

GREAT BRITAIN

Imperial Shipping Committee.

Inquiry Committee, 1938

British Shipping in the Orient
: Report



THIRTY-EIGHTH REPORT OF
THE IMPERIAL SHIPPING COMMITTEE

BRITISH SHIPPING
IN THE ORIENT

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NOTE.—The seat of Newfoundland on the Committee is at present vacant.

* See next page.

† In view of Lord Craigmyle's position in 1937 as Chairman of the P. & O. and B.I. Companies, his place on the Committee for the purpose of this Inquiry was taken by Mr. Robertson F. Gibb, Chairman of the Union Castle Line.

‡ Mr. D. Carter, who was Secretary to the Committee throughout this Inquiry, resigned in 1938 on receiving promotion in the U.K. civil service. He has been succeeded by Mr. G. V. Hole.

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(As amended by the Imperial Conference of 1930.)

(i) To inquire into complaints from persons and bodies interested with regard to ocean freights, facilities and conditions in the inter-Imperial trade, or questions of a similar nature referred to them by any of the nominating authorities; and to report their conclusions to the Governments concerned.

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LIST OF ABBREVIATIONS.

B.I.	British India Steam Navigation Co., Ltd. (British).
c.i.f.	Cost, insurance, freight.
E. & A.	Eastern and Australian Steam Navigation Co., Ltd. (British).
f.o.b.	Free on board.
I.L.O.	International Labour Office.
J.C.J.	Java-China-Japan Line (Netherlands).
K.K.K.	Kokusai Kisen Kaisha ¹ (Japanese).
K.P.M.	Koninklijke Paketvaart Maatschappij ² (Netherlands).
M.B.K.	Mitsui Bussan Kaisha ³ (Japanese).
Nanyo Y.K.	Nanyo Yusen Kaisha ⁴ (Japanese).
N.E.I.	Netherlands East Indies.
N.G.I.	Navigazione Generale Italiana (Italian).
N.Y.K.	Nippon Yusen Kaisha ⁵ (Japanese).
O.S.K.	Osaka Shosen Kaisha ⁶ (Japanese).
P. & O.	Peninsular and Oriental Steam Navigation Co. (British).

Translations :—

1. Kokusai Steamship Company.
2. Royal Mail Packet Company.
3. Mitsui Trading Company.
4. Nanyo Mail Steamship Company.
5. Japan Mail Steamship Company.
6. Osaka Shipping Company.

To the Right Honourable NEVILLE CHAMBERLAIN,
Prime Minister of the United Kingdom.

IMPERIAL SHIPPING COMMITTEE

Report on

British Shipping in the Orient

1. We, the Imperial Shipping Committee, have undertaken an Inquiry, at the request of His Majesty's Government in the United Kingdom, on the basis of the following terms of reference:—

“ In view of the changing conditions of sea-borne trade in the Middle Eastern and Far Eastern waters, and particularly of the effect on British shipping of the increased competition of foreign flags, the Imperial Shipping Committee is requested to enquire into the position of British shipping in these waters.”

2. We have taken the expression “ British shipping ” to include shipping registered at any port in the British Commonwealth (including the Indian Empire) and wherever the term “ British Commonwealth ” is used, it is to be understood that the Indian Empire is included.

3. We present our Report to the Government which made the reference to us, but since the conclusions to which we have come are likely to be of interest in other parts of the British Commonwealth, we communicate this Report, for their information, to the other Governments from which we derive our authority.

4. At the outset of the Inquiry, a Press Notice was circulated to the Press throughout the British Commonwealth. A copy of this Notice is attached in Appendix I.

5. The names of witnesses who have given evidence before us are recorded in Appendix II. In addition to their evidence, we have received and carefully considered a number of written statements submitted to us by shipowners, merchants and others connected with Oriental affairs. We wish to express our thanks to these witnesses and other gentlemen for the trouble they have taken on our behalf.

6. The Foreign Office and the Colonial Office have communicated to us a number of reports, prepared at our instance, by His Majesty's Representatives and Colonial Governments in the Middle and Far East. These reports have been of great use to us, and we take this opportunity of expressing our gratitude to the authors of them and to the Departments concerned. We are much indebted to the Department of Overseas Trade and to the overseas officers of that Department for valuable help. Our thanks are also due to the Mercantile Marine and Statistics Departments of the Board of Trade of the United Kingdom, to the Chamber of Shipping of the United Kingdom and the Liverpool Steam Ship Owners' Association, for memoranda which they have been good enough to prepare for our assistance.

7. Where published statistics are not available or are incomplete, we have based statements in this Report on our own Card Index of Voyages, compiled from various sources but chiefly from successive issues of Lloyd's Shipping Index and from summaries of applications made to the British Tramp Shipping Subsidy Committee. (See Appendix III.) In our Report to the Imperial Conference of 1937 we referred to the progress made in building up this aid to our investigations; this is the first occasion on which we have been able to make use of it in one of our Inquiries. We desire to express our indebtedness to the Committee of Lloyd's.

8. We have indicated in detail the sources of our information, except where confidential, in Appendix IV. To facilitate reading, we have rounded all numbers except where greater precision was necessary. Unless stated to the contrary, all tonnages of shipping are in tons gross. Tonnages of cargo are in the case of some commodities, 2,240 lbs. = 1 ton, and in the case of others, 40 cubic feet = 1 ton.

INTRODUCTORY STATEMENTS.

9. The "Middle and Far East" we regard as comprising India, Indo-China, China, Manchuria and the offset islands of Japan, the Philippines, and the Malay Archipelago. Together these countries measure about one-tenth of the land, and sustain about half the population of the world. On the map they constitute a region presenting roughly the outline of an equilateral triangle with sides about 5,000 miles long (see Diagram I). The apex of the triangle may be placed at Darwin on the Australian coast, and from that point two sides diverge, the one fronting the Pacific Ocean, and the other the Indian Ocean. The base of the triangle is the landward front, formed by a great natural barrier to human commerce, a belt of broad deserts and high mountains lying diagonally across Asia from the Persian Gulf to within some five hundred miles of the Pacific Coast. What the "North West Frontier" is to India, that on a grander scale is this belt of deserts and mountains to the whole Middle and Far East. It is true that at wide intervals slender rills of traffic pass in and out by the few caravan routes, and that the barrier is turned at its north-eastern end by the Trans-Siberian Railway, the overland line of communication with the Russian settlements on the Amur and at Vladivostok; but for the purposes of world commerce, India, Indo-China and China, and even Manchuria, are insular only in a slightly less degree than the islands of Japan, the Philippines and the Malay Archipelago. Very nearly the whole of the commerce between the Middle and Far East and the world outside, and also much of the commerce within that region itself, is sea-borne, and it is the commerce of nearly a

thousand million people, for the most part of ancient civilisation. In such a region the potentialities for shipping are very great.

10. On the bridge of ships beyond Suez, the Atlantic is often spoken of as the "Western Ocean." For our purposes in this Report, it will at times be convenient to speak of the Pacific and Indian Oceans together as the "Eastern Ocean." The sea-borne trade of the West enters and leaves the Eastern Ocean by the Suez and Panama canals or round the Cape of Good Hope, the traffic round the south of America being now almost negligible. Within the Eastern Ocean, as a central feature lies the region described as the "Middle and Far East," and in a great circuit around it, on the far shores, are the new countries of North and South America, New Zealand, Australia, and South and East Africa. On occasion we shall refer to the whole region within the triangle in Diagram I as "the Orient."



11. All the principal territories of the British Commonwealth of Nations, with the exception of the United Kingdom, have sea fronts on the Eastern Ocean, but five-sixths of British shipping is registered in and based on the United Kingdom. Similarly, the United States has an important frontage on the Pacific (Eastern) Ocean, but the greater part of the American Mercantile Marine is based on Atlantic ports. There is, as yet, only one great ship-owning country wholly within the Eastern Ocean, namely, Japan, and the problems which we have to consider in this Report necessarily turn to a considerable extent on the rapid increase of the mercantile marine of that country.

12. British shipping in the Orient has suffered from a decline in carrying, due partly to the world economic depression, and partly to changes in the direction of trade. The following figures show the fall in the values of sea-borne trade of some of the principal markets for shipping in the Orient between 1929 and 1932, and the extent of the recovery which had been made by 1936 and 1937. The figures are of millions of pounds sterling at the rates of exchange current respectively in 1929, 1932, 1936 and 1937:—

<i>Value of sea-borne trade of—</i>	<i>1929.</i>	<i>1932.</i>	<i>1936.</i>	<i>1937.</i>
India and Burma	441	206	234	303
Japan	414	227	318	407
British Malaya	212	83	133	185
Netherlands East Indies ...	209	105	105	162

The fall in the value of trade, measured in sterling, is, of course, not an accurate index of the alteration in the volume of trade, as account has to be taken of the changes in prices. But it will be seen that, measured in terms of sterling, the trade of Japan had shown a much more marked recovery by 1937 than the trade of the other countries in the table. In fact, the yen value of Japanese sea-borne trade rose from 4·37 thousand million yen in 1929, to 6·96 thousand million yen in 1937, and from 27·38 million cargo tons to 39·90 million cargo tons over the same period. Japanese shipping, being principally employed in the carriage of Japanese trade, has benefited from this recent great development, while British shipping in the Orient, based largely on the trades of India and British Malaya, has suffered from the decline in those trades, which, even in the comparatively prosperous year of 1937, remained well below the level of 1929.

13. This Report deals for the most part with the conditions that held in the last years of peace before the outbreak of the hostilities between Japan and China in July, 1937. During the progress of this conflict, there has been less disturbance of the normal course of sea-borne trade than might have been expected. Moreover, statistics on which to base an accurate account of such changes as have occurred during recent months are not

yet to hand. In the main, therefore, we have sought to put on record a picture, as accurate as we could make it, of the sea-borne trade to, from and within the Orient in the year 1936. Basing our consideration on that picture, we have endeavoured to analyse the causes of change which are now operating and to review certain measures which have been suggested for strengthening the position of British shipping in the Orient. Our object throughout has been to furnish a basis for the consideration of those in the British Commonwealth who will be responsible for future policies both of Governments and of commercial ventures.

14. The results of our Inquiry may be grouped under three heads:—

Part I.—A survey of the present position of British shipping in the Orient.

Part II.—An analysis of some of the factors specially affecting competition in the Orient.

Part III.—A consideration of the possibilities of strengthening the position of British shipping in the Orient.

PART I.

THE PRESENT POSITION SURVEYED.

