vessels would operate on a tramp basis.

Based upon current differentials, the foreign tramp could serve the trade between the Pacific Northwest ports and the Atlantic coast ports with lumber at approximately \$4 cheaper than can be served from British Columbia ports. But the real crux of the problem is that the foreign-flag lines could not serve on a common carrier basis. Lumber shippers would have to aggregate their shipments in sufficient quantities to charter a full vessel for this trade. The small shipper who now enjoys a regular common carrier service with American vessels would be giving up an important element of his current marketing process.

In our view, the appropriate way to equalize the competitive disparity now faced by the lumber industry in the Pacific Northwest is to impose quotas or tariffs or a form of economic relief focused upon the commodity itself. It will not serve the purpose of the timber industry to surrender the intercoastal service and substitute therefor opportune foreign-flag ships whose responsibilities to the trade are nebulous and limited to the charter fixture of the moment.

Part of the historical reason for the requirement for American-flag operation in the intercoastal trade is the railroads' interest in the matter. The railroad industry, for nearly 100 years, has opposed foreign flags being used in intercoastal trade. I presume they would in this case also.

Over and above the considerations developed thus far, there must be full recognition of the implications of this legislation upon all other domestic trades. After all, other commodities served by the domestic carriers suffer similar competitive disparities as now experienced by lumber.

You asked a moment ago that a couple of commodities be cited, Senator. The pineapple and sugar shipper from Hawaii faces competition from a number of foreign sources. Thus it is that S. 3105 would set the stage for not only the demise of the intercoastal American-flag services that now exists, but the service to Alaska and Hawaii by American flag as well.

A further consideration in this matter is the fact that the companies now in the intercoastal trade have made large investments in American shipyards to improve their vessels and reduce cargo-handling costs. The Weyerhaeuser Steamship Co. has just recently completed a \$6 million modernization program, the Sea-Land Co. is converting two ships into container ships for the intercoastal trade, and the American-Hawaiian Steamship Co. is now engaged in negotiations with the Maritime Administration regarding mortgage insurance on three fully containerized vessels at a cost of \$20 million each.

Maybe the picture will brighten a little bit. Maybe the intercoastal trade is trying to come back. I think we should do everything we can assist them in trying to build up.

None of these investments would be even considered were there to be privileged use of foreign-flag vessels in the intercoastal trade. It can be safely estimated that if S. 3105 passes the American-Hawaiian investments and any other investments presently contemplated will be put on the shelf indefinitely. We are unalterably opposed to S. 3105 and urge this committee to reject this proposal for the harm it will do to the intercoastal and all other domestic water services as well as the American railroads and American seafaring personnel. Apart from this, it should be opposed on grounds that it is not an adequate solution to the competitive disparity faced by the Pacific Northwest lumber procedures.

Now I will turn to the bill, S. 2737.

As Mr. Shapiro stated before me, we certainly favor this bill much more, but we still feel there are too many problems in it, which I will try to point out.

In this bill provision is made for subsidy to the U.S.-flag ocean carrier in the domestic trade for the differential between his tariff rates and the rates which shippers might have otherwise enjoyed were they able to use foreign-flag shipping. While we appreciate that the intent of this bill is to preserve intact the American-flag requirement and, at the same time, help the lumber industry in its competitive struggle, the fact remains that the proposal, even if it were practical in its application, is unacceptable to members of this organization.

As we interpret this legislation, carriers would have to first quote rates at a level competitive with foreign-flag charter rates. Then the carrier would present a bill to the Secretary of Commerce for the differential and would have to wait for a determination of the fairness and reasonableness of his rates before he could be paid. The carrier would not know whether or not he would be compensated for the differential and at what amount.

In making a determination of the reasonableness of a rate, the Secretary of Commerce would have to know what the foreign charter rates have been of recent date from competing sources of foreign lumber. Since charter rates are often subject to secret negotiations and not published, this task would be extremely difficult and time consuming.

The CHAIRMAN. Would it be a natural practice, say a Canadian lumber exporter would charter a foreign flag: Would that be necessarily published in Canada? Or would it be subject to private negotiation?

Mr. THURMAN. Private negotiation, I believe.

The CHAIRMAN. That would be the normal way to do it?

Mr. THURMAN. The normal procedure, yes.

The CHAIRMAN. So that the trade up and down the coast would have no idea what the Canadian exporter was paying the foreign-flag shipping out of, say, Vancouver?

Mr. THURMAN. That's right. We would have to keep spies up there.

Senator BARTLETT. We do have the CIA, after all.

Mr. THURMAN. More than this, however—

The CHAIRMAN. Wait a minute. Let's get this clear.

If we charter a ship, to go overseas with lumber, would that rate be published?

Mr. THURMAN. Yes. That is filed with Maritime.

The CHAIRMAN. Filed with the Maritime Board.

So that there is another undue advantage.

Mr. THURMAN. I might point out also that recently Canadians have had an additional advantage within the last few years in that a number of vessels have been coming back—and this is my understanding—from the Far East half filled or not completely filled with cargo, and have been stopping at British Columbia ports and offering tremendously favorable rates just to get some cargo in their holds to bring it on around. So this has caused a jockeying of rates that you wouldn't find under normal shipping circumstances.

The CHAIRMAN. Let me make another point there. Everybody knows the unreliability of these foreign-flags. I have a friend who produces lumber up in Canada, and I told him one day he is going to wake up one morning and they won't be there for him.

Mr. THURMAN. That is right; you are absolutely right.

The CHAIRMAN. They are going to be some place else, where the pickings are better.

Mr. THURMAN. Or they will be there if he will pay the rate they want, which will be a nice fat rate.

The CHAIRMAN. Secondly, I have often thought that if the Canadians had a big merchant marine, they won't allow this practice to go on, they would make them ship on Canadian ships.

Mr. THURMAN. Unquestionably.

The CHAIRMAN. I am just as sure as I am sitting here that they would, if they had a real merchant marine to handle this.

I know the English wouldn't permit it.

Mr. THURMAN. More than this, however, intercoastal rates are subject to tariff filing, and ICC regulations and rate reductions are subject to notice and hearing requirements. If a carrier were to quote a lower rate by the degree of the differential—after he could find out this differential then existing—it would be a violation of ICC statutes and regulations unless it were done pursuant to a hearing. More time consuming.

Therefore, the program envisioned in these bills would subject the carriers to all manner of complications with the ICC; and certainly the intervention of competing rail carriers in these rate matters would further confound the issue.

Here again the question of precedent is a dangerous one. After all, the shippers of pineapple and sugar from Hawaii and Puerto Rico also face competition from foreign sources. It is to be presumed that they have similar problems which would prompt further requests for amendments to the 1920 Merchant Marine Act to provide the same kind of subsidy relief for carriers. Ultimately, nearly all of the domestic trades would become involved in this program.

If the Congress desires to assist the domestic carriers, there are a number of ways to do this which we suggested in the hearings in 1961 in testimony by this association. At that time, we told the Senate Commerce Committee that direct subsidies are a last resort for domestic carriers. At this moment, we know of no carrier who would advocate or even support legislation concerning subsidies in the domestic trades.

Another problem in connection with this legislation is that it sets the stage for discrimination between commodities. If the lumber industry could show that foreign competition was burdensome, they

could get the carrier subsidized for a lower rate. But if the canned goods industry or some other commodity whose products move in the intercoastal trade could not make such a showing, they would have to live with the full rates. This hardly seems a practical procedure and complicates the matter beyond comprehension.

We sincerely urge that this legislation be set aside in favor of more practical and more encompassing legislation to assist the intercoastal carriers to serve their trade routes more efficiently and more economically.

The CHAIRMAN. The canners—this is a little different situation with them—are protected in their eastern market, the canners of California, Washington, and Oregon, by a vast number of substantial tariffs against foreign fish—tuna would be one peculiar example—they are protected, whereas the lumber tariff, as against Canadian lumber coming in, has been nothing, say a dollar a thousand, whereas the canners do have protection in most of their items against foreign canned goods coming in.

Mr. THURMAN. Rest assured, Senator, they will find some way to say: "My tariff is not quite good enough and we want a little bit."

The CHAIRMAN. I understand it. There are a lot of items that are not doing too well, and we run into the same problem. If the Canadian lumber had the same comparable tariff as there is on some canned goods, I don't think we would have the problem.

Mr. THURMAN. It would certainly help. There is no question about this.

That concludes my testimony. I would like to incorporate by reference the statement of the president of our association, Mr. Ralph B. Dewey, in the record.

The CHAIRMAN. That may be done.

Mr. THURMAN. I join Mr. Shapiro in his suggestion that your bill S. 2737 be changed somewhat in order that the subsidy be given to the shipper rather than the carrier.

This morning, thinking this over, I was able to get from the Agriculture Department a few statistics which I think are very interesting. In the year 1960, for the full 12 months, this Government spent \$18 million supporting peanuts.

In 1961, I have only the first few months' figures, they spent \$7.2 million supporting peanuts as a crop. I happen to like peanut butter sandwiches but I think the lumber industry is more important to this Nation than peanuts and items such as this that we never seem to hear any complaint at all when a subsidy is asked for them. I don't know why "subsidy" is a bad word when tied in with the merchant marine in some way.

The CHAIRMAN. It depends on what part of the country you come from and what you raise. The agricultural group have more votes up here, I know, than we fellows in the merchant marine or in lumber. I don't think we should make comparisons with these other things. I think we should meet this problem by itself.

Mr. THURMAN. I don't think it is fair, Senator. I wish to point out that a figure was given a few minutes ago. I believe your staff worked it up that under your bill it would cost the Nation about \$7 million per year. I think that is a very small amount to preserve a very necessary industry, that we would like to see tailored into the simpler way, which would be to the shipper rather than the carrier.

The CHAIRMAN. Would you oppose amending the ICC Act to allow lumber to be transported as an exempt bulk commodity? This of course would mean no published tariff and free competition of cargo, with our own ships. This might be one other answer.

Mr. THURMAN. I would have to think about that one.

The CHAIRMAN. You would have to talk with your rate and conference people. It would give them a chance—and this is seasonal—to fit in cargoes a little easier.

Mr. THURMAN. It would be one way out.

The CHAIRMAN. Think about that, and if you have any ideas, send them along.

Mr. THURMAN. I will. I was at a meeting with the military this morning, and I want to commend you for the good work you have done in behalf of the ocean shipping industry. A member of the military department—I don't feel free to use his name—said there have been an awful lot of things stirring around here lately and they are beginning to get some new policy directives coming down, in which they are going to have to start including "Buy American" and "Ship American" in some of the programs that haven't included such requirement in the past.

I think that you are the one who really deserves full credit for this.

The CHAIRMAN. There is nothing wrong with the shipping industry that a little cargo won't cure, and that little cargo should come from our own American producers. They should make an extra effort to see where space is available and use it. If we just upped our American business, producers using American ships, 10 or 15 percent, many of our problems would be over, and we would have an adequate merchant marine. All other countries do, maritime countries.

I understand that some of our business people have been thinking about that, because they find they can get a rate that is just as good in many cases, they can get service that is just as good in many cases, but they start to shop around and try to find some foreign flag, when they could pick up a phone and deal with their own people and get better service and just as good a rate.

Mr. THURMAN. It is amazing, in many, many countries the people are so nationalistic-minded that the shipper unquestionably says, "I am shipping so many tons of items to the United States; let's be sure this goes on our flag." I doubt seriously if any of our shippers in this country ever say to a forwarder, "get an American flag for my shipments."

The CHAIRMAN. Even if they said, "If you can, if the space is available, and the rates and everything else are good," they are so used to shipping with foreign flag they don't do it. It wouldn't amount to too much effort. Every one here knows that we are down to about 12 percent, of all our trade coming in and going out, moving on American flags.

I am sure that could be raised 10 or 15 percent if the American producers would get together and help.

Do you have any questions, Senator?

Senator BARTLETT. No questions.

The CHAIRMAN. Do you have any questions, Senator Scott?

Senator SCOTT. I have none.

The CHAIRMAN. Mr. Altman?

**STATEMENT OF EDWIN N. ALTMAN, EXECUTIVE VICE PRESIDENT,
AMERICAN MARITIME ASSOCIATION, WASHINGTON, D.C.**

Mr. ALTMAN. My name is Edwin N. Altman. I am executive vice president of the American Maritime Association, which is an association of shipping companies in all categories: Subsidized, unsubsidized, tankers, tramp ships, etc.

At the present time there are 118 active members of the association. In behalf of the association and myself, I thank you for this opportunity to appear before your committee in its consideration of the three bills S. 3105, S. 2737, and S. 3429, which I shall discuss in that order.

S. 3105: This bill, if enacted, would exempt the intercoastal trade from the law which provides that only vessels built in and documented under our laws, and owned by American citizens, shall be permitted to engage in our domestic shipping industry. The members of our association are unanimously opposed to this bill for the reasons set forth below.

In the past, on many occasions, your committee has studied the worsening plight of our domestic shipping industry. As you know, there is no longer a single coastwise common carrier by water operating on the Pacific coast, the last one, Coastwise Lines, having been forced to discontinue operations several years ago. The situation on our Atlantic and gulf coast is not much better. Until recently, the intercoastal industry, that is, the carriage of waterborne cargo between the east/gulf coast and the Pacific coast, has been in a state of continuing decline.

Largely as a result of this committee's investigations, and its admonitions to the Interstate Commerce Commission to uphold and enforce the national transportation policy, there have recently been signs of improvement in the economic condition of the domestic trade. These signs are especially noticeable in the intercoastal segment: it is reported that Sea-Land is investing about \$60 million in an intercoastal operation, which amount includes the cost of vessels, trailers, trailer equipment, terminals, leases, etc. It is presently operating three C-2's on a 3-week frequency. According to reports, commencing in September, Sea-Land will add two specially converted trailerships, each of which will carry 474 55-foot trailers on an 18-day frequency; in December 2 more vessels of the same capacity will be added, which will result in a 9-day frequency.

Also—and this should interest the Northwest—Sea-Land intends to operate feeder trailerships in service between the Pacific Northwest and its Oakland terminal. Unless the Sea-Land operation is nipped in the bud, it promises great improvement in frequency and efficiency of intercoastal shipping.

I would like to introduce the records in that connection for the record.

The CHAIRMAN. It will be made part of the committee files.

On April 20, 1959, American-Hawaiian Steamship Co. filed an application with the Maritime Administration for mortgage insurance under title XI of the Merchant Marine Act, 1936, as amended, to build two new specialized ships.

It is reported that the capital cost of the proposed ships and the necessary terminals and equipment to sustain them will exceed \$100 million, all of which is to be privately financed. We are informed that the application is now under consideration by the Maritime Administration.

It is also reported in the press (see *Journal of Commerce*, July 16, 1962, p. 1) that Seatrain Lines, which now operates between New York Harbor and the gulf coast, is contemplating building two new vessels, with mortgage insurance under title XI, at a cost in excess of \$20 million, for operation between New York Harbor and Puerto Rico.

This shows, just to interpolate for a moment, that there are people who do have faith in the American intercoastal industry, coastwise operation. The basic problem has been right along lack of funds. They have succeeded in scraping up some investment capital, obviously from the figures put out here, and we now find ourselves in this kind of a position.

As I have said, these encouraging developments are largely the result of the efforts of this committee to establish more wholesome conditions for our domestic shipping industry.

It is certain that enactment of S. 3105, which would completely open up our intercoastal trade to foreign-flag ships, would not only kill the intercoastal projects I have outlined, but would, in a very short period, completely destroy our intercoastal shipping industry. We are told that just the introduction of the bill, and its consideration by this committee, are already undermining the faith of private financing institutions in the future of the domestic trades, and are posing a serious threat to the projects. Never mind future projects which may come up.

The effects of S. 3105 are not readily apparent. Section 27 of the Merchant Marine Act, 1920 (46 U.S.C. 883), reserves the waterborne domestic trades to ships built in this country, documented under our laws, and owned by our citizens. If you remove its applicability to the intercoastal trade, section 27 would become an empty shell. As I have stated, at present there is not a single coastwise common carrier by water on the Pacific coast; and no such carrier can operate successfully, as history has demonstrated, against selective rate cutting by the railroads. The same thing is true on the Atlantic and gulf coast; that is, domestic ships cannot operate successfully if the railroads are permitted to engage in selective rate cutting aimed at their destruction. Enactment of S. 3105 therefore would, for all practical purposes, amount to repeal of section 27. If they can't operate in the straight coastwise basis, and section 27, as amended, or proposed to be amended, cuts out the intercoastal trade, there is just simply nothing left.

There are other inconsistencies in the bill. For example, it does not purport to repeal or amend the Interstate Commerce Act, part III, Water Carriers. This means that its enactment would not necessarily open up the intercoastal trade to world shipping; but it would compel presently authorized American operators to serve the intercoastal trade with foreign-flag ships. I say "compel," because obviously an American-owned ship operating under a foreign flag could have greatly reduced costs as compared with a ship operating under the American flag, and it seems certain that such competitive advantage

would, in the long run, drive the high-cost American-flag ship out of the business. If enactment of the bill did not result in lower costs to the ship operator, which could be passed on to the shipper, then the bill would have no effect on the carriage of cargo between coasts. Reduced costs would not flow automatically from registry under a foreign flag; they would flow from reduced wage costs resulting from employment of foreign crews; from lower capital costs resulting from construction of the ship in foreign yards; from lower operating costs; and from tax deferment or exemption, depending upon the laws of the foreign-flag country.

It is conceivable that enactment of S. 3105 would create complete chaos in our entire transportation industry because of its effect upon rates. If its enactment did not result in lower freight rates for shippers, then it would be completely futile. But if it resulted in lower rates, then it would affect not only American-flag domestic ships, but also railroads and trucks. It is unbelievable that railroads could compete, in the matter of freight rates, with foreign-flag ships in the intercoastal trade.

It is also inconceivable that trucks could compete with foreign-flag shipping rates in such trade based on substandard wages and working conditions, on construction costs far below American costs, and on the tremendous tax benefits derived by foreign-flag operators. What then would be the effect of this legislation on our national transportation policy which seeks to develop, coordinate, and preserve a national transportation system by water, highway, and rail, as well as other means adequate to meet the needs of the commerce of the United States, the postal service, and national defense.

Of the four benefits enjoyed by foreign-flag operators, namely, lower wages, lower operating costs, lower construction costs, and tax deferment or exemption, we believe that the lower wage cost is the least significant.

If our reasoning is correct, and if the greatest advantages of operating under foreign flag are savings of capital costs and taxes, then we should extend this help to American-flag operators in the intercoastal trade. We can provide lower capital costs with a construction-differential subsidy, such as is now available to subsidized carriers under existing law. Why can't we give them some construction benefits which will allow them to build these ships in our own yards, which could be operable in this trade without this tremendous capital cost.

We think we should consider granting the intercoastal carriers the same tax deferment privileges which are now available to subsidized carriers, and which would enable them to upgrade and replace their fleets as required.

The CHAIRMAN. In other words, instead of extending subsidy to intercoastal, you would suggest that we extend the tax benefits to intercoastal that now are enjoyed by the subsidized lines?

Mr. ALTMAN. As well, of course, as some assistance in construction of new and efficient ships to service the specialized trade that these intercoastal vessels operate in.

We think the committee should also give consideration to the impact that S. 3105 would have on existing subsidized operators who, as a part of their American-to-foreign operations, now engage in inter-

coastal commerce. Such subsidized operators, under S. 3105, would be in direct competition, on the intercoastal leg of the operation with foreign-flag operators. Right now in the intercoastal trade they don't receive subsidy, and they have to refund part of their construction subsidy. We ask the question: If S. 3105 passes, and they are in competition with foreign-flag vessels, would they then be entitled to operating-differential subsidy on the intercoastal segment? If so, what would be the effect of such subsidy on whatever remains of the American-flag intercoastal industry?

Since S. 3105 draws no distinction between dry cargo carriers, tankers, or bulk carriers, it is obviously intended to apply to all types of merchandise; including lumber, wine, chemicals, ores, and general cargo.

On S. 2737, we stated before and we reiterate, we concur in the announced objective of S. 2737, that is, the establishment of an operating subsidy for the domestic trades, and encouragement of keeping this phase of law intact. We believe that it is less dangerous than S. 3105, but we are opposed to it because (1) we believe it would be extremely difficult and impracticable to administer; and (2) we believe it would not accomplish the purpose for which it was introduced.

Section 2 provides that the Secretary of Commerce, after notice and hearing, is authorized to grant a subsidy to any American industry which he determines is suffering from competitive disadvantage with respect to foreign competitors as a result of section 27 of the Merchant Marine Act, 1920 (46 U.S.C. 883). It is noted that he is authorized, but not directed, to grant a subsidy after his determination would apparently consist of two findings: (a) that the industry is losing business to foreign competitors as a result of the provisions of section 27 of the Merchant Marine Act, and (b) that the loss of such business is substantial. Admittedly, in some industries, transportation costs are a significant factor in the price which must be charged to avoid loss. But it is doubtful that there is any industry in which the transportation costs comprise the only competitive disadvantage.

For example, it may be so that in the lumber industry the cost of transporting the merchandise from the northwest to eastern markets affects the price at which it must be sold. But certainly it is true that lower wages for lumber workers, lower stumpage, and lower rail costs in Canada also contribute to the competitive advantage of the Canadian lumber industry in the American market.

However, the applicability of S. 2737 is limited to water freight, which is assumed to be the only competitive disadvantage. If this assumption is correct, then manifestly the bill is incomplete. If the assumption is incorrect, and if the Secretary of Commerce must also take into account other lower Canadian costs, then we believe the legislation would impose upon the Secretary a very onerous administrative task.

Under the bill, no carrier would be entitled to a subsidy until after the Secretary has made his determination. A little experience with Government procedures leads us to believe that there may be a long waiting period before the determination is made by the Secretary. What happens to the water carrier in the meantime? Shall he carry at his posted tariff rates? He cannot safely assume either that the Secretary shall determine that the industry is entitled to subsidy, or

the subsidy rate. And what happens to the consignee or consignor? He will be left with the same uncertainty pending determination by the Secretary.

After the Secretary has made his determination, the water carrier will be entitled to a subsidy, but the amount thereof must still be determined by the Secretary. This second determination would apparently consist of three findings: (a) That the rate (presumably the rate posted with the Interstate Commerce Commission) of the domestic carrier is fair and reasonable; (b) what would be a fair and reasonable rate for a low-cost foreign-flag carrier for the same service; and (c) the excess of the domestic rate over the foreign rate.

But in making his determinations, the Secretary is provided with no standards nor guidelines.

The CHAIRMAN. We expect that he would take care of those.

Mr. ALTMAN. There are some problems we would like to raise in connection with that. For example, it is the industry—not the carrier—who must establish its right to be subsidized. But who and what is the industry? In the case of lumber, is it the Pacific Northwest lumber industry, or all of them together? Conceivably, their conditions and desires may differ. But who is to speak for the industry? Is it a trade association? Or is it an individual company? How will the Secretary know when the right applicant has applied for the subsidy?

Again, how is the Secretary to determine that the domestic rate is fair and reasonable? Is the determination to be based upon out-of-pocket expenses? Or must the rate be fully compensatory? Or must it take into account the rates of other modes of transportation? It is conceivable that the Interstate Commerce Commission may have found that a given domestic rate is fair and reasonable. Must the Secretary agree with the Commission? If he disagrees, then who is the arbiter of rates, the Commission or the Secretary? These questions suggest to us that vesting this rate determination in the Secretary may produce even more chaos than now exists. Rate proceedings before the Commission sometimes take years. What assurance is there that the Secretary can act more expeditiously?

The same questions arise with respect to the Secretary's determination of what is a fair and reasonable rate for the low-cost foreign-flag carrier. The bases for this determination are not set forth in the legislation nor even suggested. We have heard that the Maritime Administration has great difficulty in determining foreign-flag operating rates.

The CHAIRMAN. We assume that the Secretary, if something like this were passed, would rely on the Maritime Board's determination of rates, where they have a criteria. Whether it is good or bad I don't pass on that.