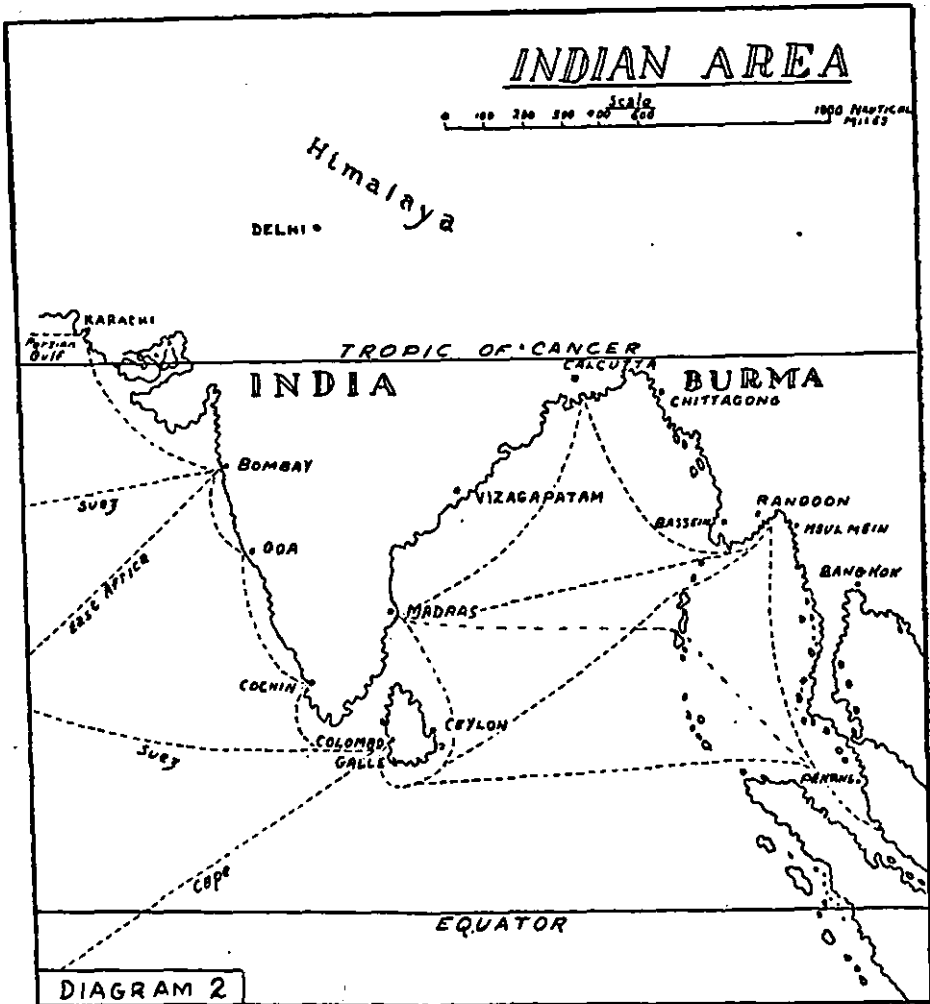
I. SYNOPSIS.

15. We shall preface this part of our report with an authoritative estimate of the earnings of British shipping in the Orient. This estimate, prepared at our request, we owe to the Chamber of Shipping of the United Kingdom. 11

16. We shall then present a picture of the sea traffic to, from and within the Orient as it has been conducted in recent years. The sources of our information are summarised in Appendix IV. In order that the picture may serve to formulate in a concrete way the problems referred to us, it will be our object in drawing it to bring out the strong and the weak positions of the British Mercantile Marine in the part of the world under consideration.

17. For this purpose, we cannot consider the Oriental carrying trade as a whole. We must consider it as a group of separate, although connected, trades, each conditioned by special circumstances and organised to cope with special demands.

18. In the accompanying Diagrams II, III and IV, we present a geographical sketch of the main streams of shipping which move round the south and east of Asia, with their principal tributary and distributory branches.



19. We make Suez our place of departure since it is the principal gateway from the west into the east. Of the total traffic through Suez, about two-thirds is to and from the Orient, but through Panama, of a total about equal to that through Suez, only one-sixth is bound to and from the Orient. Round the Cape there is a great movement to and from Australia, but with the Orient the normal traffic is only of the same order of magnitude as the Oriental traffic through Panama. The traffic from the Orient round the Cape of Good Hope may be regarded as supplementary to that through Suez. Whenever there is a threat of disturbed conditions in the Mediterranean or Red Sea, usually expressing itself in higher rates of insurance, some of the Suez traffic is diverted to the Cape route.

20. Beyond Suez and the Cape, the Orient subdivides naturally, and in accordance with shipping communications, into three areas:—

(1) The Indian Area, comprising India, Burma, and Ceylon (Diagram II).

(2) The Malayan Area, including the Straits, the Malay Archipelago, Siam, French Indo-China, and the Philippines (Diagram III).

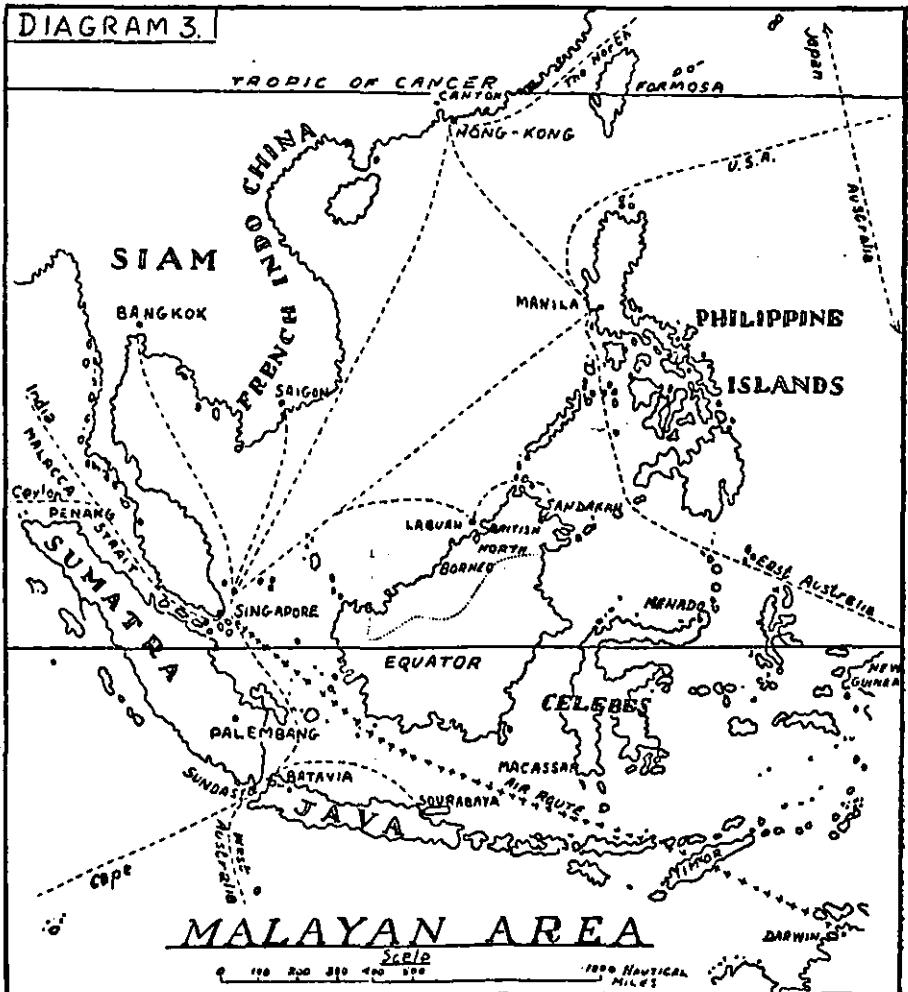
(3) The Pacific Area, consisting of China, Manchuria, Vladivostok, and Japan (Diagram IV).

In this report, we shall treat the expression "Far East" as equivalent to the last two of these Areas taken together.

21. The Indian Area consists almost entirely of territories under the control of various Governments of the British Commonwealth.

The Malayan Area consists, apart from Siam, of territories under the control or influence of Western Powers—Great Britain, the Netherlands, France and the United States.

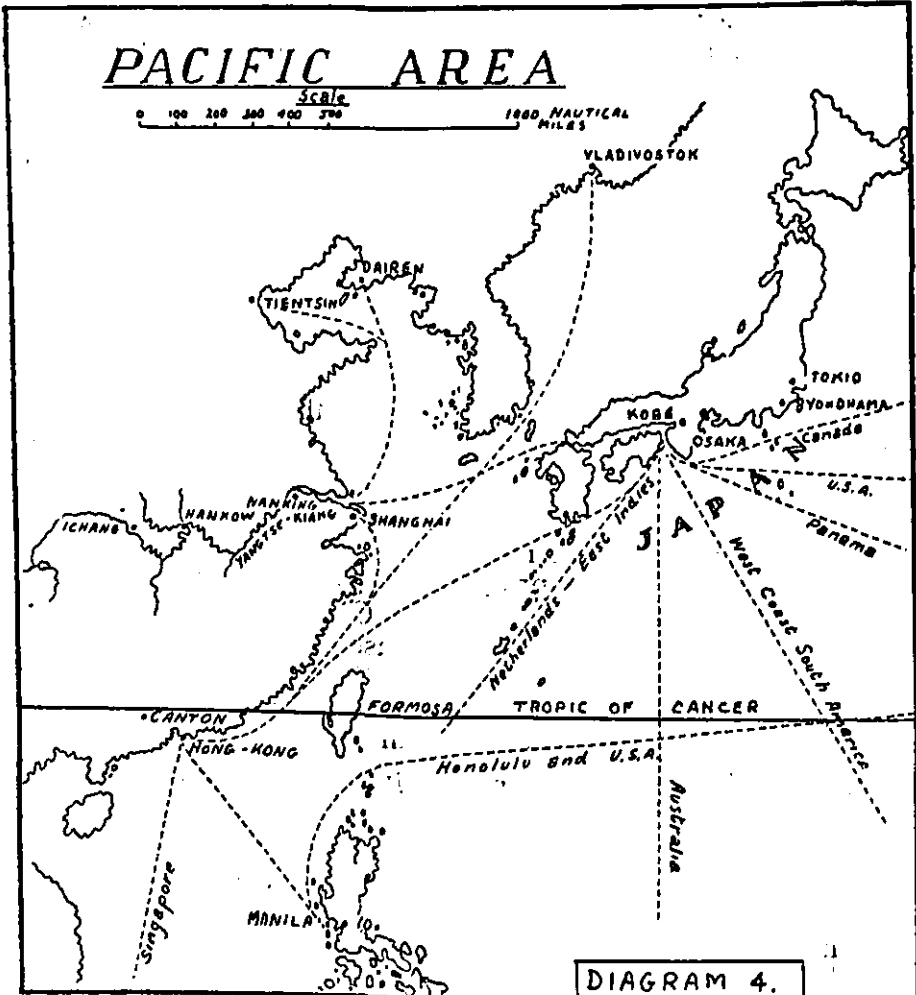
The Pacific Area is composed, in the main, of two Oriental countries—Japan and China, although there are also great



Western trade interests in Hong Kong and in the Treaty ports of China, of which, one, Shanghai, is reckoned the sixth city in point of population in the world. At the far end, some 3,500 miles from Singapore, is Vladivostok, the terminus of the over-land route from Moscow.

22. From the passage of the Suez Canal our survey will proceed in succession through these three areas, Indian, Malayan, and Pacific. About one-third of the Suez traffic to the Orient finds its terminus in the Indian Area, and the remainder—via Colombo and reinforced by a fresh stream from India—enters the Malayan Area by the Malacca Strait. The Cape stream of traffic converges upon the Suez stream partly in the Indian Area, and partly through the strait of Sunda in the Malayan Area.

23. Beyond the Malacca and Sunda Straits are Singapore and Batavia, with great local transshipment and depot trades; they are foci whence the traffic spreads out again, in part to termini



in Siam, French Indo-China, the British protected states in North Borneo, and the Netherlands East Indies, and in part as a main stream to Hong Kong, with a minor loop by way of Manila. At Hong Kong the Pacific Area is entered, and there the stream distributes itself in a terminal delta to Shanghai, Tientsin, Dairen, Vladivostok and the ports of Japan.

24. This great flow of shipping, back and forth, dates along the present main route from the opening of the Suez Canal in 1869, but is based on the position established in the Orient by the maritime peoples of Western Europe, when, during three centuries, their way eastward lay round the Cape of Good Hope. Upon this relatively ancient traffic there has impinged of late a competition due to two recent events, the Japanese revolution known as the Meiji Restoration of 1868, and the opening of the Panama Canal in 1914. The modern Japanese Mercantile Marine first became important with the development of western types of industry and the attendant export trade after the Sino-Japanese war of 1894. Japanese shipping will be seen as taking a gradually increasing importance as we proceed from Suez to Colombo, Singapore, and Hong Kong.

25. The streams of shipping passing through the Panama Canal to and from the Orient are of a specialised character. There is a traffic westward by Panama *and* Suez, under the British and American flags, which is based on the excess of exports over imports from the Atlantic coast of the United States to the Orient, and from the Orient to Europe. Apart from this "round the world" route, the shipping ways across the Pacific, whether from the west or east coast of North America, tend to the northern ports of the Orient, more especially to Japan and in lesser degree to the Philippines. One of the most significant recent developments of Japanese shipping is by way of Panama with the Atlantic ports of the United States.

26. In order that these new elements in the situation may be appreciated in their due proportion, it will be well at this stage to break away from the Suez and Cape standpoints and to consider Japan as an independent base for shipping, so placed as to be able to operate either along the old established routes to India, Suez and the Cape, or by the new routes across the Pacific to America or to New Zealand and Australia.

27. Finally, in concluding this Part of our discussion, we shall consider:—

(a) the position of the United States as a terminal of trade with the Orient, (b) the position of Australia and New Zealand as terminals of trade with the Orient, and (c) the movement of tramp and tanker shipping within and to and from the Orient.

2.—EARNINGS OF BRITISH SHIPPING IN THE ORIENT IN 1936.

28. According to an estimate supplied to us by the Chamber of Shipping, the gross earnings of the Mercantile Marine of the United Kingdom in 1936 from carrying within the Orient and between the Orient and countries outside were approximately £33 millions sterling, or about a quarter of the total gross receipts of the U.K. shipping industry from the carriage of cargo and passengers all over the world. To this estimate should be added a relatively small amount for the earnings from Oriental trade of British shipping registered in ports of the British Commonwealth within the Eastern Ocean.

29. This figure of £33 millions was composed of the following amounts:—

Liner freight earnings	... ..	approximately	£21	millions.
Tramp .. ..	... ..	..	£5½	..
Passenger .. ..	... ..	..	£4½	..
Tanker earnings	... ..	..	£2	..

30. These sums were earned in the following trades:—

Between the Orient and the U.K./Continent.

Between the Orient and the U.K.	£11	millions.
Between the Orient and the Continent of Europe (excluding the U.S.S.R.)	£5	..

Between the Orient and other countries.

Between the Orient and North and South America...	£6	..
Between the Orient and Africa	£2	..
Between the Orient and Australia and New Zealand	£1	..
Between the Orient and other countries (mainly Iran, Iraq and the U.S.S.R. in Europe)	£2	..

Within the Orient.

Between India and the Far East and in Indian coasting trades, including between India and Burma	£5	..
Between countries in the Far East and in Far Eastern coasting trades	£1	..

31. It would be a difficult, if not impossible, task to present anything like an accurate estimate of the proportion of these gross receipts which should be considered as profit. Almost all of the tramp companies, and many of the liner companies trade in other parts of the world as well as the Orient; some of them have ventures in trades other than shipowning; some are private companies which do not publish information of their financial position; the capital structures of no two companies are alike. It may be stated, however, that with few exceptions and notwithstanding the prosperous year of 1937, British liner companies interested in Oriental trades have not earned any large return on capital during the period following the onset of the world economic depression, and that some of them have been unable to make proper provision for depreciation.

32. About half (150) of the British tramps which made one or more voyages in the Orient in 1936 are owned by eight companies and the other half by a large number of smaller companies, each owning only one or two ships. The financial position of none of the larger companies is wholly due to Oriental trade, since few of the tramps owned by them were continuously engaged in the Oriental seas, and their fleets included many ships which did not enter the Orient at all. The answers to questionnaires issued by the Chamber of Shipping of the United Kingdom show that British tramp shipowners as a whole were unable to make adequate provision for depreciation between 1929 and 1938.

33. Some indication of the effect of the world economic depression on British liner shipping in the Orient may be revealed by a comparison of the numbers of vessels owned by the principal liner companies in 1929 and 1936. More than 90 per cent. of the British liners trading with or within the Orient are owned by 23 companies. Counting only ships of 3,000 tons gross and over, the fleets of these companies declined from 645 ships in 1929 to 576 ships in 1936. Over half of the British liners in each of the years mentioned were owned by 10 companies which were themselves controlled by three great interests, the P. & O., Ellermans, and Messrs. Alfred Holt & Co. Again counting only ships of 3,000 tons gross and over, the P. & O. and British India companies owned 155 vessels in 1929 and 138 in 1936. The number of vessels owned by the Ellerman group, consisting of the Ellerman Lines, City Line, Ellerman's Wilson Line, Ellerman & Bucknall, and the Hall Line, fell from 127 in 1929 to 90 in 1936, and the number of vessels of three companies owned or controlled by Messrs. Alfred Holt & Company—the Ocean Steamship Company, the China Mutual and the Glen Line—fell from 89 to 79.

34. Against such figures, relating to the principal British liner companies, may be set the following comparison of the larger vessels owned by the principal foreign liner companies competing with British shipping in the Orient. Only vessels of 3,000 tons gross and over are included:—

	1929.	1936.
<i>Japan.</i>		
N. Y. K.	92	85
O. S. K.	62	65
<i>Germany.</i>		
Hamburg-Amerika Linie	124	108
Norddeutscher Lloyd	86	54
<i>France.</i>		
Services Contractuels des Messageries Maritimes	36	31
Chargeurs Réunis	49	38
<i>Netherlands.</i>		
Nederland	43	31
N.V. Rotterdamsche Lloyd... ..	38	29

	1929.	1936.
<i>United States.</i>		
Isthmian Line	34	28
Dollar Line	17	16
<i>Norway.</i>		
Wilhelmsen	52	51
<i>Italy.</i>		
Lloyd Triestino	39	37
<i>Denmark.</i>		
Danish East Asiatic Co.	23	26

These figures indicate a decline in the principal foreign lines from 695 ships of 3,000 tons gross and over in 1929 to 599 in 1936.

35. When comparison is made between the British and foreign mercantile fleets in the last two paragraphs it must be remembered that about one-third of the ships enumerated in each list are employed outside the Orient. No precise inference can be drawn for our purpose from such figures, but their broad effect is that the British lines declined during the years of depression in something like the same proportion as did the foreign lines.

3. TRAFFIC THROUGH THE SUEZ CANAL AND ROUND THE CAPE OF GOOD HOPE.

36. The greater part of the shipping passing through Suez to and from the Orient consists of liners carrying passengers and cargo or only cargo. Tramp shipping is of less importance, and the proportion of passengers carried in tramps is negligible. Tanker shipping is also relatively small, being mainly to and from the Netherlands East Indies and Burma; the great tanker trade from the Persian Gulf through Suez falls outside the scope of this Inquiry.

37. In Appendix V we show the tonnage of merchant shipping under the principal flags passing through Suez to all destinations in 1909-13, 1929, 1936 and in the first six months of 1938. It will be seen that in 1936, British shipping accounted for nearly half the total. The chief competitors in order of importance were Italian, German, Netherland, French, Norwegian, Japanese, Danish, American and Swedish. The Italian traffic, largely to and from the east coast of Africa, increased considerably in 1936, no doubt as a consequence of the Abyssinian War. If allowance be made for this fact, the British proportion varied but little as between 1929, 1936 and 1938.

38. The greater part of the shipping through the Suez Canal was to and from the Orient, and of this Oriental trade, as of the total trade passing through the Canal, British shipping accounted for about one-half; the chief competition, in order of importance, came from Germany, the Netherlands, France

and Italy. Out of a total of 14 million net tons of shipping which passed through the Suez Canal to or from the Orient in 1936, 5½ million tons made its terminal in British India, Burma or Ceylon, 5 million tons in China, Dairen or Japan, and 2½ million tons in the Netherlands East Indies or French Indo-China. A large proportion of the vessels which made their terminal in Japan called en route at ports in other Oriental countries, especially British Malaya and China.

Passengers.

39. Passenger traffic to and from the Orient through Suez is of less significance than cargo traffic from the point of view both of shipowners' receipts and of the quantity of shipping employed. In 1929, the total number of civil passengers to and from the Orient through Suez was 142,700. In 1932, the number declined to 117,500, but rose again in 1936 to 138,300, and in 1937, to 143,100, a peak figure.