Mr. ALTMAN. We have heard that Maritime Administration has great difficulty in determining foreign-flag operating rates.

The CHAIRMAN. But they do, and they pay their subsidy.

Mr. ALTMAN. We have no reason to conclude that the Secretary will have less difficulty in determining a proper domestic trades subsidy rate. What foreign competitor shall he consider? Canadian, British Japanese, Indian, or even Russian? We foresee what may be insurmountable obstacles to prevent the effectiveness of this legislation.

2. We do not believe that the enactment of S. 2737 would accomplish its objectives. We have heard that the northwest lumber industry is suffering from the competition of the Canadian industry. It is true that the cost of shipping lumber from the west coast Canadian ports to the eastern markets of the United States is less than the cost of shipping lumber from Northwest U.S. ports to the same markets.

Therefore, if shipping costs between Canadian and American northwest ports could be equalized, one of the competitive advantages of the Canadian industry would be eliminated. We understand that such equalization of transportation costs is one of the objectives of this bill. It is apparent from the bill itself that another objective is to enable domestic intercoastal ship operators to remain in business. We do not believe that the bill will eliminate the competitive advantages of the Canadian lumber industry.

The CHAIRMAN. Of course it is not intended to take care of it. We are talking about one facet of this thing. We didn't say this would be a cure-all for the problems. It is just one part of it.

Mr. ALTMAN. I realize that.

As I have already pointed out lower shipping cost is only one of the competitive advantages enjoyed by the Canadian lumber industry. It also pays lower wages and costs for harvesting its crop. It pays lower stumpage. Its transportation costs from point of production to point of shipment are lower. There may be other elements in its lower cost structure. It is, therefore, self-evident that the equalization of water transportation costs will not eliminate all of the cost advantages of the Canadian industry.

It can be safely assumed, since it is engaging vigorously in the trade, that the Canadian lumber industry is earning a profit in the American market. If so, simply by cutting its rate of profit, the Canadian industry could negate the equalization of water transportation costs. For these reasons, we conclude that S. 2737 is not the solution of the problems of the northeast lumber industry.

I have heretofore outlined some of the administrative burdens which would result from enactment of the bill. In the final analysis, the burden of proof as to the right of any industry to subsidy, and as to what constitute fair and reasonable foreign and domestic rates would fall on the operators in the American intercoastal trade. This trade, we believe, is already so overburdened with competition from other modes of transportation, and other problems inherent in the trade itself, that to increase its responsibilities, and thereby its costs, could well result in its disappearance.

We foresee, as I have outlined, long lapses of time before the right to subsidy could be established. We foresee long and costly litigation. We foresee uncertainty in the outcome, and all budgetary uncertainties that would accompany it. In brief, we think the bill in its present form at least would impose upon an already rapidly declining industry burdens which it could not assume and responsibilities it could not discharge.

With respect to S. 3429, the members of our association are unanimously agreed in support of the bill, S. 3429, which would authorize the Interstate Commerce Commission to require the cancellation of any international through routes or joint rates whenever such routes

or rates confer upon foreign shippers or carriers an undue advantage over American shippers or carriers.

This bill would appear to give the Interstate Commerce Commission authority to act in the interest of American shippers and carriers when necessary in connection with international through routes or joint rates and should, therefore, be enacted.

We think this might provide relief as well as protection against future competitive disadvantages which might arise.

One or two things were brought up this morning, Senator, if I might briefly make a remark or two.

You asked a question about the thousand people that were to be displaced, as stated by Senator Neuberger's presentation. She is speaking strictly of shipside personnel. This doesn't refer, of course, to the great number of people who support these ships ashore, ship chandlers, suppliers, shipyard people, certain phases of domestic transportation which would be affected, and the result of the elimination of just these 22 ships she is talking about would certainly be in the area of 3,000 or 3,500 she indicates are in the lumber industry in her State.

The CHAIRMAN. I wanted to clear that up. I think I know what she meant, but I don't think the figures are quite accurate either way in this particular case.

Mr. ALTMAN. With respect to one other remark that was made by Congresswoman Julia Butler Hansen yesterday, not referred to in my testimony here—Congresswoman Hansen is someone I know and have a great deal of respect for. She made the comment that perhaps some type of negotiation on the problem with the Canadians might be productive. This, in spite of the trades that we are talking about, the trade arrangements that are up in Congress now, and so forth, is something apparently that this administration does that they do in textiles. Textiles is one of our very heavily affected industries.

They have sent missions to Japan and other countries, and I know they have made arrangements which are protecting and limiting by agreement. It certainly is one area that has not been tapped yet, not heavily referred to. It might obviously be unproductive. It is very possible. But at this stage, things being as crucial as they are, it might be one to be revived at this point and perhaps worked on a little bit. It might provide some immediate relief.

I think one of the problems here is that the encumbrances on getting foreign ships in coastwise trade, or even the problem of putting together a subsidy program, if such should be enacted, don't provide relief in the morning. In the lumber industry, the market has been soft. I come from the Northwest, as you know. The lumber market has been soft for over 10 years to varying degrees. It is difficult to cure it in 10 days in spite of the tremendous efforts that this committee has been making. I have never seen such a concerted effort to aid an industry in all the years I have been on the scene, and it is a tremendous thing. It is something that should be continued. But it can't be done overnight. It can't be done in 2 or 3 days.

Perhaps some protective tariff as a stopgap measure might be helpful, or some arrangement internationally between ourselves and Canada could provide some immediate even if only temporary relief.

With respect to the water-transportation aspects, if we were to pay an \$8 or \$10 million subsidy per year, or a \$6 million subsidy per year,

certainly it would help this industry. As a practical matter, however, I am afraid that it would unfortunately open the door to other industries at some point down the road that come into the same problem.

I pose this question to you: If there is a possibility of funds being made available on this level, would it not be better to do something practical for the carriers who are the source of this problem, to enable them to construct the type of equipment that can produce fast, efficient, scientific modern handling? It is true that the majority of the ships in the trade are antiquated. It is equally true that lumber is not a high-premium cargo. It doesn't provide the revenue that would make possible replacement and innovation. But if on the basis of either alone, preferably a loan as against a construction subsidy—actually low-cost loan funds, for the specific purpose of implementing new design, efficient handling, proper terminals, for movement of this cargo, we could look forward in not too long a time to a reduction in rate and a much more competitive situation if we, with our American ingenuity, as Senator Neuberger points out, were to have the funds to implement that ingenuity and provide the equipment that could do a job for this industry and as a byproduct for everybody else who ships by water, it eliminates the possibilities of others coming in.

The CHAIRMAN. I think we have been at that problem for a long, long time, as much as we can to push it. We have tried to work it up and to upgrade the whole merchant marine fleet, intercoastal and others.

As pointed out here, there have been a few bright spots in the past few months.

Mr. ALTMAN. That's right. But this kills them.

This type of legislation, S. 3105, will just make any investor button the flap up on his pocket, sit back and wait to see what happens. I think the introduction of the bill has set this phase of the thing back a year as far as introducing or getting additional funds.

The CHAIRMAN. On the other phase, I began these hearings by saying the bills are just suggestions. I think the fact that we have gone at this matter has been very helpful to point up the whole situation. It will be helpful for all intercoastal shipping.

Mr. ALTMAN. I might make one statement on this, Senator.

The CHAIRMAN. We are hopeful that allowing certain things to be bulk commodities might be helpful; they can be competitive. The ICC is becoming conscious of this whole intercoastal problem because they deal a great deal with it. All of these things have been helpful.

As to dealing with Canada, we have been quite active on that one, too.

Mr. ALTMAN. I know.

The CHAIRMAN. We have talked with the Secretary of State and we are going to talk with some other people involved, both high and low. They understand the problem down there.

We have had several conferences with Mr. Johnson, the Assistant Secretary for Economic Matters. He understands the problem well. The Commerce Department, I am sure, is conscious of it. We had to wait until the election was over because we didn't know who we were going to deal with. Now we are dealing with the same people, so I don't know whether the election made any change in the situation.

The Embassy in Ottawa has made some suggestions.

In other words, they are well aware, on a country-to-country level, that something should be done. I am sure they realize that if we don't work this out some way, there will be some retaliation; there has to be, down here. And this is not good for either country.

Mr. ALTMAN. I subscribe to the fact that we have been too tender in our relations with these people.

The CHAIRMAN. They put some tariffs in just a few days ago, as I pointed out, and we are working on that. Of course we were hit again as we moved along on this, and on all points on which we are making progress by the Canadian dollar being lowered 7.5 cents. This is pretty hard to compete with. That has to be on a country-by-country basis. We don't do that. Other countries raise and lower their currency valuations to take care of their ups and downs in exports and imports. We don't do that. We couldn't do it under the Federal Reserve Act. This is one of the things that we have to work out between the two countries.

And hanging over the whole thing is the threat of Great Britain going into the Common Market, and all these Commonwealth countries wondering where they are. They would lose their preference.

I am sure that the State Department, the President, and the Inter-Agency Committee, which is not of much help, are conscious of the whole thing, and there will be some suggestions made to Canada about this particular problem. That has been explored. That is one that we can't make the decision on up here. We can only try to be persuasive.

All of this will come up if the trade bill hits the Senate floor. That will be a problem. And it is comparable to the textile thing, but that took us months. That was in our subcommittee for months and months. After prodding, getting at all phases and facets of it, we came out with something that was a little better, even for the other countries. There are some immediate problems here.

Of course the easiest solution, looking at it just solely from the lumber thing, would be the question of tariffs or quotas, even if they were temporary in nature, until we could get at many of these other things that take more time.

Mr. ALTMAN. Senator Bartlett made a remark a while ago that is awfully important.

The CHAIRMAN. I want the record to show, and we should all know, that the lumber industry, until just a few days ago, had not been able, or didn't, for months, file this problem with the Tariff Commission. Under the law they would have to do that. I think that they are ready to do so right now.

That has to be done. The Tariff Commission will have to be adviser to the President in this matter. But they need not take 18 months to do it.

We thank you all for your contributions.

We will keep the record open until Monday.

Senator BARTLETT. Mr. Chairman, I have no questions to put to Mr. Altman, but I have a statement to make.

The CHAIRMAN. All right.

Senator BARTLETT. In these words: I am a newcomer to the Senate. I have been here only a little over 3½ years, and I have come to only one firm conclusion, and that is solutions aren't easy to come by.

I am through with my statement.

The CHAIRMAN. But you will find, if you just chop away at them, when you look back you will see that you have got things done.

We become impatient, but when we look back we find that something gave.

There are some facets of this thing that it is a good thing we have worked on because we can see we have made progress.

At this point I will introduce, in the record, a statement by the Honorable Jack Westland, Second District, Washington, and a statement submitted by Mr. G. Cleveland Edgett, of Portland, Oreg., the executive vice president of the West Coast Lumberman's Association.

(The documents follow:)

STATEMENT BY THE HONORABLE JACK WESTLAND, MEMBER OF CONGRESS, SECOND DISTRICT OF WASHINGTON

Mr. Chairman, I appreciate this opportunity to express my views concerning proposed legislation to amend the Merchant Marine Act of 1920, known as the Jones Act. This legislation would enable west coast lumber producers to compete on more favorable terms with British Columbia mills.

Mr. Chairman, I have introduced H.R. 9761 in the House of Representatives, to amend the Jones Act, to provide that the Secretary of Commerce shall have authority to waive provisions of the act as it applies to any American industry, including the lumber industry, when he finds, after hearings, that such industry is losing a substantial part of its business to foreign competitors through the application of such act. My bill is not the subject of this hearing. I mention the fact that I have introduced H.R. 9761, which is similar to part of the legislation that is the subject of this hearing, only to point out my interest in this problem.

This hearing deals with S. 2737, introduced by the Senator from Washington, Mr. Magnuson, and S. 3105, introduced by the Senator from Oregon, Mrs. Neuberger. Senator Magnuson's bill provides for subsidies to help equalize the unfair competition our lumber producers face because they have to ship via American bottoms, while British Columbia producers can use foreign ships at much lower costs.