40. The numbers and percentages of civil passengers carried in British vessels in 1929, 1930, 1936 and 1937 were as follows:—

	To the Orient.	Per cent. of total.	From the Orient.	Per cent. of total.
1929	28,309	40·9	31,055	42·5
1930	25,904	38·6	27,499	39·3
1936	26,424	38·5	28,207	40·5
1937	26,326	36·3	28,770	40·7

41. Most of the passenger traffic with the Orient in British vessels was to and from British countries, more especially between the United Kingdom and India and the Straits Settlements. Similarly, the Netherlands and French passenger lines carried mainly to and from the Netherlands and French Possessions in the Malayan Area. In the passenger traffic of the Pacific Area, the British lines had to face strong competition not only from Netherlands and French lines, but also from German, Italian and Japanese.

Cargo.

42. In 1929, the total volume of cargo moving through the Suez Canal reached the record figure of 34½ million tons. As a result of the world economic depression the total dropped to 23½ million tons in 1932. It recovered to 28½ million in 1934, fell again to 25½ million in 1936, and rose to 33 million in 1937. The rise in 1934 was due in part to exceptional shipments from Russian ports in the Black Sea to Vladivostock, and the fall in 1936 to the diversion of traffic to the Cape route in order to avoid the high insurance rates which were in force by way of Suez during the wars in Abyssinia and Spain. Of the total in

1936 the Orient accounted for nearly 18 million tons, the remainder, nearly eight million tons, being to or from the Red Sea, Iran, Iraq, Africa and Australia. In 1937, the figures were respectively 23 million tons and 10 million tons. Comparable data for the division of the traffic in the year 1929 are unfortunately not available.

43. The quantities and percentage of cargo carried in British vessels in 1930, 1936 and 1937 were as follows:—

	To the Orient.		From the Orient.	
	Tons.	Per cent. of total.	Tons.	Per cent. of total.
1930	3,758,000	45·9	6,008,000	49·1
1936	2,963,000	44·5	5,495,000	48·9
1937	3,406,000	43·6	7,057,000	46·8

Cape Traffic.

45. It will be seen from Appendix VI that in 1936 British shipping accounted for nearly half of the Oriental traffic moving round the Cape; the principal competition came from Japan and the Netherlands. The Japanese vessels made their terminal either in south or west Africa or in the east coast of South America. The Netherland vessels were engaged chiefly in the traffic between the Netherlands and the Netherlands East Indies.

4. INDIA FROM EUROPE AND THE UNITED STATES.

46. As the Suez and Cape traffics approach the Orient, they divide into streams with either Indian or Far Eastern terminals.

47. The following table shows the figures of shipping entrances with cargo into British India in 1936:—

Entered from	British ships.		Foreign ships.	
	No.	'000 net tons.	No.	'000 net tons.
United Kingdom	456	2,347	2	8
Germany, Italy or France ...	Nil	Nil	162	747
Japan or China	122	523	216	866
Straits Settlements	238	578	18	45
U.S.A.	50	198	93	430
Iraq or Iran	160	400	18	73
Australia or New Zealand ...	40	336	1	4
South Africa	49	191	2	9
Ceylon	501	396	13	48
Other Countries	146	462	156	510
Total	1,762	5,431	681	2,740

The figures of clearances were of the same order of magnitude.

48. Whether measured in number of vessels or in volume of tonnage, the entrances of British shipping in 1936 amounted to more than two-thirds of the total. The chief foreign competitors, as shown in the foregoing table, were in the trades from China and Japan, from the three European countries and from the United States. As might be expected, the shipping of each of the great foreign maritime countries carried a considerable amount of traffic from and to its home country.*

49. The gross earnings of U.K. shipping from the traffic between the U.K. and India, Burma and Ceylon are of the order of one-quarter of the total earnings of British shipping from traffic to and from and within the Orient. As is shown by the following figures relating to 1936 and 1937, competition in the cargo trade with the U.K. is almost non-existent:—

	Total value of cargo carried (£ million).		Percentage carried in British ships.	
	1936.	1937.	1936. Per cent.	1937. Per cent.
<i>Imports into U.K. from:—</i>				
India (including Burma)	51·53	64·40	95·7	95·4
Ceylon	10·05	11·56	97·3	97·2
<i>Exports from U.K. to:—</i>				
India (including Burma)	33·29	38·27	99·6	99·8
Ceylon	3·10	3·81	99·3	99·6

50. Between the United Kingdom, Continent, Madras and Calcutta, the following British Lines maintain services:—the P. & O., British India, Clan Line, Ellerman's City, T. & J. Harrison and T. & J. Brocklebank. Between the United Kingdom, Continent and Bombay, services are operated by the P. & O., the B.I., the Clan, Anchor, Ellerman's City, Ellerman's Hall and Ellerman's Wilson Lines. Between India and the Continent, the British Lines are in competition with the German Hansa Line, the Italian Lloyd Triestino, the Holland-British-India Line, the Swedish East Asiatic and the Norwegian Wilhelmsen Line.

51. The competing companies, British and foreign, in almost every case, charge rates of freight and allow rebates to "loyal" shippers as agreed in the international shipping conferences. There are no formal agreements as to passenger fares or restrictions as to sailings, but there are informal understandings.

52. Foreign competition, however, is not the most important factor affecting the activity of the British Lines. The diminution in the amount of cargo for carriage between the United Kingdom and India after 1929 is a much more serious matter.

* According to official Italian statistics, the total trade between Italy and the Orient in 1936 amounted to 326,000 metric tons, of which Italian vessels carried 266,000 metric tons. The trade between Italy and India amounted to 208,000 metric tons, of which Italian vessels carried 183,000 metric tons.

Comparing the years ending 31st March, 1929, and 31st March, 1937, the value of imports into India from the U.K. fell from £91 millions sterling to £37 millions sterling. Exports of domestic produce from India to the U.K. also fell, though by a much smaller amount, the figures being £52 millions and £48 millions.

53. The decline of the U.K. export trade to India is to some extent due to Japanese competition, especially in regard to cotton piece goods; and the success of Japanese textile competition has resulted indirectly in a diversion of carryings from British to Japanese vessels. But the importance, from the point of view of British shipping, of Japanese textile competition in the Indian market must not be exaggerated. In recent years, India has herself produced by far the greater part—and a steadily increasing part—of the cotton piece goods consumed in India; comparing 1928-9 with 1936-7, her imports from the U.K. fell from 1,443 million yards to 334 million yards, while her imports from Japan rose from 357 million yards to 417 million yards. If the whole of India's imports of Japanese cotton piece goods in 1936-7 (worth about £4 millions sterling) had been imported from the U.K., the U.K. export trade to India would still have been less than one-half by value of its total in 1928-9.

54. Between India and the United States, the carrying trade is mainly shared between British and United States shipping. The American lines are operated by the Isthmian Steamship Company and Roosevelt Steamship Company. The British lines—Ellerman and Bucknall, T. & J. Brocklebank, Andrew Weir and Company, the Clan Line, and Alfred Holt and Company—carry the greater part of the cargo.

5. CEYLON.

55. In recent years, British vessels have carried over 90 per cent. of cargo between Ceylon and the United Kingdom and between Ceylon and South Africa, and over 80 per cent. between Ceylon and the United States. Of the trade with the Continent of Europe, British lines secure 20 per cent. by virtue of an agreement with the foreign lines which has been in operation since 1932. As regards the higher grades of accommodation in the passenger traffic to Europe, the Ceylon Chamber of Commerce reported a tendency to book by Continental lines.

56. According to evidence we have received from the Ceylon Chamber of Commerce, the Japanese Mitsui Bussan Kaisha (M.B.K.), primarily a commercial and not a shipowning concern, has obtained a steadily increasing share of the cargo carrying trades between Ceylon and Japan on the one hand, and Ceylon and Bombay on the other.

6. BURMA.

57. With one important exception, British shipping has a predominant share in the overseas trade of Burma. The exception is the trade between Burma and the Far East, amounting to some 200,000 tons of cargo a year. In recent years, Japanese ships have carried about 80 per cent. of this trade.

The reason for the Japanese predominance lies apparently in the support given by Japanese importers and exporters to Japanese shipowners.

7. INDIAN COASTING TRADE.

58. Before continuing in the main course of our survey, we interpose a short consideration of the Indian coasting trade, which prior to the separation of Burma in 1937 included, for statistical purposes, the direct voyages from Rangoon to Calcutta, Madras, and other Indian ports. For our information, it has been necessary, for the reasons stated in Appendix IV, to rely chiefly upon the evidence we have taken from the shipowners primarily concerned.

59. The coasting trade of India, and the trades of India with Burma and Ceylon are at present mainly carried in vessels controlled by three companies, the British India Steam Navigation Company, the Scindia Steam Navigation Company and the Asiatic Steam Navigation Company. The competition between these companies is regulated by a Conference agreement which came into force on 1st April, 1933, and may be terminated on 31st December, 1939. The agreement provides that, with the important exclusion of coal and salt, the three companies shall share the cargo trades in the following proportions:—

Cargo from—	Per cent.		
	<i>B.I.</i>	<i>Scindia.</i>	<i>Asiatic.</i>
Burma	49	40	11
Karachi	50	42·5	7·5
Bombay	46·7	33·3	20
Calcutta	60	25	15

As regards coal and salt, the proportions are:—

	Per cent.
<i>B.I.</i>	62·5
<i>Scindia</i>	12·5
<i>Asiatic</i>	25

60. The regular passenger and mail services are conducted by these three companies, and by the Bengal Burma S.N. Co., the Bombay S.N. Co., the Indian Co-operative Trading Co., and the Ratnagar S.S. Co.

61. The agreement of 1933 further provides that the total gross tonnage of the vessels of the companies employed in the coasting trade should not exceed the following figures:—

- (a) The British India not to exceed 360,000 tons.
- (b) The Scindia Company not to exceed 100,000 tons,
- and
- (c) The Asiatic Company not to exceed 80,000 tons.

62. A collateral agreement is in force between the British India and Scindia Companies under which the Scindia Company has undertaken not to interfere with the established overseas trades of the P. & O. and B.I. Companies. The P. & O. Company by a capital holding controls the B.I. Company.

63. Under the 1933 agreement, the Scindia Company obtains in a normal year some 150,000 tons more cargo than under the agreement previously in force, and there is also a gain in passenger traffic. In the result the shipping tonnage operated by the Scindia Company has increased from 29,000 tons in 1923 to about 100,000 tons. Nevertheless, the Scindia Company, with a vigorous management, conscious of its position as the premier shipping company owned and controlled by British Indians, is dissatisfied with its present share of the trade and wishes to free itself from the undertaking which it has given not to compete in overseas trades.

64. The coasting trade of India is extensive and valuable; it employs about 100 vessels of 3,000 tons or more.) Closely associated with it, both historically and in practice, are the trades between India and the Persian Gulf, the east coast of Africa, Mauritius and the Straits. In these transoceanic trades, no less than in the coasting trade of India itself, the British India Company for long had, and still has, a preponderating share. We attach great importance to an improvement in the relations between the U.K. and Indian owners of shipping engaged in Indian trades, and we shall return to this matter in Part III of our Report.

65. On one point, at least, the Scindia and British India Companies are in agreement—namely, that their interests in the Indian coastal trade should not be prejudiced by foreign participation. The only foreign shipping which has assumed any importance in that trade is that of Japan, whose lines, not only to Bombay and Calcutta, but also to the Persian Gulf and the East coast of Africa, are in a position to partake in the Indian coasting trade. This competition, although only incipient, gave cause for anxiety even before the War of 1914-18, and since then it has shown signs of increasing. In 1934, the Government of India asked for an undertaking that the Japanese Government would use their influence with the Japanese ship-owners to refrain from participating in the Indian coastal traffic

should such participation result in prejudicing the interests of United Kingdom or Indian shipping business in any appreciable measure; and after this request was made, while no specific undertaking was given, Japanese shipping did refrain from further incursions into the Indian coastal trade. During the past year or two, however, Japanese vessels have again become active in that trade, and the Government of India have again brought the question to the notice of the Japanese Government; with what results remains to be seen.

We now return to the main course of our survey.

8. INDIA TO THE FAR EAST.

66. The principal Far Eastern trades of India are, or have been, with British Malaya, the Netherlands East Indies and Japan. Most of the trade between India and British Malaya is carried in British vessels with Singapore as their terminal, and by vessels proceeding to Hong Kong and Japan; foreign competition is inconsiderable and is mainly of Japanese vessels calling en route between India and the Far East.

67. The trade of India with the Netherlands East Indies is carried in British and Netherlands vessel. It has declined very considerably in recent years on account of the high customs duties on imports of sugar from the Netherlands Indies into India, which fell from 850,000 tons in 1928-9 to 30,000 tons in 1936-7. The increasing industrialisation of Java has reduced carryings in the opposite direction.

68. As regards the trade between India and Japan, it is necessary, in order to obtain a true picture from statistics of total entrances and clearances, to deduct the tonnage of a number of through P. & O. vessels from the United Kingdom to Japan and vice versa which call at Bombay but carry, in all, only a few hundred tons of cargo between India and Japan. A statement of the net tonnage (in thousands of tons) of British and Japanese vessels entered and cleared in India from and to Japan, adjusted by the deduction of such vessels, is as follows:—

—	1929 (‘000 tons net).	1932.	1935.	Increase in 1932 over 1929.	Increase in 1935 over 1932.
<i>Entered—</i>					
Japanese ...	434	437	661	3	224
British ...	238	222	281	-16	59
<i>Cleared—</i>					
Japanese ...	541	515	651	-26	136
British ...	278	276	254	-2	-22

69. The trade is shared between British and Japanese shipping, but as the figures show, the Japanese share is predominant and increasing. The British and Japanese lines mainly concerned are associated in two Conferences, one operating to and from Bombay, the other to and from Calcutta. In Part II of our Report (paragraphs 250-274), we describe in some detail the position of British shipping in these two Conferences.

9. FAR EAST FROM U.K. /CONTINENT.

70. The great traffic between Europe and the Straits, the Netherlands East Indies, the Philippines, China and Japan is carried for the most part by lines organised in about half a dozen Conferences. A list of these Conferences and of their members is given in Appendix VII. It will be seen that many shipping companies operate in more than one Conference. The British Lines are the P. & O., Alfred Holt, Ben, Glen, Shire, Ellerman, and Blue Star. The principal foreign lines are the French Messageries Maritimes, and Chargeurs Réunis; the German North German Lloyd and Hamburg-America Lines; the Italian Lloyd Triestino; three Netherland lines, the Holland East-Asia, Rotterdam Lloyd and Netherlands Steamship Company (S.M.N.); the East Asiatic Company of Copenhagen, the Swedish East Asiatic Company of Gothenburg, the Norwegian Wilhelmsen Line, the Japanese Nippon Yusen Kaisha (N.Y.K.), the Osaka Shosen Kaisha (O.S.K.), and the Kokusai Kisen Kaisha (K.K.K.).

71. Although they lost much traffic as a result of the world economic depression of 1930-3, the British lines, which have operated in these trades for many years, appear to be still in a relatively strong position. A large part of the trade carried in British ships to and from the Far East is with the U.K., and the position of British and foreign shipping in this trade in 1936 and 1937 is shown in the following table:—

	Total Value (£ million).		Per cent. in British Ships.	
	1936.	1937.	1936.	1937.
<i>U.K. Exports to—</i>				
British Malaya	8.18	11.35	96.9	95.7
N.E.I.	2.77	4.35	32.3	29.6
China	5.73	5.78	94.9	96.7
Japan	3.48	4.26	54.4	59.3
<i>U.K. Imports from—</i>				
British Malaya	6.97	13.11	84.8	88.8
China	7.53	8.23	85.8	84.6
Japan	9.75	11.81	69.5	71.6

72. Practically the whole of the United Kingdom trade with the N.E.I. and with Japan which was not carried in British vessels was carried in Netherland and Japanese vessels respectively.

73. Just as a large part of the traffic carried by the British lines was to and from the U.K., so a large part of the traffic carried by the French, Netherland, German, Italian, Scandinavian and Japanese lines was to and from their home countries. The French lines depend mainly on the traffic between France and French Indo-China, the Straits, China and Japan, and the Netherland lines on the traffic between Netherland and other North Continental ports and the Netherlands East Indies.

74. There is, nevertheless, keen competition between the foreign and the British lines, even where agreed freights and fares are charged, and that competition has increased in recent years as a result of subsidies and exchange control. We are informed that the system of exchange control in Germany, by impeding payment in foreign currencies by German nationals or by allowing foreigners to use blocked German currency for payment of freights and passenger fares, has tended to attract to German vessels traffic formerly carried under other flags, including the British; and that certain British lines trading between Europe and the Far East have in consequence been obliged to withdraw from loading at German ports.

75. Both the German and Italian lines trading to the Far East are in receipt of substantial subsidies and, according to British shipowners, the effect of these subsidies has been to provide vessels with higher speeds than could be justified by commercial reasons. It is obviously unlikely that the new German and Italian vessels would be subsidised if they could be operated on a commercial basis alone. According to "Lloyd's Register of Shipping," the three new vessels built for the North German Lloyd in 1935 have a best sea speed of 21 knots, the Lloyd Triestino vessels 19½ knots, the P. & O. ships of the "Corfu" class built in 1931, 18 knots, and the "Canton," launched in 1938, 20 knots. (By virtue of their superior speed, the German and Italian vessels are in a position to attract the better-paying traffic, both passenger and cargo.) The P. & O. have represented to us that in a mail service such as that for which they contract to supply, the vessels cannot take full advantage of their speed because they are bound by a schedule so arranged that the times of arrival and departure for successive ports can be maintained with regularity in the most unfavourable conditions. In 1936 and 1937 there was an increase in competition from Japanese shipping as a result of the placing in commission of five new vessels for the N.Y.K. and three for the Kokusai K.K. In the opinion of an important British shipowner, expressed to us in evidence, foreign competition in the Far Eastern trades has not yet made it impossible for the British lines to carry on without subsidy, but it may well be that that situation is approaching. The sources of

strength behind the Japanese, German and Italian shipping lines are discussed in the second Part of the Report.

10. SINGAPORE.

76. Singapore is a port of call for a large number of ships which take little part in the trade of Singapore. It must not be assumed, therefore, that statistics of shipping afford any reliable indication of the carryings to and from the Straits Settlements under the different national flags. Comparing 1929 with 1936, the British shipping entered declined from 40 per cent. to 32 per cent. of the total, Japanese shipping rose from 13 per cent. to 19 per cent., and shipping under the Norwegian flag from 4 per cent. to 6 per cent. Unfortunately complete figures are not available in regard to cargo discharged or loaded. Of the trade handled over the Singapore Harbour Board premises in 1936, amounting to just over 1,000,000 tons, 69 per cent. was carried in British ships and 17 per cent. in Japanese; but there are no figures of carryings under different flags of the important trade done in the Roads.

77. Not a little of the increase of Japanese shipping interests at the expense of British in the Malayan area is due to the penetration of Japanese merchant, plantation and mining interests in British Malaya and the British protected states in North Borneo. Two examples may be quoted. The intervention of the M.B.K. Line in the trade with New York is based on the M.B.K. merchant house which operates in rubber at Singapore, and the Japanese Ishihara Line is based on the Ishihara iron mines in the State of Johore. These are matters to which we shall return in Part II of this Report.

78. The coasting trade of British Malaya is open to foreign shipping. The British share, as measured by entrances and clearances of tonnage, has amounted to some 90 per cent. of the total in recent years. The only foreign competition of any significance comes from the Netherlands. Japanese competition is negligible. Our attention has, however, been drawn to difficulties experienced by the Straits Steamship Company of Singapore owing to Japanese competition in the trade between the Straits Settlements and the British protected states in North Borneo.

II. THE NETHERLANDS EAST INDIES.

79. The overseas trade of the Netherlands East Indies (N.E.I.) declined from a peak of some 13½ million metric tons in 1929 to about 11 million in 1933, but regained the 1929 level in 1937. There are no data issued to show the proportion of this trade carried by ships of the various nationalities. There

are, however, figures to show the proportion of tonnage capacity under the different flags entering N.E.I. ports; they are as follows:—

Year.	Netherland and N.E.I.	British.	Scandinavian.	Japanese.	German.	Other flags.
1929 ...	33·0	40·0	8·6	5·8	7·9	4·7
1931 ...	36·5	28·4	12·2	10·9	7·7	4·3
1934 ...	36·0	30·4	14·3	9·7	5·2	4·4
1936 ...	34·8	28·1	15·6	13·7	3·0	4·8

80. The decline in the British figures and the increase in the Scandinavian and Japanese figures appear to have been mainly due to a diversion of trade from routes on which British shipping is predominant to routes on which Scandinavian and Japanese shipping is predominant. As already stated, exports of Java sugar to India, which have always been mainly carried in British ships, fell from 850,000 tons in 1928-1929 to 30,000 tons in 1936-7, and the steady reduction of rice imports into the N.E.I., culminating in a total embargo in 1937, has been a serious matter for British shipping in the trades to the N.E.I., from Rangoon, Bangkok, and Saigon. The direct trade to Europe, and the trade from the N.E.I. for transshipment at Singapore and Penang have also diminished. On the other hand, the trade with Japan, which is for the most part carried in Japanese and Netherland vessels, has increased. The increasing proportion of Scandinavian tonnage appears to have been due mainly to more frequent calls by Norwegian tramp-tankers to supplement the regular services of the tanker companies.