Mr. Chairman, I do not believe such subsidies are the best solution. Nor do I believe the lumber industry of Washington State and the Pacific Northwest want subsidies. On the other hand, I believe Senator Neuberger's bill presents a solution that will help solve this serious problem.

The seriousness of the situation is clearly evident when you look at a few figures. Back in 1951, west coast producers held 93 percent of the Atlantic coast market. At this time, our share is a little less than 30 percent.

The industry is confident that west coast mills can compete with Canadian mills under equal conditions. But no relief can come to us until the burdensome and unequal costs of shipment imposed by our maritime laws are removed or offset. The higher costs of American shipping gives the Canadian producers an estimated \$7- to \$11-per-thousand-board-feet competitive advantage.

What this means in human terms is expressed by the fact that the liquidation of sawmills today is a booming business. The buyers of such equipment are the owners of Canadian mills. These liquidations mean the loss of jobs for individuals and the loss of payrolls for many communities. It is a fair estimate, I believe, that at least 12,000 jobs, either directly or indirectly, in the Pacific Northwest have been sacrificed because of the unfair advantage British Columbia has in the east coast lumber market.

Mr. Chairman, our lumber mills only want a chance to meet Canadian competition on reasonably equal grounds. But when, by virtue of a subsidy paid by the Federal Government, the costs of shipping lumber are so far out of proportion as to cause unfair competition, then the cause must be eliminated.

S. 3105 would eliminate this cause. It is a bill that is stronger than the one I have introduced, although both hit directly at the problem. It is legislation keyed to meet an emergency—the emergency our lumbermen face and one that affects the economy of the Nation where timber is concerned. I sincerely hope this committee will present a favorable report on this piece of legislation.

Again, Mr. Chairman, I thank you and the members of this committee for this opportunity to express my opinions on this matter.

STATEMENT OF G. CLEVELAND EDGETT, WEST COAST LUMBERMAN'S ASSOCIATION,
PORTLAND, OREG.

My name is G. Cleveland Edgett, of Portland, Oreg. I am executive vice president of the West Coast Lumbermen's Association. We represent 161 member companies who account for approximately 60 percent of the total lumber production in western Washington, western Oregon, and northern California. Our membership includes small, medium, and large size producing mills in the Douglas-fir region.

WATER TRANSPORTATION

At hearings before this committee, held in Olympia, Wash., Portland, Oreg., and Washington, D.C., the impact of western Canadian lumber upon the lumber industry of Washington and Oregon and northern California was fully outlined. Many witnesses testified to the severity of competition by water from British Columbia mills because of the use of foreign-flag ships for deliveries to the Atlantic and gulf coasts and to Puerto Rico.

It is our view that immediate action is needed so that western lumber may compete with that from British Columbia in the Puerto Rican market. It has been previously stated that we recognize that a revamping of the so-called Jones Act is fraught with complications, and it seems logical for a start to be made by amending the basic laws relating to Puerto Rico. At the present time, British Columbia mills enjoy 100 percent of the softwood shipments to this market.

One of the basic laws governing Puerto Rico is 48 U.S.C. 734. It provides for the applicability to Puerto Rico of all of the laws of the United States. It is suggested this be amended by adding a proviso making applicable to Puerto Rico the provision of 48 U.S.C. 1433. This latter act provides that the laws of the United States restricting vessels of the United States, the transportation of passengers and merchandise directly or indirectly from any port of the United States to another port of the United States shall not be applicable to commerce between the island of American Samoa or between those islands and other ports out of the jurisdiction of the United States.

It is suggested that with respect to the movement of lumber and forest products to Puerto Rico from U.S. ports, that legislation be provided indicating that the provisions of the act of June 14, 1934, 48 Stat. 963, 48 U.S.C. 1433, shall apply to commerce between Puerto Rico and other ports under the jurisdiction of the United States to the same extent as they apply to commerce between the islands of America Samoa and other ports under the jurisdiction of the United States.

RAIL TRANSPORTATION

Senate bill 3429 is a bill to amend section 6, paragraph 2, of the Interstate Commerce Act to authorize the Interstate Commerce Commission to require the cancellation of any international through route or joint rate under certain circumstances, and for other purposes.

This legislation is of importance to insure that lumber mills shipping from manufacturing points in the United States to the U.S. market will have the opportunity to compete without discrimination because of privileges rendered in Canada by Canadian railroads. A sample is the 15-day holding of cars without assessment of demurrage or storage or any other charges.

After full hearing, the Interstate Commerce Commission in I. & S. 7050, ordered U.S. lines to discontinue this practice. The provisions for a 15-day free hold were accordingly removed from freight tariffs August 24, 1960. After it was ordered out of tariffs, applying at U.S. points, the 15-day free hold remained in effect in Canada until July 11, 1962, or nearly 2 years after it had been ordered out in the United States.

It is only at the whim of the Canadian rail lines that the practice was removed there. If perchance the Canadian rail lines should feel that it would be to their interest to restore the free hold, they are at liberty to do so. They are not bound by the regulatory measures which are in effect on U.S. business and hence could reestablish the 15-day free hold or grant as much more time as they desired if they were so inclined to do. It is to protect the U.S. shippers if a reestablishment of this privilege or similar allowance is made in Canada that this law is needed.

We urge the Senate committee to favorably act upon it. Many thousands of carloads of lumber were diverted from U.S. mills to Canadian mills during the time the Canadians had the privilege, which was ordered canceled down here, resulting in loss of business, with resulting unemployment. It undoubtedly was a contributing factor toward the financial difficulties causing the closing of many mills in the United States.

There is always a shortage of railroad equipment in the West. Any change in the transportation practice which willfully delays cars, or cars are delayed without a charge being made for it, aggravates the situation which is already critical. The cars referred to are the wide-door boxcars which are needed for packaged and long-length lumber, particularly our smaller mills who manufacture studs or lumber 8 feet in length.

(Subsequently the Labor-Management Maritime Committee and the AFL-CIO Maritime Committee submitted statements for inclusion in the record, as follows:)

STATEMENT OF THE LABOR-MANAGEMENT MARITIME COMMITTEE,
WASHINGTON, D.C.

S. 3105 would amend the Merchant Marine Act of 1920 (commonly termed the "Jones Act") to permit the use of foreign-owned and foreign-built vessels to operate in the domestic commerce of the United States. Such commerce has by law been reserved for exclusive transportation by American-flag vessels.

S. 3105 arises out of problems in connection with shipments of lumber from the Pacific Northwest to Atlantic ports and the transportation of iron and steel westbound. Much of this trade is being directed to Canadian shores.

We believe that S. 3105 is not good legislation. It neither aids in achieving the fundamental policy of promoting an American-flag fleet in our domestic commerce nor does it provide the necessary relief to the shippers it purports to aid. Comparative costs of transportation between our intercoastal merchant fleet and foreign-flag ships do not represent the chief crux of the problem. There are other competitive advantages which would remain unresolved and which would undoubtedly serve to continue this diversion of trade to Canada.

A competitive disadvantage to U.S. lumber interests exists in the price of stumpage which has been estimated at a range of \$5 to \$17 per thousand board feet over the Canadian prices.

The hourly rates of labor costs in the lumber industry have been stated as 14 percent higher in the U.S. Northwest than in the case of the corresponding Canadian industry labor costs.

The exchange rate itself is a factor resulting in some \$6 per thousand board feet in favor of procurement in Canada for Atlantic area consumers. In addition, there are tariff differentials which work to the advantage of Canadian trade.

In the light of these facts, the transportation cost differential has been greatly exaggerated. Testimony before your committee by both the American Merchant Marine Institute and the Pacific American Steamship Association has set forth that the ocean shipping differential is relatively small in comparison to other cost factors which are completely ignored by S. 3105.

It is apparent that even if S. 3105 were enacted into law, no actual remedy to the problem would be achieved. The basic causes of the cost differential encompass much more than freight charges and no admission of foreign ships into the domestic trade will solve these other basic problems. Conversely, it could destroy what remains of our domestic shipping without attaining desired goals for the lumber industry.

Finally, we do not believe that a given specific problem should be utilized to whittle away at such basic legislation as the Jones Act, particularly when the remedy offered fails to supply the relief necessary to protect either the American producer or domestic shipping. It should be noted that more than the traditionally domestic shipping companies are affected. Other American-flag ships engaged in our foreign commerce also participate domestically, including the subsidized lines on certain (nonsubsidized) legs of ocean voyages where specifically permitted under the Merchant Marine Act of 1936, as amended.

The shipping industry, both labor and management, appreciate the situation in which the Northwest lumber industry finds itself and would favor reasonably conceived measures to assist. However, we do not believe the answer resides in the proposed modification of the Jones Act.

We respectfully request that our position on S. 3105 as set forth herein, be made a part of the record in the hearings on the subject bill.

Respectfully,

EARL W. CLARK,
HOYT S. HADDOCK,
Co-Directors.

AFL-CIO MARITIME COMMITTEE,
Washington, D.C., July 20, 1962.

HON. WARREN G. MAGNUSON,
*Chairman, Senate Committee on Commerce,
U.S. Senate, Washington, D.C.*

DEAR SENATOR MAGNUSON: The enactment of S. 3105, which would amend section 27 of the Merchant Marine Act of 1920, the provisions restricting our domestic commerce to U.S.-flag vessels, would not solve the problems that exist. If this legislation were enacted, it would, however, destroy what remains of our coastwise and intercoastal shipping industry, thereby eliminating thousands of seamen's jobs.

We share with you and your committee the concern over the plight of the lumber people in this country who are losing their business to foreign interests.

The fact that many of these domestic producers are having to close up shop because of this unfair competition is eliminating cargo for an industry—the coastwise and intercoastal maritime industry—that is practically distinct because of loss of cargo.

There are, as you know, many factors aside from the nonavailability or cost of transportation contributing to the loss of business to foreign competition. It is most evident in the Canadian lumber situation that they are using their merchant marine to promote their commerce. This is something that is extremely effective and is practiced by every maritime nation except the United States. Regardless of what our freight rates are, or what they may be reduced to, if everything else remains the same, the present situation will not change. The Canadians, if it became necessary to do so to promote this commerce, would reduce their transportation charges to zero.

During the latter part of 1960, your committee held extensive hearings on the "Decline of the Coastwise and Intercoastal Shipping Industry." The problems of the industry were outlined in detail at that time. The recommendations contained in the committee's report, issued at the conclusion of the hearings, would, if followed, begin to restore the coastwise and intercoastal shipping industry. This would at least eliminate the objection that there is not sufficient shipping available to carry the lumber.

The enactment of S. 3105, in addition to not solving the existing problems confronting the lumber producers, would signal the end of the present coastwise-intercoastal shipping industry and the efforts to establish a coastwise-intercoastal shipping industry commensurate with our economic and defense needs.