81. In the past, exports have usually accounted for more than 75 per cent. by volume of the total overseas trade of the N.E.I., and the percentage has steadily increased in recent years. The chief export trades, in order of importance, are to Japan and China, Europe, Australia, and the United States.

82. The trade with Japan and China is chiefly carried in Japanese and Netherland vessels. The success of the Netherlands in restricting the competition of Japanese vessels in recent years is a matter of considerable interest from the point of view of this Inquiry, and is dealt with in a subsequent part of the Report. (Paragraphs 295-306.)

83. The liner services to Europe are for the most part co-ordinated by the Batavia Freight Conference. The participating companies are Netherland, British, Japanese, Italian, German and Scandinavian. The British interests are controlled by Messrs. Alfred Holt and Company, and include the Ocean Steamship Company, the China Mutual Company, and a line under the Netherland flag—the Stoomvaart Maatschappij

Ocean. A substantial share of the trade is still British, although that share has somewhat declined as a result of increasing Scandinavian competition organised outside the Conference, and the extension (since 1933) of the Italian Lloyd Triestino service which previously made its terminal in India.

84. The trade from the N.E.I. to Australia is described in a subsequent part of this report. (Paragraph 134.)

85. The trade with the United States (West and East Coasts) is for the most part carried in Netherland and British ships, but the American Isthmian Line "round the world" service is also a party to the Java-New York rate agreement. The British companies include Messrs. Alfred Holt, the Prince Line, Silver Line, Dodwell Castle Line and the Bank Line, which operate "round the world" services with modern and efficient vessels. The Netherland companies are the Rotterdam Lloyd and the Netherlands Line. The Norwegian Klaveness Line operates a regular monthly service between the West Coast of the United States, Straits Settlements, N.E.I., Philippines, Hong Kong and back.

86. The coasting and inter-insular services of the Netherlands East Indies are mainly controlled by the Netherland Koninklijke Paketvaart Maatschappij* (K.P.M.). Soon after its formation in 1877, this powerful company took over the Government concession for the inter-insular services, previously held (up to 1850) by Messrs. Maclaine, Watson and Company, and (after 1863) by an Englishman—Mr. H. O. Robinson. The K.P.M. owns 136 ships, of 333,000 tons gross. It owns lighters, cranes, godowns, and quays at all the ports; has interests in many concerns in the N.E.I. controlling cargoes in the inter-insular trade; and owns a coal mine in South Sumatra, which produces coal for its ships. It is subsidised by the N.E.I. Government, with which it maintains close relations; the appointments of managing directors are subject to Government approval, and the Government has access to all records and accounts. In return for obligations other than the carriage of letter mail and cargo and passengers on Government account, the Government pays the Company an annual subsidy of 200,000 florins, a sum equivalent to about £23,000 at the current rate of exchange.

87. Until recently, the coasting trade of the N.E.I. was open to foreign shipping, but as a result of legislation passed in July, 1936, this trade is now reserved to the Netherland flag. Under that legislation, however, the N.E.I. is empowered to grant permission to foreign shipping to engage in certain specific sections of the coasting trade. The effect of this legislation has been to restrict the activities of Japanese shipping in the local trades of the N.E.I., but with one exception, it does not appear to have operated to the detriment of British shipping. This exception is in connection with the Straits Steamship Company, which

* Or (Netherlands) Royal Packet Navigation Company.

wishes to re-open a service along the east coast of Sumatra; the Netherland authorities have not so far seen their way to granting the necessary permission.

88. Although it is still principally engaged in local trade, the K.P.M. has recently ventured on a number of trans-oceanic services, notably to South Africa, Australia, New Zealand and other British islands in the South Pacific. Some of these trans-oceanic services compete with British shipping. We are informed that at any rate some of these new ventures have been undertaken less with the expectation of profit than with the intention of providing employment in slack times for shipping which would otherwise have been laid up.

89. British merchant interests control a certain proportion of the trans-oceanic trade of the N.E.I. The most important British shipowners are Messrs. Alfred Holt and Company. Nearly a score of other British companies make regular calls at ports of the Netherland East Indies. We are informed that in the prosperous year 1937 the British lines had not at their disposal enough space to satisfy shippers.

12. THE PHILIPPINES, FRENCH INDO-CHINA AND SIAM.

90. The remaining countries to be considered in the Malayan area are the Philippines, French Indo-China and Siam. As is to be expected, much of the liner shipping with the Philippines is under the American flag, and much of the liner shipping with French Indo-China is under the French flag. A great part of the overseas trade of Siam is conducted through the Danish East Asiatic Co., a trading concern which carries much of its cargo in its own vessels. In all three cases, however, many tramp ships are employed to carry bulk exports—sugar, hemp, coconut products and timber from the Philippines, rice, maize and anthracite from French Indo-China, and rice and teak from Siam. In the import trades, which are on a very much smaller scale, tramps are used for the carriage of coal from South Africa and from Japan.

91. The United States Government publishes statistics of the quantities of cargo carried to and from the Philippines by vessels under the principal flags. The figures for 1923, 1929 and 1936 are as follows:—

	1923.	1929.	1936.
		'000 tons.	
In United States ships... ..	995	1,269	859
} British	592	891	967
} Japanese	287	598	759
} Norwegian	25	261	551
} Other	453	960	721
Total	2,352	3,979	3,857

92. As will be seen from these figures, about a quarter of the trade was carried in British vessels. The proportion in U.S. vessels declined as a result mainly of increasing Japanese and Norwegian competition.

93. The greater part of the trade of the Philippines is with the United States, and a United States law of 1920 provides that the coastal laws of the United States may be applied to the trade between the United States and the Philippines if the President, after investigation of local needs and conditions, declares by proclamation that an adequate shipping service under the United States flag has been established. No such proclamation has been made, and the trade between the United States and the Philippines remains open to foreign shipping. A new constitution came into force in the Philippines in 1935, and the Islands become completely independent on the 4th July, 1946. The British lines principally concerned in the trade between the United States and the Philippines are the Blue Funnel, Bank, Prince, Silver, Dodwell Castle and Ellerman Lines. Ships of these lines run regularly to and from Atlantic or Pacific coast ports via the Panama or Suez Canals and often touch at Japanese and Chinese ports and at Hong Kong and Singapore. The Canadian Pacific liners running between Manila and Vancouver often carry traffic of United States and Philippines origin.

13. CHINA (AND HONG KONG).

94. The hostilities in China have had a serious effect on British shipping at Shanghai and on the Yangtse, but have absorbed Japanese tonnage which would otherwise have been in competition with British tonnage, and until the autumn of 1938 stimulated trade with Hong Kong. On the whole it may be said that British shipping in the Far East enjoyed a good year in 1937. This however, was due to passing causes, and it is more important in regard to the future to place on record the trend of events in the few years immediately preceding the war.

China Overseas Trades before 1937.

95. It is not possible to indicate the proportions of Chinese overseas traffic carried under the various national flags in recent years. The statistics of entrances of shipping reveal no substantial change in the position since 1920. British shipping has accounted for about 35 per cent. of the total, and Japanese shipping for about 20 per cent. China herself, the United States and Germany come next in order of importance, though the greater number of Chinese vessels are normally employed on short voyages such as from China to Japan.

Since a great part of the trade of China is conducted by vessels which call at Chinese ports and do not find their terminal there, the statistics of entrances and clearances bear no necessary

relation to the quantities of cargo and the numbers of passengers carried to and from China. It is, however, undoubted that Japan, the United States and Germany are the principal competitors of U.K. shipping in the carrying of Chinese trade and that the major part of the trade of each with China is carried under its own national flag.

96. The following figures of Chinese foreign trade have been compiled from statistics published by the Maritime Customs and converted into millions of pounds sterling:—

	1925. £1=5·73 HK. taels.	1930. =6·92 HK. taels.	1933. =16·2 \$	1936. =16·7 \$
Imports	139	159	84	57
Of which, into Man- churia	27	30	—	—
Exports	135	129	38	42
Of which, from Man- churia	37	42	—	—

97. Any comparison between the figures for these years needs to be made with caution. Owing to variations in world prices, changes in value are rarely an accurate reflection of changes in the volume of trade. Moreover, during the period since 1925, both the tariff system and currency system of China have been radically altered: and there was a period of hostilities between Japan and China in 1932 which caused a heavy fall in Japanese trade with China in that and subsequent years. Apart from these factors, the Maritime Customs figures for 1936 are incomplete, for comparative purposes, as they do not include the considerable amounts of smuggled merchandise known to have been imported into North China, mainly from Japan, in that year. Subject to these reserves, it may be said that, on the recorded statistics, the total value of Chinese import and export trade, excluding Manchuria, fell between 1925 and 1936 by rather more than one-half. The fall was heaviest in the case of recorded Japanese trade; British trade (including Hong Kong) was almost as seriously affected; the United States trade suffered less, but even in that case there was a reduction of more than one-half. Only in the case of Germany was there a small increase of recorded trade. This trade consisted mainly of German manufactured exports, many of which were in competition with U.K. manufactures.

98. Having regard to the foregoing facts, it is evident that British and American shipping must have carried considerably less in 1936 than in 1925, and that German shipping, although in 1936 the trade amounted to only 11 per cent. of the whole, must have enjoyed an increase.

99. British oceanic shipping carrying Chinese exports is in large measure dependent for cargo and passengers on the river and coastal services operated under British management. For this reason, and because of their intrinsic importance, it will be well to give some analysis of these services.

China River and Coastal Trades before 1937.

(i) *River Trades.*

100. The Yangtse trade divides into that above and that below Ichang, the first port below the gorges. Vessels constructed for the upper river are of specialised design and dimensions, and cannot as a rule be profitably employed in trades on the lower river, where larger vessels of more economical design and power can operate. In the early part of 1937, the number and nationalities of steamers and motor vessels operated in the two sections of the Yangtse trade were as follows:—

		<i>Below Ichang.</i>		<i>Above Ichang.*</i>	
<i>British—</i>					
China Navigation S.N. Co.	... ..	11		6	
Indo-China S.N. Co.	... ..	10		3	
China Import and Export Lumber Co....		2		nil	
<i>Chinese—</i>					
China Merchants' S.N. Co.	... ..	9		1	
Ming Sung Industrial Co.	... ..	1		32	
San Peh S.N. Co.	... ..	13		1	
Ningpo Shaohsing S.N. Co.	... ..	2		nil	
<i>Japanese—</i>					
Nisshin Kisen Kaisha	... ..	12		5	

* The French Union Franco-Chinese de Navigation and the Italian Societa di Navigazione Fluviale Italo-Chinese each operated two vessels above Ichang.

101. In addition, tug and lighter fleets were operated by two Chinese companies—the China Merchants' and San Peh—for the carriage of general cargo; and by the two British companies—the China Navigation and Indo-China—and by the Japanese N.K.K. for the carriage of both general cargo and oil in bulk.

102. By far the largest element in the Yangtse trade was downward from Hankow. The tonnages and percentages of cargo handled under the various flags in this trade in the years 1934-6 are indicated in the following table:—

	1934.		1935.		1936.	
	('000 Tons).	Per cent.	('000 Tons).	Per cent.	('000 Tons).	Per cent.
British	306	57	231	49	219	36
Chinese	161	29	153	32	236	38
Japanese	75	14	81	17	139	23
	542	100	465	100	594	100

103. It will be seen that during these three years both Chinese and Japanese carriage increased at the expense of British. We are informed that the Japanese increase was mainly due to a large growth of exports from the Chinese river ports by Japanese shippers, the Japanese employing their national tonnage to a greater extent than did nationals of other countries theirs. Had it not been for the growing political tension between China and Japan, the Japanese increase would probably have been larger. The Chinese success was due to some extent to the national desire, fostered by propaganda, to support Chinese tonnage, and to measures of assistance by the Chinese authorities, some of which have occasioned complaint, e.g., the system of through booking on the Chinese Railways referred to below (para. 109). There have also been suggestions that tariff agreements are not strictly adhered to either by Chinese or Japanese lines.

104. On the Upper River, a great growth in trade followed the reorganisation, in 1935, of the province of Szechuen under the more direct control of the Central Government. Anti-Japanese political feeling, which was stronger in Szechuen and Hunan than in other Yangtse provinces, had an adverse effect on Japanese shipping interests. There was a great growth of carryings by the Chinese Ming Sung Company, and British carrying also increased—especially after the withdrawal, in 1935, of the anti-British boycott at Wanh sien.

(ii) *Coastal Trades.*

105. The leading position of British shipping in the Chinese coastal trades in recent pre-war years is indicated in the following table:—

COASTAL TRADE EXPORTS OF SOME OF THE MAIN TREATY PORTS OF CHINA.

	1933.	Percentage carryings.			1936.	Percentage Carryings.		
	('000 Metric Tons).	British.	Chinese.	Japanese.	('000 Metric Tons).	British.	Chinese.	Japanese.
Tientsin	441	51	47	2	371	54	44	2
Tsingtao	128	49	49	2	152	53	35	12
Canton ...	107	77	22	—	259	50	50	—
Swatow...	55	82	18	—	110	73	27	—
Chefoo ...	31	71	29	—	41	78	22	—
Amoy ...	6	68	32	—	12	81	19	—
Total...	768	56	43	1	945	54	44	2

106. Unfortunately no figures are available for Shanghai, and it is therefore not possible to give the percentages carried under the several flags for the coastal trade as a whole. The Dairen Kisen Kaisha (D.K.K.) maintained a service from Shanghai to Tsingtao and Dairen and the O.S.K. another from Shanghai to Foochow and Formosa. The figures given also omit a number of small carriers, mainly Chinese, and the bulk of the tramp trades such as coal and salt. Nevertheless, they give a fair indication of the relative strength of the chief flags in the main berth trades from the ports mentioned. The advance of the Chinese percentage at Canton was due mainly to the development of Provincial Government monopolies in commodities such as sugar and cement, the carriage of which was practically confined to Chinese shipping.

107. According to evidence received through the Chamber of Shipping of the U.K., the Japanese authorities decreed in March, 1934, that no Chinese passenger should enter Manchuria without a permit issued by the Japanese passport office at one of the Treaty ports in North China. The number of permits to be issued was fixed at 700,000 for 1934, but was subsequently reduced each year and stood at 360,000 in 1937. Since about half the Chinese labourers entering Manchuria arrive by sea, the shipowners catering for this traffic have suffered from the immigration restrictions. On 1st July, 1936, the authorities in Manchuria inaugurated an official passenger pool at Dairen composed of five Japanese companies and a Chinese company. A British shipowner who has been engaged in the shipping trade of North China and Manchuria for a generation applied for participation in the pool and was rejected. In October, 1936, all the Japanese passport offices in North China received instructions from headquarters to refuse to issue landing permits to any Chinese intending to embark on the British steamers for Manchurian ports. The British Consular authority in China has made repeated representations to the Japanese authorities on behalf of the British shipowner, but without success.

(iii) *Sea versus rail.*

108. In some respects the river and coastal trades have benefited, and in other ways they have suffered from the development of railways. They have benefited where the railways have connected river ports with hinterland towns not accessible by water, but they have suffered in some cases where the railways have connected port with port. In the opinion of our expert witnesses, shipping has probably benefited by the development of the railways.

109. In two ways, however, the Chinese Government has put river and coastal shipping at a disadvantage:—

(a) A duty of $7\frac{1}{2}$ per cent. ad valorem has been imposed on water borne goods shipped by vessels trading under the Chinese Maritime Customs Regulations. Goods carried by rail do not pay this duty, and where there are competing rail and water routes the duty has the effect of diverting cargoes, particularly those of high value, to the railways. The tax, nevertheless, yielded over $13\frac{1}{2}$ million dollars in 1936.

(b) The Chinese Government Railways quote through rates for carriage by rail and shipment on vessels owned by the leading Chinese shipping company, the China Merchants' S.N. Co., which obtains in this way an advantage over British and other shipping companies.

110. On the whole it may be said that, south of Manchuria, British shipping in the coastal trade was maintaining its position up to the outbreak of hostilities between China and Japan in July, 1937, but that on the lower Yangtse river the proportion of British carrying diminished in the face of Japanese and especially Chinese competition. The chief British interests concerned—Messrs. John Swire and Company, who own the China Navigation Company, and Messrs. Jardine, Matheson and Company, who own the Indo-China Steam Navigation Company—were among the pioneers of the water-borne trade of China. Each of these firms owns properties in China, has built many of the wharves on the Yangtse River, and is closely associated with certain manufacturing and merchanting interests and with overseas shipping. The percentage carryings of British shipping would probably have declined somewhat with the growth of Chinese shipping, but we have been told that despite the discrimination in favour of rail-borne as against water-borne traffic, there was the prospect of a net increase in the volume of carryings given a continuance of internal peace and trade prosperity and equal opportunity.

14. JAPAN AS A CENTRE OF SHIPPING.

111. Thus far in our study of shipping round the south and east of Asia, we have followed the course of an outward voyage from Europe. We now propose to change our view-point, and although it may involve some repetition, to consider Japanese shipping as centred on its home base.

112. The enormous expansion of Japanese trade since 1914 has provided the fundamental conditions for the expansion of her mercantile marine. The parallel and connected growth of Japanese ocean-going shipping and Japanese trade is evident from the following table:—

Year.	Number of Japanese vessels between—				Total value of trade† (thousand million yen).	Total volume of trade (million cargo tons).
	3-5,000.	5-10,000.	Over 10,000 tons.	Total number over 3,000 tons.*		
1914	119	53	4	176	1.19	} Not available
1920	169	170	6	345	4.28	
1925	244	250	12	506	4.82	} 24.89 35.30 37.37 39.90 Not available.
1930	261	286	19	566	3.02	
1935	234	280	16	530	4.85	
1936	237	296	21	534	5.52	
1937	257	315	19	591	6.96	
1938	283	367	25	675	Not available.	

* In 1937 the vessels of Japan over 3,000 tons aggregated approximately 2,800,000 tons, or two-thirds of the total tonnage of Japanese vessels over 100 tons.

† Excluding trade with Formosa, Korea and mandated territories.

113. From enquiries we have made it would appear that in the last year before the hostilities in China, of some 550 vessels of 3,000 tons or more owned in Japan, some 200, mostly under 5,000 tons, were normally employed in Asiatic waters east and north of Singapore and principally in the Japanese coasting and inter-insular trades, while the remaining 350, mostly over 5,000 tons, were engaged in longer voyages to lands outside the Far East.

Japanese Coasting Trade and Tramp Shipping.

114. The Japanese coasting trade, which is reserved by law to Japanese shipping, usually finds employment for more than half the Japanese tramp fleet. As a war-time measure in August, 1937, the coasting trade was opened to a limited extent, apparently to permit of the use of Japanese-owned vessels sailing under foreign flags. Foreign-owned ships have only been admitted, case by case, after scrutiny, and there has been no general opening of the trade.

115. In a publication of the Mitsubishi Economic Research Bureau dated 1936, we find the following statement on the position of Japanese tramp shipping in 1933:—"Vessels employed on European routes and on the Atlantic side of North America in January, 1933, augmented to the unprecedented number of 104, while the combined total of vessels on the Pacific coast of North America, and in Australian and Indian waters in the same year was 182 . . . the tonnage then engaged on these

far flung routes corresponding to 47 per cent. of Japan's aggregate tonnage. This unusual overseas activity was due mainly to the depreciation of the yen, and to the active state of Japanese foreign trade, but participation in overseas tramp shipping has since greatly lessened."

Japan's Foreign Trade.

116. The Japanese Government publishes statistics distinguishing the values of Japanese foreign trade carried in ships of the different flags. The figures for the principal carriers are as follows:—

Value and per cent. of Japanese trade.	1913.		1923.		1925.		1929.		1935.	
	M. Yen.	Per cent.	M. Yen.	Per cent.	M. Yen.	Per cent.	M. Yen.	Per cent.	M. Yen.	Per cent.
In—										
Japanese ships	665	50	1,575	71	3,343	69	2,962	70	3,246	66
British ships	387	29	358	16	858	18	610	14	530	11
U.S. ships ...	73	5	148	7	367	8	303	7	277	6
German ships	115	9	25	1	69	1	176	4	135	3
Norwegian ships	7	·5	11	·4	14	·3	86	2	170	4
Other ships ...	97	(a) 6·5	89	4·6	172	3·7	169	3	493	10(b)
Total ...	1,344	100	2,206	100	4,823	100	4,306	100	4,851	100

(a) Of which 4 per cent. was French.