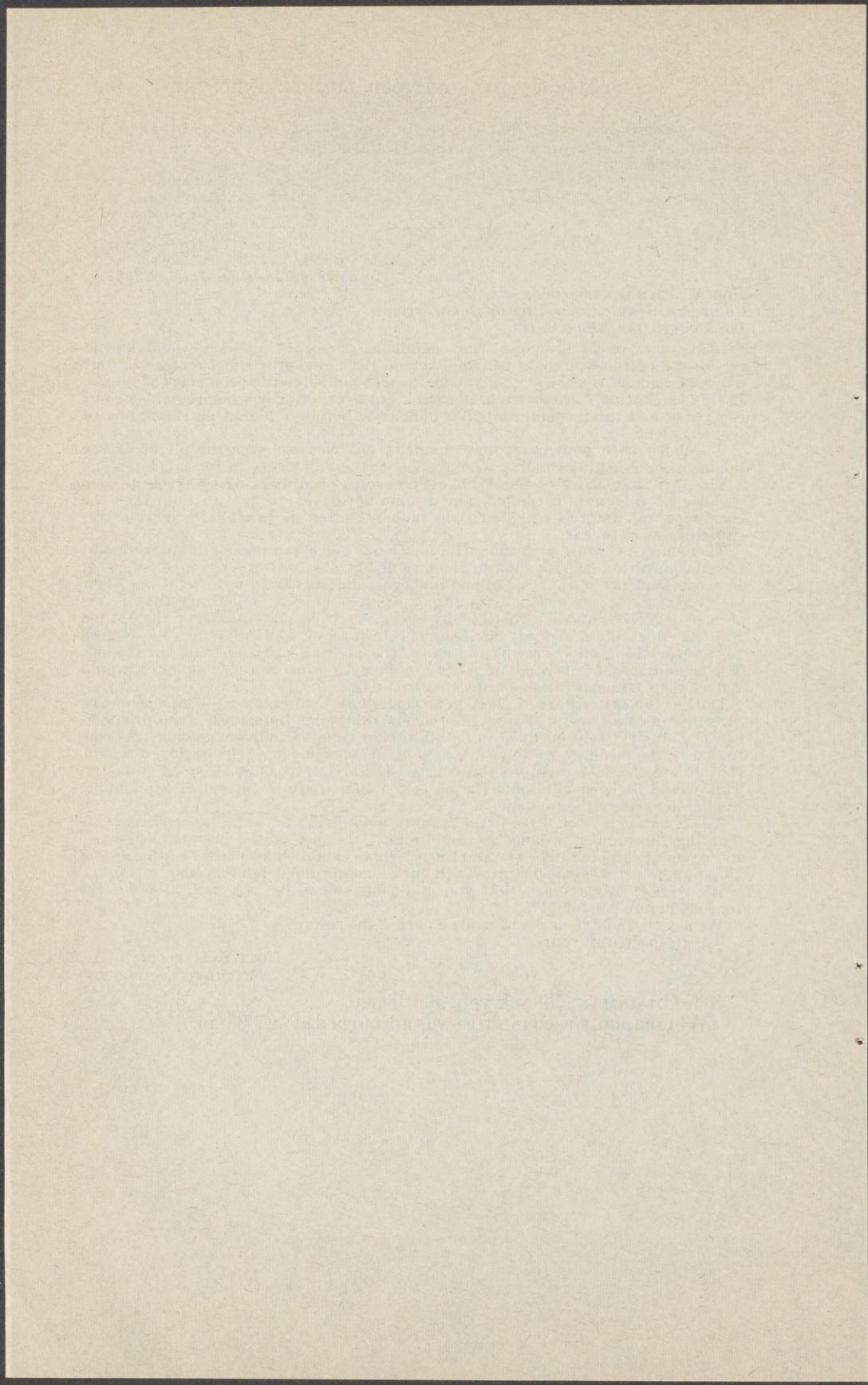
We respectfully request that you and your committee reject S. 3105 for the reasons herein set forth.

We ask that our remarks be made a part of the record.

Respectfully yours,

HOYT S. HADDOCK,
Executive Secretary.

The CHAIRMAN. Thank you, gentlemen.
(Whereupon, the committee was adjourned at 12:38 p.m.)



PROBLEMS OF THE SOFTWOOD LUMBER INDUSTRY

WEDNESDAY, JULY 18, 1962

U.S. SENATE,
Committee on Commerce,
Washington, D.C.

The committee met in room 5112, New Senate Office Building, the Honorable Warren G. Magnuson, chairman of the committee, presiding.

The CHAIRMAN. We will hear from the Honorable Rupert L. Murphy, Chairman of the Interstate Commerce Commission, on S. 3429.

(The bill follows:)

[S. 3429, 87th Cong., 2d sess.]

A BILL To amend section 6(2) of the Interstate Commerce Act to authorize the Interstate Commerce Commission to require the cancellation of any international through route or joint rate under certain circumstances, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That paragraph (2) of section 6 of the Interstate Commerce Act, as amended (49 U.S.C. 6(2)), is amended by adding at the end thereof the following new sentence: "The Commission shall have authority to require the cancellation by carriers subject to this part of any through route or joint rate with any carrier operating in any foreign country whenever it finds that any rate, charge, privilege, or practice of such foreign carrier in connection with such through route or joint rate, or traffic handled thereunder, gives or confers upon any foreign shipper, locality, or carrier an undue preference or advantage over shippers, localities, or carriers in the United States."

STATEMENT OF HON. RUPERT L. MURPHY, CHAIRMAN, INTERSTATE COMMERCE COMMISSION

Mr. MURPHY. Mr. Chairman and members of the committee, my name is Rupert L. Murphy. I am the present Chairman of the Interstate Commerce Commission and have served in that capacity since January 1 of this year.

I am appearing today to offer testimony, on behalf of the Commission, on S. 3429, which would amend section 6(2) of the Interstate Commerce Act to authorize the Commission to require the cancellation of any international through route or joint rate under certain circumstances.

About a month ago I testified before this committee in connection with its efforts to alleviate the difficulties confronting softwood lumber producers in the Pacific Northwest in marketing their lumber in competition with softwood lumber produced in, and shipped from, western Canada, principally the Province of British Columbia. Many of the problems involved in the competition within

the softwood lumber industry rested in areas lying beyond the jurisdiction of the Interstate Commerce Commission.

Among the other difficulties, however, was the fact that the Canadian shippers of lumber enjoyed a 15-day free holding-in-transit privilege en route at certain points in Canada. The effect of this was to provide free storage in cars while the sales of lumber to U.S. buyers were being sought. American shippers on the other hand were being required to pay as much as \$96 demurrage per car for such privileges, depending upon time held.

The CHAIRMAN. For the record, I think we ought to point out that we had this 15-day free hold privilege in effect for some time, and then it was technically declared by the ICC to be in violation of the act. What year was that?

We will get it. The privilege to the American shippers was taken away, and in the meantime Canada put theirs on.

Mr. MURPHY. That is correct.

The CHAIRMAN. Will you proceed. We will get the date. I think it was 1960.

Mr. MURPHY. I believe it was. I am not sure.

With this background, it seems clear that some sort of legislation is necessary to enable the Commission to act in an effort to avoid injury to shippers, localities, or carriers in the United States. We think it should be borne in mind that this set of circumstances involved but a single industry, the softwood lumber industry. Conceivably, the same thing could happen in the case of other industries. It could reoccur in the softwood lumber industry.

S. 3429 is designed to extend to the Commission the authority to require cancellation by carriers, subject to our jurisdiction, of any through route or joint rate with any carrier operating in any foreign country upon finding that any rate, charge, privilege, or practice of the foreign carrier in connection with the through route or joint rate, provides any foreign shipper, locality, or carrier an undue preference or advantage over shippers, localities, or carriers in the United States.

The cancellation of joint rates by U.S. carriers would not prevent the movement of the commodity involved, nor would it prevent the foreign railroads from allowing free time under their local tariffs. The cancellation of through-route arrangement, in addition to the cancellation of international joint rates, would prevent the through shipment and require reshipment at the boundary.

We believe that control over through routes and joint rates would help to relieve situations involving undue preference or advantage caused by practices similar to those that arose in connection with the softwood lumber difficulties.

In any event, it would provide a means by which this transportation aspect of problems such as those that were facing the softwood lumber industry be dealt with in an orderly manner.

We believe that this method of dealing with such undue preference or advantage of shippers, localities, or carriers in the United States should be readily available, and we recommend the enactment of S. 3429.

May I interpose here, in recommending this legislation we used the term "shipper," as indicated on sheet 2, lines 3 and 4, where we refer to

the term "shipper." We had in mind including in that term both the shipper and the consignee. That question was raised by someone.

In order to make it definitely sure that you would include a shipment, whether it was a consignee or the shipper would have the complaint, I would suggest that on line 3, sheet 2, of the bill that immediately following the comma, after the word "shipper", insert "consignee", and then on the fourth line of the same page, following the comma, after "shippers" insert the word "consignees".

The CHAIRMAN. Without objection, we will put that amendment in the bill.

Mr. MURPHY. That would make it definitely clear what we had in mind.

That concludes my statement.

The CHAIRMAN. What word does the ICC have from Canada as to what they have specifically done about the 15-day holding?

Mr. MURPHY. Our records indicate that it expired on July 11. We received the tariff, and we have checked from every source we had available, and we do not find that there was any change in that, and it actually expired on the 11th.

The CHAIRMAN. So that in both countries the consignees do not have that privilege?

Mr. MURPHY. That is right.

The CHAIRMAN. Either the United States or Canada.

Mr. MURPHY. That is correct.

The CHAIRMAN. This would then take care of any of the discriminatory or unfair joint-rate agreements as far as we are concerned down here. It would give you the authority on undue advantage where they would have a different rate to the border and then pick it up here and things of that kind.

Mr. MURPHY. That is correct.

The CHAIRMAN. This is one problem that is now being solved. That is one part of it, of this whole problem.

Senator Bartlett has some questions.

Senator BARTLETT. Yes. Thank you.

Mr. MURPHY. Mr. Chairman, may I say that I have my colleague, Mr. Goff, of Idaho, present.

The CHAIRMAN. He can answer, too.

Senator BARTLETT. He can also testify for the depressed lumber industry in Idaho.

I note that S. 3429 was introduced by Chairman Magnuson, by request. I assume that was at the request of the ICC?

Mr. MURPHY. We will take the responsibility. We recommended, in the testimony, that that would be one thing to look forward to.

The CHAIRMAN. They recommended it, and I asked that they send up a bill. They sent it up the same day and I introduced it by request.

Senator BARTLETT. Everything is happening fast.

Does S. 3429 have any other purpose or purposes than that of those described by you?

Mr. MURPHY. No, sir.

Senator BARTLETT. Could it be used, if it became law, for any other purpose or purposes?

Mr. MURPHY. No, sir, I do not know of any instance or any way by which it could be used for any other purpose. If the Commission

should become arbitrary, which I don't think it will, and abuse the provision, certainly the courts would enjoin us from abuse or unduly broadening the purpose of the provision.

Senator BARTLETT. I want to be very fair about this. I want to state at the outset that since our friend, Senator Engle, isn't here, I am going to try to act in his behalf in protecting our mutual friend, Tom Crowley.

Chairman Murphy, would S. 3429 authorize the ICC to cancel through rates on the grounds that there is rate competition between the connecting foreign carrier and a domestic carrier? In other words, is the mere showing of rate competition sufficient, because they have lower rates and therefore an advantage?

Mr. MURPHY. No, sir. As the bill indicates, it would have to be an undue preference or advantage.

Senator BARTLETT. Would it be an undue preference, then, if the Canadian National, for example, completed its service to Alaska via vessels built with a construction subsidy?

Mr. MURPHY. No, sir, I don't think that would be a controlling factor in determining undue preference.

Senator BARTLETT. You would not regard that as an undue preference?

Mr. MURPHY. I personally would not.

Senator BARTLETT. Do you think that your statement represents the majority opinion of the ICC?

Mr. MURPHY. I haven't discussed it with them, but I feel certain that that would be the feeling of the Commission.

Senator BARTLETT. Perhaps you could ascertain and add that to the record.

Mr. MURPHY. I will be very glad to.

Senator BARTLETT. Would it be an undue preference, in your opinion, Mr. Chairman, if it were a foreign-built vessel that were to be used, or if the vessel had a special reduction in crew requirement, or if the vessel paid lower wages?

Mr. MURPHY. No, sir, I don't think that would be controlling or carry very much weight as to—

Senator BARTLETT. Do you think it would carry any weight?

Mr. MURPHY. I don't think it would be material. I would hate to say it wouldn't carry any weight, but I don't think it would carry any substantial weight, if any at all.

Senator BARTLETT. Perhaps you would care, also, in respect to those last two questions to submit a written statement. Would you care to do that?

Mr. MURPHY. I would be glad to, if you desire.

Senator BARTLETT. Thank you.

(The following letter subsequently was submitted for the record:)

INTERSTATE COMMERCE COMMISSION,
Washington, D.C., August 2, 1962.

HON. WARREN G. MAGNUSON,
Chairman, Committee on Commerce,
U.S. Senate, Washington, D.C.

DEAR CHAIRMAN MAGNUSON: During the course of my testimony before your committee, on July 18, 1962, on S. 3429, which would authorize the Commission to require the cancellation of any international through route or joint rate under

certain circumstances, Senator Bartlett asked that I supply for the record the Commission's views on the following two questions:

(1) Would it be undue preference, then, if the Canadian National, for example, completed its service to Alaska via vessels built with a construction subsidy? (Transcript, p. 9.)

(2) Would it be an undue preference * * * if it were a foreign-built vessel that were to be used, or if the vessel had a special reduction in crew requirement, or if the vessel paid lower wages? (Transcript, p. 10.)

As requested, the Commission has considered these questions, but is unable to respond categorically. As I am sure you will understand, our interpretation of the bill, if enacted into law, would be influenced to a considerable extent by the pertinent legislative history. In general, however, in reply to the first question, we do not feel that a construction subsidy would necessarily, in and of itself, constitute an undue preference or advantage under the proposed amendment.

If, for example, the subsidy were granted to offset additional building or operating costs occasioned by the installation of special equipment or other features in order to make the vessel readily available for military service, if needed, we do not feel this would be considered to be an undue preference or advantage since it is unlikely that it would result in an undue rate advantage. If, on the other hand, a construction subsidy were granted for the purpose of enabling the carrier to obtain an advantageous position in the world market and this enabled the carrier, because of the subsidy, to offer transportation at lower rates than would otherwise have been possible, this might be regarded as an undue preference or advantage of the foreign route over other routes and U.S. shippers or carriers.

With respect to the second question, the fact that a foreign-built vessel is used would not seem to be a basis for a finding of preference or advantage. The fact that the foreign vessel is allowed to operate with a special reduction in crew or with a smaller crew than is required on U.S. vessels, or that the crew is paid lower wages than are paid to U.S. seamen, would not appear to be grounds for a finding of preference or advantage. It is believed that lower wage scales and smaller crew requirements are conditions which prevail in many areas.

As I pointed out in my testimony at the hearing, the cancellation of joint rates by the U.S. carriers would not prevent the movement of the commodity involved, but the cancellation of the through-route arrangement, in addition to the cancellation of the international joint rates, would prevent through shipment and require reshipment at the boundary.

It is hoped that the foregoing expression will be helpful to the committee in its consideration of this measure.

Sincerely,

RUPERT L. MURPHY, *Chairman.*

Senator BARTLETT. What would be an undue preference?

Mr. MURPHY. I think the best example I can give you is the one you have just been confronted with, up until July 11, where the Canadian carrier was given 15 days' free time in connection with a joint rate and route that someone has to pay for, it has to come out of the revenue that is earned on that particular car, and it is not permitted by the American carrier. And there I don't think there would be any question about the fact that the Canadian shipper would have an undue advantage and be given undue preference.

Senator BARTLETT. This is the only example that occurs to you?

Mr. MURPHY. Well, yes, sir. And I think you could multiply it many times if they decided to manipulate their demurrage charges or loading and unloading facilities. There are any number of things that could be developed by the carrier that would create—

Senator BARTLETT. But all relating to this so-called free holding?

Mr. MURPHY. No; not necessarily all relating to that. It could be developed through other means. It is similar to a rebate, giving them service without a charge or for a part charge of the cost of it.

Senator BARTLETT. Let's go into that. Would it be an undue preference if the rate on a foreign railroad were unusually low in the opinion

of the ICC, perhaps for promotional purposes, in relation to the rates on a domestic railroad?

Mr. MURPHY. If it was below paying the cost of the service, and when you add the term "promotional purposes," yes, I would say that if our carrier was participating in a joint rate and route with a foreign line on a promotional basis where such promotional activities are not permitted in the States with which they are competing, I would have to say that in my opinion could very easily create undue preference and prejudice.

Senator BARTLETT. Mr. Chairman, would it be an undue preference if the Canadian National Railroad, for example, offered a lower rate for a guaranteed amount of cargo?

Mr. MURPHY. I think it could, because the Commission just recently held in connection with a case, and the Supreme Court upheld it, that it was not lawful here. I think for our carrier to participate with a joint rate that would be to the detriment of an American carrier on an entirely American route, yes, I think it could create a preference for the Canadian shipper.

Senator BARTLETT. As you know, quite recently Canadian National inaugurated a new service to Alaska.

Mr. MURPHY. Yes, sir.

Senator BARTLETT. Freight might be picked up, for instance, at Chicago, taken to the Canadian border, then transported by Canadian National to Prince Rupert, and then it is taken by American barge to Whittier. The chairman and I are fighting like tigers to permit competition from Seattle against the Canadians. However—

The CHAIRMAN. And add, the Canadian National-owned part of the bargeline. We won't allow that down here.

Senator BARTLETT. And Tom Crowley owns part.

The CHAIRMAN. They own it?

Senator BARTLETT. Not all.

The CHAIRMAN. But the railroads are in the shipping business, and they wouldn't allow it down here. This is another peculiar case I am talking about.

Senator BARTLETT. This has brought about, we are informed, some remarkable rate reductions to the Alaska consumer. We hope these will be matched and even bettered when the city of New Orleans starts to ply these waters from the port of Seattle.

Would this bill, if it becomes law, be used, would it possibly be used, to disturb this new and welcomed service to Alaska?

Mr. MURPHY. Not as to just the rate alone. There again you would have to determine, or prove, that the rate was below cost, or if it was on a promotional basis. But if in connection with the route it is established that there is concession or rebate made in connection with that joint route, yes, sir, I think under this we would have to declare it undue preference and prejudice and order the combination of local rates to apply if they want to move it on that.

Senator BARTLETT. Then actually, Chairman Murphy, S. 3429 goes considerably beyond your statement which was presented by you in written form, or could go beyond it.

Mr. MURPHY. It could be beyond the problem we were dealing with at that time; yes, sir. To what extent would depend on a number of things, on new schemes that might be developed to create such pref-

erence and prejudice. But there was no thought to interfere with a legitimate new route and joint-rate arrangement, whether it be through Canada or America. It was for the purpose of protecting the shipper in this country, whether it be in Alaska or Seattle or Illinois or where it might be.

Senator BARTLETT. Actually, as you said, it was aimed only at this free hold situation. But its terms are so broad, as I now comprehend from what you have told me in answer to my questions, that you go much further.

Mr. MURPHY. The free hold situation is what caused us to make this recommendation. But as to saying that it was the intent of justifying it down specifically to the free hold time, I don't think we had that in mind, but thinking of any situation that gives an undue preference to a shipper, a carrier, a locality, over the carrier, shipper, or locality in the United States.

Senator BARTLETT. Thank you, Chairman Murphy.

I am obliged to say, Mr. Chairman, that on this bill I don't know yet, but I may be required to associate myself with Senator Engle in defense of Tom Crowley.

The CHAIRMAN. I think the bill could be interpreted, could go into other situations, and I think it should, if you find it undue advantage. That is the purpose of it.

Mr. MURPHY. Mr. Chairman, I want to concur in that. In making the recommendation, the Commission did not confine itself merely to one problem that had developed and could reoccur.

We had in mind, we think, that under the national transportation policy, and the act itself, we are obligated to make such suggestions where it is to protect the American industry, the American carrier, and the locality, be it Alaska, Washington, or Illinois.

The CHAIRMAN. This could apply to Canadian shipments when they hit the border.

Mr. MURPHY. Yes, and that was the reason to eliminate any question that we suggested those two amendments.

The CHAIRMAN. Or the shipment originating in Canada and coming here.

Mr. MURPHY. Yes, sir.

The CHAIRMAN. Thank you, Mr. Murphy. I am sorry to have kept you and Mr. Goff waiting here, but we couldn't help it yesterday. We had some voting, unfortunately.

(Whereupon, the committee was adjourned to the consideration of other business.)

(The following letters from the Western Pine Association, Interstate Commerce Commission, and the General Accounting Office have been received:)

WESTERN PINE ASSOCIATION,
Portland, Oreg., July 13, 1962.

HON. WARREN G. MAGNUSON,
Chairman, Senate Commerce Committee,
Washington, D.C.

DEAR SENATOR MAGNUSON: Please consider the following in support of S. 3429, introduced by you after suggestion made by ICC Chairman R. L. Murphy on June 14, 1962.

The Western Pine Association has members operating about 350 lumber mills in the States of Arizona, California, Colorado, Idaho, Montana, New Mexico,

Nevada, Oregon, South Dakota, Utah, Washington, and Wyoming. Our membership consists of mills in all three categories; i.e., small, medium, and large operations.

The board of directors of the Western Pine Association has given unanimous approval in the past to opposition to such practices as free holding of cars, circuitous routing of cars, and the misuse of out-of-line transit privileges to stop cars to partly unload. All of these practices were used to effect warehouses for the in-transit seller.

Our association opposed these practices for the following reasons:

- (a) Any misuse of rail cars contributes to car shortages.
- (b) The carriers should not hold themselves out to perform these services free for one segment of the lumber industry at the same rates paid by the firm order shipper.
- (c) The provisions of the uniform bill of lading require the movement of cars with reasonable dispatch.
- (d) The granting of such slowdown privileges is costly and must be paid for by somebody.
- (e) All such special services should be paid for by the parties demanding them.
- (f) The charges assessed should fully cover the cost of rendering such services.

An example of Western Pine Association's opposition to these practices was our participation as protestant in Investigation and Suspension Docket No. 7050 before the Interstate Commerce Commission.

The decision of the Interstate Commerce Commission in I. & S. 7050 is known to your committee as having resulted in cancellation of "free hold" practices by U.S. railroads.

After elimination of free holding by U.S. lines, the practice still prevailed on Canadian traffic. The Canadian lines stated this was necessary to compete with circuitous routings that were being used within the United States. Work by the carriers and various rate bureaus finally eliminated this competition as the routings were restricted within the United States.

With the elimination of circuitous routes and free holding by U.S. lines, it is essential that foreign lines do not maintain privileges that are detrimental to the lumber industry by allowing free storage on railroad cars from foreign origin into the United States.

Chairman Murphy of the Interstate Commerce Commission ably stated before your committee on June 14, 1962, that the Canadian lines were removing their "free hold" privileges. This became a fact on July 11, 1962, the same date that U.S. tariffs restricted internal routings that were being used to slow down carloads of lumber. Chairman Murphy also requested, before your committee, that legislative amendments be made to section 6(2) of the Interstate Commerce Act, as follows:

"The Commission shall have authority to require the cancellation by carriers subject to this part of any through route or joint rate with any carrier operating in any foreign country whenever it finds that any rate, charge, privilege, or practice of such foreign carrier in connection with such through route or joint rate, or traffic handled thereunder, gives or confers upon any foreign shipper, locality, or carrier an undue preference or advantage over shippers, localities, or carriers in the United States."

The legislation was requested by Chairman Murphy to make clear the Commission's power to deal with such matters if they develop at a future date.

We respectfully request the record show that Western Pine Association supports legislation introduced by you in S. 3429, as such legislation is consistent with the position taken by such association.

Very truly yours,

W. E. GRIFFEE,
Secretary-Manager.

COMPTROLLER GENERAL OF THE UNITED STATES,
Washington, July 9, 1962.

HON. WARREN G. MAGNUSON,
Chairman, Committee on Commerce,
U.S. Senate.

DEAR MR. CHAIRMAN: We refer again to your letter of June 18, 1962, requesting our comments on S. 3429, which proposes to authorize the Interstate Commerce

Commission, under certain circumstances, to require the cancellation of any international through route or joint rate. An identical bill, H.R. 12200, has been introduced in the House of Representatives.

Section 6(2) of the Interstate Commerce Act, as amended (49 U.S.C. 6(2)), requires common carriers subject to part I of the act to print and publish schedules showing the through rates established and charged on traffic shipped from U.S. origins through a foreign country to destinations in the United States. S. 3429, by adding a new sentence to section 6(2), would give the Interstate Commerce Commission authority to require carriers subject to part I to cancel any through route or joint rate with any carrier operating in any foreign country whenever the Commission finds that the through route, joint rate, charge, privilege, or practice of such foreign carrier gives any foreign shipper, locality, or carrier an undue preference or an advantage over shippers, localities, or carriers in the United States.

We understand that the bill is designed to implement the suggestion made by Mr. Rupert L. Murphy, Chairman, Interstate Commerce Commission, during his testimony at hearings by your committee, June 14, 15, and 18, 1962, on the impact of competitive imports on the softwood lumber industry.

Section 6 of the Interstate Commerce Act is directed to common carriers subject to part I of the act, and relates to the establishment, filing, and publication of schedules and statements of rates and routes by those carriers. Section 15 of the Interstate Commerce Act, as amended (49 U.S.C. 15), relates to the Interstate Commerce Commission's authority and powers to cancel, determine, prescribe, and establish rates, routes, classifications, etc., which among other things, have been established by carriers under section 6. Since S. 3429 proposes to give the Commission the power to act on certain parts of those schedules and statements (through routes and joint rates), we feel that your committee may wish to consider treating the proposal expressed in this bill as an amendment to section 15 rather than to section 6.

If enacted into law, the proposed bill would not affect the functions and operations of our Office; it seems to be in the public interest and, subject to the above comments, we have no objection to its receiving favorable consideration by your committee.

Sincerely yours,

JOSEPH CAMPBELL,
Comptroller General of the United States.

INTERSTATE COMMERCE COMMISSION,
Washington, D.C., July 12, 1962.

HON. WARREN G. MAGNUSON,
*Chairman, Committee on Commerce,
U.S. Senate, Washington, D.C.*

DEAR CHAIRMAN MAGNUSON: I have your letter of June 18, 1962, addressed to the Chairman of the Commission and requesting a report and comments on a bill, S. 3429, introduced by you (by request), to amend section 6(2) of the Interstate Commerce Act to authorize the Interstate Commerce Commission to require the cancellation of any international through route or joint rate under certain circumstances, and for other purposes.

This proposed measure would give effect to the suggestion made in my testimony before your committee on June 14, 1962, concerning "The Impact of Lumber Imports on the United States Softwood Lumber Industry." The proposed amendment would make clear the Commission's power to require cancellation of joint rates or through routes by U.S. carriers under certain circumstances.

The purpose of this amendment was set forth in my statement in some detail, and I know of nothing further that I could add at this time. An additional copy of that statement is enclosed for convenience of reference.

Your interest in introducing this measure is very much appreciated.

Sincerely,

RUPERT L. MURPHY, *Chairman.*

STATEMENT OF RUPERT L. MURPHY, CHAIRMAN, INTERSTATE COMMERCE
COMMISSION

Mr. Chairman, and members of the committee, my name is Rupert L. Murphy. I am the present chairman of the Interstate Commerce Commission and have

served in that capacity since January 1 of this year. I am appearing today to offer testimony, on behalf of the Commission, with respect to the difficulties confronting softwood lumber producers in the Pacific Northwest in marketing of their lumber in the Atlantic coastal area of the United States in competition with softwood lumber produced in, and shipped from, western Canada, principally the Province of British Columbia.

Testimony already presented before your committee indicates that American producers in the States of Washington, Oregon, California, Idaho, and Montana are handicapped in several respects in their competitive race with Canadian producers.

A number of the problems with which this segment of the lumber industry is now faced seem to appear in fields lying beyond the jurisdiction of the Interstate Commerce Commission. As an agency of the Government whose functions relate to the regulation of domestic surface transportation, our views are necessarily limited to that portion of the overall problem falling within our province. Among the difficulties which domestic lumber producers face is the fact that much of the Canadian lumber moves through British Columbia ports to markets on our east coast in foreign-flag vessels.

A great deal of our lumber also moves by water from Northwest ports to the same markets. However, under the provisions of the Jones Act (46 U.S.C. 883), our lumber must be carried only in American-flag vessels whose rate for the transportation nets approximately \$5 per thousand board feet more than the rate of foreign-flag vessels from Canadian origins. In addition, the costs for stevedoring services in loading the vessels are about \$4 higher per thousand board feet for packaged lumber (and about \$6 for loose lumber) than for the same services at Canadian origin ports. These figures are based on information furnished by witnesses who have appeared at earlier sessions of these hearings.

Also of significance in the overall picture has been the fact that Canadian shippers of lumber by rail enjoy a 15-day free holding-in-transit privilege en route at certain points in Canada. This, in effect, provides free storage in cars while the sales of the lumber to U.S. buyers are sought whereas the American shipper must pay up to \$96 demurrage per car for such privilege, depending upon the time held. Prior to 1960 similar holding privileges were granted by Canadian railroads on lumber moving between points in the United States through Canada. This application of the privilege was canceled August 24, 1960.

Previous witnesses have outlined other problems that are germane to the depth and seriousness of the difficulties facing this industry, such as the lower wage rates enjoyed by Canadian competitors, the higher stumpage charges which American lumbermen must pay, the depreciation of the purchasing power of the Canadian dollar for the purpose of increasing Canadian exports and curtailing imports, the higher Canadian import tariff rates on lumber from the United States as opposed to our tariff rates on lumber imports from Canada, and the objective of the Canadian National and Provincial governments to aid and promote the production of lumber, in contrast with the objective of our Government, which is to preserve, and promote multiple uses of, our forest areas.

Your committee has also been furnished with figures showing the production decline in the Pacific Northwest and a corresponding production rise in Canada.

The Jones Act, with certain exceptions, prohibits transportation of merchandise by water between points in the United States, either directly or via a foreign port, in any other vessel than a vessel built and documented under the laws of the United States and owned by persons who are citizens of the United States. Three remedies have thus far been suggested. The first is the repeal of this prohibition in the Jones Act so that the less costly transportation by foreign-flag vessels could be used. Another remedy would be to exempt from the prohibition only the carriage of lumber between ports in the United States. The third suggestion is that the Secretary of Commerce be authorized to waive application of the prohibition to the transportation of the merchandise of any industry located within the United States if he determines after notice and hearing that the requirements of the act are causing that industry to lose a substantial portion of its business to foreign competitors.

None of these proposals, however, would be very beneficial in meeting the problem that arises from the sale of in-transit lumber, which moves almost wholly by rail to the eastern markets. As a matter of fact, any of these proposals could very well, and most likely would, militate against the in-transit lumber interests and the rail carriers, unless the advantage gained by waterborne lumber were in some manner counterbalanced.

Under the circumstances the contention has been expressed that there should be a reinstatement of the privileges of the 15-day free hold and free diversion on domestic rail shipments so as to restore the flexibility in merchandising and shipping formerly enjoyed, thus reversing the Commission's ruling in I. & S. 7050, *Lumber, Free Time Allowance at Hold Points*, 310 I.C.C. 521, decided June 6, 1960.

Committee counsel submitted several questions to the Commission concerning I. & S. Docket 7050. We are in receipt of information, as yet unconfirmed, that the Canadian rail carriers now plan to remove their 15-day free holding time early in July. Lumber tariffs have been filed with the Commission for U.S. railroads which apparently propose, effective July 11, 1962, to restrict the routing substantially. We have not yet had an opportunity to determine precisely what these tariffs do. However, each contains a large number of pages of routing which have the effect of restricting the application of the rates to specified routing. This restricted routing apparently confines the application of the rates to more direct routes, thus cutting out many circuitous routes. With the thought in mind that the 15-day freehold time for some reason might not be removed, or might subsequently be reinstated, I will briefly answer the questions submitted.

(1) Could the Commission reopen I. & S. Docket 7050 on its own motion?

Under what circumstances would this be done?

The Commission may, either on its own motion or on petition, reopen docket 7050 for reconsideration, further hearing, or reargument and thereafter issue such new or different decision or order as it may find to be proper. Ordinarily, however, this is done by petition.

The proceeding may be reopened for rehearing, reargument, or reconsideration, on the Commission's own motion, under any circumstances that convince the Commission that to do so would be in the public interest. Since the evidence of record in this proceeding seems to fully warrant the conclusion therein reached, the Commission properly should act upon a proffer of evidence or other showing made by an interested party through the regular procedure of petition and answer.

The mere reopening of I. & S. Docket No. 7050, however, would not put in issue the lawfulness of the practices of Canadian carriers. In order to reach the practices complained of, which are occurring in Canada, it would be necessary either for a party to file a complaint or for the Commission to institute an investigation on its own motion.

(2) If a petition is necessary to reopen I. & S. Docket No. 7050, who can file such a petition?

Any interested person, irrespective of whether he was a party to the proceeding, may petition for action. Section 4(d) of the Administrative Procedure Act states:

"Every agency shall accord any interested person the right to petition for the issuance, amendment, or repeal of a rule."

Since the time within which parties, as of right, may file petitions has passed, leave to file a late petition, upon good cause shown, would have to be obtained under rule 101 of the General Rules of Practice. Interested persons who were not parties to the proceeding would have to file a petition for leave to intervene, which is usually accompanied by the petition for reconsideration proposed to be filed if leave to intervene is granted.

(3) Could someone petition the Commission requesting that it disallow through routes and joint rates when a Canadian railroad is giving free hold time? What would be the effect of disallowing such through routes and joint rates under these circumstances?

Any interested person may petition the Commission for any relief he may desire and which he believes the Commission has the power to grant. The Commission may exercise only such powers as it has been given by the Congress and there must be an evidentiary basis to support any order the Commission may issue. An order beyond the Commission's statutory power, or without support of proper evidence, may be set aside by the courts. Any such petition that may be filed would be given most careful consideration with respect to both the law and the facts involved.

Section 1, paragraph (1), of the Interstate Commerce Act gives to the Commission authority to regulate transportation by railroad:

"* * * from any place in the United States through a foreign country to any other place in the United States, or from or to any place in the United States to or from a foreign country, *but only insofar as such transportation, takes place within the United States.*" [Italic added.]

In view of this provision, the Commission has many times said, as in *Thermoid Co. v. B&O Railroad Co.*, 303 ICC 743, 752, that:

"* * * We have no jurisdiction to prescribe international rates for application partly within Canada, as sought by the complainants."

The Commission, however, has many times held, as in the cited case, that where a U.S. railroad enters into through route and joint rate arrangements with foreign railroads, it will be held responsible for the lawfulness of the through rate, both with respect to reparation for past unreasonable rates and as to rates for the future. The decisions indicate that if the foreign railroads are unwilling to establish joint through rates on the basis found to be lawful, it is the duty of the U.S. carrier to withdraw from the joint rates and establish rates to and from the boundary which are just, reasonable, and otherwise lawful. In this position the Commission has been supported by the courts: *News Syndicate Co. v. N.Y.C. R.R. Co.*, 275 U.S. 179 (1927); *Levis-Simas-Jones Co. v. Southern Pacific Co.*, 283 U.S. 654 (1931); *Great Northern v. Sullivan*, 294 U.S. 458 (1935); *Porter Co. v. Central Vermont R. Co.*, 366 U.S. 272 (1961).

We do not know of any instance in which the Commission has passed upon its power to hold a U.S. railroad, participating in a through route-joint rate arrangement with a foreign railroad, responsible for the action of the foreign railroad in allowing stopping in transit in a foreign country. Since this question may come before the Commission, we would prefer not to venture an opinion on this question until the case is presented and the parties have been heard on the subject.

We can point out, however, that there are decisions such as *Central R.R. of New Jersey v. United States*, 257 U.S. 247, which would be urged upon the Commission as authority for the view that the granting of such transit privileges is a responsibility only of the line granting them, and that a connecting line merely participating in the joint rate is not responsible for the granting of such privileges by another line. In *Lumber, Free Time Allowance at Hold Points*, 310 ICC 521, in which the Commission required U.S. railroads to discontinue such privileges, the Commission had authority over the railroads granting the privileges. Here, however, we are discussing the privileges being granted by Canadian railroads in Canada. In the *Central R.R.* case the issue was whether a railroad participating in joint rates with other railroads which allowed transit privileges, was in violation of the preference and prejudice clause of section 3 by participating in such joint through rates in connection with which other participating carriers were granting transit privileges at other points, while refusing to allow similar privileges at points on its own lines. The Court held that there was no violation by the connecting carrier participating in the joint rate, and set aside the Commission's order.

The contention probably would be made that certain language contained in the court's opinion in *Barringer & Co. v. United States*, 319 U.S. 1, indicates that the Commission may take into consideration all the privileges allowed by all the participating carriers in determining whether a through rate is unjust and unreasonable, i.e., in the present situation, whether the through international rates is too low in view of the privileges allowed by the Canadian lines in Canada.

There would also be raised, and considered, the question of whether the Commission may require U.S. railroads to withdraw from international joint rate and through route arrangements with foreign railroads on the theory that to continue such arrangements is an unreasonable practice, inconsistent with the national transportation policy where the practices of the foreign connecting line are such as to result in a preference of foreign shippers and carriers and prejudice to U.S. shippers and railroads. We are not aware of any prior decision on this point.

(4) Could the Commission reinstate free hold time pending a further decision in docket No. 7050?

The Commission has the power, if the proceeding in I. & S. docket 7050 were reopened, to vacate its order pending further hearings or reconsideration. The Commission should, however, act upon proper evidence tendered by proper parties and it should be shown that the Commission's decision was in error or that the public interest requires that the Commission's prior order be suspended pending the further hearing and reconsideration. A petition filed by any interested person will, of course, be given careful consideration.

In view of the possibility that the Canadian railroads may eliminate their 15-day free holding tariff provisions, further action with respect to I. & S. docket

No. 7050, or with respect to the holding of cars in Canada, may not be necessary or desirable at this time. If, however, the committee feels that a similar situation may arise again and it desires to make clear the Commission's power to deal, in the future, with these matters, we suggest consideration of an amendment to section 6(2) of the act by adding the following language at the end thereof:

"The Commission shall have authority to require the cancellation by carriers subject to this part of any through route or joint rate with any carrier operating in any foreign country whenever it finds that any rate, charge, privilege, or practice of such foreign carrier in connection with such through route or joint rate, or traffic handled thereunder, gives or confers upon any foreign shipper, locality, or carrier an undue preference or advantage over shippers, localities, or carriers in the United States."

The cancellation of joint rates by the U.S. carriers would not prevent the movement of the lumber or the allowing by Canadian railroads of free time under their local tariffs. The cancellation of through route arrangements, in addition to the cancellation of the international joint rates, would prevent the through shipment and require reshipment at the boundary. It is our belief that control over the through routes and joint rates would be adequate. In any event, that appears to be all that could be done through the regulation of transportation. Further action, if necessary and desirable, would seem, necessarily, to be in the area of the regulation of international commerce, rather than transportation.

Mr. Chairman, this concludes my prepared statement. We appreciate this opportunity to appear and testify on the transportation aspect of the lumber problem. If there are any questions, I would be glad to try to answer them.

(The following letters were subsequently received for the record:)

INTERNATIONAL MINERALS & CHEMICAL CORP.,
Skokie, Ill., July 28, 1962.

Subject: Senate bill 3429 (proposed amendment to sec. 6(2) of the Interstate Commerce Act).

HON. WARREN G. MAGNUSON,
Chairman of the Senate Committee on Commerce,
U.S. Senate, Washington, D.C.

MY DEAR MR. MAGNUSON: Our company has interest in Senate bill 3429 which proposed to amend section 6(2) of the Interstate Commerce Act dealing with preferences and prejudices on international transportation. We have potash and nepheline syenite operations within Canada and also have operations within Mexico. It is our feeling that the Interstate Commerce Commission already has authority to remove preferences or prejudices on this type of transportation without the resort to pinpointing matters of this nature to the possible embarrassment of the Governments of Canada and Mexico. We feel that if legislation of this nature was passed, there would be retaliatory regulations imposed by Canada and Mexico. This does not promote better relationships between governments.

It is our understanding that in the hearings before the Senate committee only the Chairman of the Interstate Commerce Commission appeared in support of Senate bill 3429. A reading of his testimony only indicates that the example cited of the lumber interest proves the point that we are trying to make.

The preference for the Canadian lumber was removed without specific legislation as proposed in S. 3429. The case itself is moot. The example serves to support our contention that this legislation is not required.

If the Senate committee is going to conduct further hearings on the subject, we respectfully request the opportunity to further elaborate and answer questions as to why this legislation should not take place.

Sincerely,

EUGENE LANDIS.

THE UNDER SECRETARY OF COMMERCE FOR TRANSPORTATION,
Washington D.C., August 16, 1962.

HON. WARREN G. MAGNUSON,
Chairman, Committee on Commerce,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Your letter to the Secretary of July 19, 1962, requested information regarding steps being taken by the Department of Commerce with

respect to the recommendations contained in the President's transportation message on domestic deepwater shipping. This reply is in accordance with our acknowledgment of your letter.

As you are aware, the numbers of dry cargo ships in the coastwise, inter-coastal, and noncontiguous trade declined from 194 ships in 1947 to 112 ships in 1962. The underlying causes for this decline have been the high cost of operation, competition with the railroads, and interruption to the service through frequent strikes of waterfront and seafaring labor. As matters now stand, in some cases shipping services in many ports are nonexistent or infrequent. In other cases, even though the services are adequate, shippers are finding themselves priced out of the market because of the high cost of transportation. A case in point is the present situation of the Pacific Northwest lumber shippers.

You are, of course, familiar with the President's six-point program to aid the northwest lumber industry, announced on July 26, 1962, and with particular reference to point (3), the amendment of the intercoastal shipping laws to permit the use of foreign-flag vessels in our domestic trade. Due to the situation that exists, as outlined above, it would seem that aid to certain shippers on a selective basis is an overriding consideration to the protection of domestic shipping. This step will not aid domestic shipping as it now exists, but it may be necessary as an interim measure until American-flag service can be improved and placed on a more competitive basis.

We have recited the underlying causes for the decline in the domestic deepwater shipping. Before commenting on the steps being taken to counter these causes, I would like to say that the Maritime Evaluation Committee, established a year ago at the request of the Secretary of Commerce, has been engaged in a comprehensive review of all merchant marine affairs. This Committee, composed of some of the ablest men in American industry, education, and public life, plans to submit its findings and recommendations during the latter part of August. It is contemplated that this report will include proposals to improve our domestic and noncontiguous ocean transportation systems. In the interim period the Department is going forward with certain steps which, with all certainty, will be in consonance with the recommendations of the Maritime Evaluation Committee.

The high cost of operation of the domestic fleet stems from the use of inefficient equipment and methods of cargo handling. Both private industry and the Maritime Administration are carrying forward research and development programs which will bring forth new and better equipment and improved methods. The Maritime Administration is conducting a program in which the application of automation techniques to merchant ships is being emphasized. The objective is to reduce voyage costs and improve services to the benefit of the shippers. Research is also being conducted for the improvement of cargo-handling techniques. To the credit of private enterprise, one domestic operator has passed the development stage with respect to improved cargo-handling methods and has established an extensive container operation which shows considerable cost savings. This cargo-handling method wedded to improved ship types, including automation, should further reduce costs. The roll-on, roll-off ship of improved design for use in one of the noncontiguous trades is also being studied in conjunction with the title XI program.

With respect to the disruption of the domestic service due to labor problems, the Department has taken steps to study the underlying causes of instability in the maritime labor field and proposes to devote major efforts toward ameliorating these disturbing relationships. A nationally known authority has been retained by the Maritime Administration to investigate the labor picture and make appropriate recommendations to the agency. The Secretary of Labor, the Director of the Mediation and Conciliation Service, and the Secretary of Commerce have worked closely in the preparation of a report to the chairman of the House Merchant Marine and Fisheries Committee dealing with maritime labor problems. The report recommends, among other things, a continuing Presidential commission composed of maritime labor, management, Government, and public members with a view to improving the climate of maritime labor-management relations. The results should have a beneficial effect on the domestic shipping service.

The above steps are in support of the President's recommendations to improve costs and maintain service in the domestic deepwater trade. In addition to the action outlined above, prompt consideration will be given to the recommendations of the Maritime Evaluation Committee as soon as they are forthcoming. We will, of course, keep you advised of the developments in this matter.

Sincerely,

CLARENCE D. MARTIN, JR.

DEPARTMENT OF THE NAVY,
OFFICE OF THE SECRETARY,
Washington, D.C., August 14, 1962.

HON. WARREN G. MAGNUSON,
*Chairman, Committee on Commerce,
U.S. Senate, Washington, D.C.*

MY DEAR MR. CHAIRMAN: Your request for comment on S. 2737, 87th Congress, a bill to encourage the use of American-flag vessels by domestic industries, and for other purposes, has been assigned to this Department by the Secretary of Defense for the preparation of a report thereon expressing the views of the Department of Defense.

This proposed legislation would authorize the Secretary of Commerce to grant a subsidy to the transportation of the merchandise of any industry located within the United States if he determines after notice and hearing that the requirements of section 27, Merchant Marine Act, 1920 (46 U.S.C. 883), are causing such industry to lose a substantial portion of its business to foreign competitors.

The Department of the Navy, on behalf of the Department of Defense, defers to the views of the Department of Commerce as to the merits of the proposed legislation.

This report has been coordinated within the Department of Defense in accordance with procedures prescribed by the Secretary of Defense.

The Bureau of the Budget advises that, from the standpoint of the administration's program, there is no objection to the presentation of this report for the consideration of the committee.

Sincerely yours,

C. R. KEAR, JR.,
*Captain, U.S. Navy, Deputy Chief
(For the Secretary of the Navy).*

DEPARTMENT OF STATE,
Washington, August 10, 1962.

HON. WARREN G. MAGNUSON,
*Chairman, Committee on Commerce,
U.S. Senate.*

DEAR MR. CHAIRMAN: I refer to your letter of January 25, 1962, which invited the views of the Department of State on S. 2737, a bill to encourage the use of American-flag vessels by domestic industries and for other purposes.

Since this bill proposes to grant a subsidy to domestic water carriers for transportation of products of U.S. industry, the Department of State considers the matter to be essentially of domestic concern. Accordingly, it has no objection to the enactment of this bill from a foreign policy viewpoint.

The Bureau of the Budget advises that, from the standpoint of the administration's program, there is no objection to the presentation of this report for the consideration of the committee.

Sincerely yours,

FREDERICK G. DUTTON,
*Assistant Secretary
(For the Secretary of State).*

THE GENERAL COUNSEL OF THE TREASURY,
Washington, August 13, 1962.

HON. WARREN G. MAGNUSON,
*Chairman, Committee on Commerce,
U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: Reference is made to your request for the views of this Department on S. 2737, to encourage the use of American-flag vessels by domestic industries, and for other purposes.

The bill would authorize the granting of subsidies to domestic carriers in order to permit them to meet the rates of low-cost foreign carriers in transporting the merchandise of any industry located within the United States as to which the Secretary of Commerce has determined after notice and hearing that

the requirements of section 27 of the Merchant Marine Act of 1920 (46 U.S.C. 883) are causing it to lose a substantial portion of its business to foreign competitors. Section 27 generally restricts the coastwise trade to vessels built in and documented under the laws of the United States and owned by citizens of the United States.

Since a study of the proposed legislation reveals that it will not affect the administration of section 27 of the Merchant Marine Act of 1920 or of any other statute within the jurisdiction of the Treasury Department, this Department has no comments to make with respect to its general merits.

The Department has been advised by the Bureau of the Budget that there is no objection from the standpoint of the administration's program to the submission of this report to the committee.

Sincerely yours,

FRED B. SMITH,
Acting General Counsel.

DEPARTMENT OF STATE,
Washington, August 10, 1962.

HON. WARREN G. MAGNUSON,
*Chairman, Committee on Commerce,
U.S. Senate.*

DEAR MR. CHAIRMAN: I refer to your letter of April 4, 1962, requesting the views of the Department of State on S. 3105, a bill to provide that the law limiting the transportation of merchandise in the coastwise trade to certain U.S. vessels shall not apply to such transportation between a port on the east coast of the United States and a port on the west coast of the United States. Interim acknowledgment was made to your letter on April 6, 1962.

The Department of State considers that the question of modifying the cabotage concept is a matter primarily of domestic concern and therefore from the standpoint of foreign relations has no comment on the proposed legislation.

The Bureau of the Budget advises that, from the standpoint of the administration's program, there is no objection to the presentation of this report for the consideration of the committee.

Sincerely yours,

FREDERICK G. DUTTON,
*Assistant Secretary,
(For the Secretary of State).*