(b) Of which 1 per cent. was French, 1 per cent. Danish, and 3 per cent. registered in Dairen and China, but for the most part owned in Japan.

117. It will be seen that, in recent years, Japanese vessels have carried rather more than two-thirds by value of Japanese foreign trade, and that British shipping is second in importance with rather more than one-third of the remainder. Comparable figures for 1936 are not yet available. British shipping earnings from carriage to and from the Japanese Empire—liner, tanker, and tramp—would appear to have been of the order of from £4 to £5 million sterling annually.

118. Figures published by the Japanese Ministry of Finance show that in 1935, Japanese shipowners received 192 million yen for carrying goods to and from Japan, and 56 million yen for carrying goods between other countries. In 1936 the figures were respectively 209 million yen and 70 million yen. The important inference may be drawn that by far the greater part (nearly 80 per cent.) of Japanese shipping is occupied in carrying the exports and imports of Japan herself.

119. According to the Japanese Ministry of Finance, the total gross freight and passenger earnings of Japanese shipowners in 1935 amounted to 274 million yen, of which 26 million yen

was for carrying passengers. With the growth of Japanese trade and shipping in 1936, the earnings of Japanese ship-owners increased to 306 million yen.

120. To a considerable extent, Japanese and British shipping in the Orient do not compete directly, that is to say, on the same trade routes. There is little or no Japanese competition with British shipping in the trades between the U.K. on the one hand and India, British Malaya and China on the other; and there is little or no British competition with Japanese shipping in the trades between Japan on the one hand and Dairen, Manchuria, Hong Kong, Siam, Indo-China, the N.E.I. and the West Coast of South America. There is, however, considerable competition in the trades between Japan and India, Japan and Australia, and, in a lesser degree, Japan and the United Kingdom, Japan and the Continent of Europe, and Japan and the United States. Japanese and British shipping also compete to some extent in the trade between British Malaya and New York, and in the coasting trades of India, China and East Africa. It should finally be stated that the British and Japanese flags compete in a considerable amount of the "interport" trade along some of the foregoing routes, notably at Hong Kong, Singapore, Rangoon and Colombo.

121. In this paragraph we give the principal trade routes, radiating from Japan, along which Japanese shipping worked in 1936,* and in each case the value in millions of yen of Japanese trade (Imports and Exports) in that year.

(I) *South-westward: As far as Singapore.*

(a) *Japan and China (376 m. yen).*

Much of the trade between Japan and China and Hong Kong is incidentally carried in vessels operating between Europe and the Far East, but there are a number of local Japanese services to Shanghai, Tientsin and Tsingtao, and there is also a tramp traffic, mainly Japanese.

The trades between Japan and Kwantung (Dairen) (381) and between Japan and Manchuria (357) are reserved to Japanese shipping, and their values are therefore excluded from the above stated value of the trade between Japan and China.

(b) *Japan—N.E.I. (243 m. yen).*

This trade is almost entirely shared between the Japanese and Netherlands East Indies. We shall describe in Part II of our Report the recent success of the N.E.I. merchants and Government in bringing about a balance of carryings between Japanese and Netherland shipping. (Paragraphs 295-306.)

* In a subsequent paragraph (§ 124), we refer to changes which have taken place since 1936.

(c) *Japan—Philippines (88), Siam (52) and French Indo-China (25).*

These trades are chiefly carried in Japanese vessels.

(d) *Japan—British Malaya (100 m. yen).*

Japanese cargo liners and tramps carry a large trade in iron ore from British Malaya, and the M.B.K. does a trade in rubber between the same two countries. Very little of these trades appears to be in British ships, although the commodities carried are derived from British protected territory.

(2) *South-westward: in the Indian Ocean beyond Singapore.*

The Japanese lines which ply in the trades with India have their terminal either at Calcutta or Bombay. Almost the whole of these trades was formerly carried in British vessels, but Japanese vessels carry to-day approximately 50 per cent. of the Calcutta trade and 80 per cent. of the Bombay trade, and on both routes traffic is picked up at intermediate ports. The Calcutta-Japanese vessels carry no less than 80 per cent. of the cargo trade between Burma and Japan. The Bombay-Japanese vessels are offering increasingly severe competition with British shipping between Japan and Colombo, between Colombo and Bombay, and between Hong Kong and Bombay.

The Japanese trades to the Persian Gulf and to East Africa were formerly carried either in British or Japanese vessels to India, and there transhipped to vessels of the British India Company. Both trades are now conducted in Japanese vessels offering a direct service.

(a) *Japan—India (631 m. yen).*

We describe the history and operation of these trades in some detail in Part II of this Report. (Paragraphs 250-274.)

(b) *Japan—Colombo (16 m. yen).*

The interport traffic between Japan, China, the Straits and Colombo is controlled by the agreement of an international conference, of which the N.Y.K. and O.S.K. are members. Early in 1936, the M.B.K., which was not a party to the agreement, began to send steamers to Colombo to lift cargo for the Far East, and with the support of the N.Y.K. and O.S.K., was admitted to the Conference.

(c) *Japan—Iran (6 m. yen).*

Cement is the basis of this as yet relatively small trade, and it is of interest to note that the Japanese vessels principally concerned are owned by the M.B.K., the leading exporter of Japanese cement.

(d) *Japan—East Africa (81 m. yen).*

The Japanese-East African trade is now carried by a direct Japanese service inaugurated by the O.S.K. in 1926, with calls at Hong Kong, Singapore and Colombo. The original purpose of this line was to enable the Japanese to establish their export trade in the markets of East Africa. In this they have been successful, mainly at the expense of the export trades from the United Kingdom and India. The O.S.K. vessels plying between Japan and Durban via Mombasa carry traffic to ports intermediate between Mombasa and Durban. The entry of the O.S.K. into the East African coasting trade was contrary to a provision in the agreement made in 1929 between the companies in the Calcutta-Japan Conference, of which the British India Company and O.S.K. are members, to the effect that the parties are not to engage in each other's established trades outside the Calcutta-Japan Conference. The British India Company protested without effect, and in 1935 withdrew their opposition to the admission of O.S.K. to the East African Conference.

(e) *Japan—Cape of Good Hope.*

The O.S.K. operates two services calling at South Africa (64), one to the west coast of Africa (53) and the other to the east coast of South America (126).

In August, 1938, the M.B.K. inaugurated a service to carry gunnies from Calcutta to the Plate in competition with five British lines in the Calcutta-River Plate Conference, the Bank, City, Hall, Harrison and Clan Lines. The M.B.K. vessels return with Brazilian raw cotton to Japan.

(3) *Southward to Australia and New Zealand (251 m. yen to and from Australia, and 39 m. yen to and from New Zealand).*

Japanese vessels carry about 80 per cent. of the liner trade between Japan and Australia and New Zealand, and Japanese tramps carry over half of the important tramp traffic from Australia to Japan and China. The tramp position is briefly summarised in paragraphs 133 and 146-9 of this Report, and Japanese competition in the liner trade is described in paragraphs 275-281.

(4) *Eastward to America (1,441 m. yen to and from U.S., 88 to and from Canada, 26 to and from Mexico).*

In the carrying trades between Japan and North America, British liner interests are relatively small and are declining. The liner trade is mainly carried in Japanese and United States vessels, and in the last few years, Japan has been gaining as against the United States. British tramp and tanker interests are still, however, fairly considerable.

The shipping lines from Japan to North America follow three routes; to the north-west coast, to the south-west coast and via Panama to the east coast.

(a) *Northern route to west coast of North America.*

This trade is carried under three flags, Japanese, British and American. Most of the services make their terminals in Hong Kong in the Orient and Vancouver or Seattle in America. The Japanese lines are the N.Y.K. (21 sailings a year) and the Kawasaki K.K. and Yamashita K.K. The British lines are the Canadian Pacific (fortnightly from Vancouver to Japanese ports, Shanghai, Hong Kong and Manila) and the Blue Funnel (monthly from Hong Kong, Dairen and Japanese ports to Vancouver and Seattle). The American flag is represented by the fortnightly service of the American Mail Line. The Blue Funnel vessels are due for replacement, but we understand that they have not been earning enough to cover depreciation. They have suffered from the competition of Japanese vessels on this route, and also from the diversion of trade to the Panama route. For these reasons the future of the service is uncertain. The C.P.R. service, equipped with an efficient fleet, acts as a feeder for its great trans-Continental railway system.

(b) *Southern route to West coast of North America.*

In the carrying trade between Japan and San Francisco and Los Angeles, British shipping is not represented. Japanese shipping is predominant; the N.Y.K. and Daido K.K.K. each run fortnightly and the Kawasaki K.K., Mitsubishi Shoji Kaisha and Yamashita K.K. irregularly.

(c) *Via Panama to East coast of North America.*

Eight years ago the British lines in the Straits—U.S. Conference loaded with raw cotton from East Coast ports of the U.S.A. to Japanese ports. The British lines subsequently found they could not get cargo for Japan, presumably because the Japanese had taken to buying cotton f.o.b. in the U.S.A.

The export of raw silk to the United States used to be carried largely in British and American vessels to the west coast of North America, whence it was forwarded eastward by rail. In 1929, the price of silk fell in the American market, and the M.B.K., who as merchants buy raw silk in Japan and sell it in the United States, made the experiment of sending their silk in their own vessels by the all-water route through the Panama Canal, so as to save the charges for railway overland freight. The experiment was a success, and other Japanese shipping companies followed the example of the Mitsui Company, with the result that in 1935, 68 per cent. and in 1936, 77 per cent. of the total trade in raw silk were carried via Panama to New

York, and of these percentages the Japanese lines carried, respectively, 74 per cent. and 81 per cent. This development has assisted in placing in service new and fast Japanese vessels built under the Scrap and Build Schemes (see paragraphs 187-189). The raw silk is now carried from Japan to New York by an all-water route at a freight charge of \$4 per 100 lbs. as compared with the charge of \$8 if shipped to San Francisco or Seattle and forwarded thence overland.

(5) *Oriental Traffic Via Panama.*

The increase in Japanese carryings of cargo through the Panama Canal in recent years is shown in the following table:—

Tonnage of Cargo (excluding oil) carried to and from the Orient in 1923, 1929 and 1936, through Panama.

(Compiled from Panama Canal Records.)

	1923.	1929.	1936.
	'000 tons.	'000 tons.	'000 tons.
In British ships	489	749	820
„ Japanese „	462	805	1,640
„ American „	533	849	480
„ Norwegian ships	54	337	810
„ Other „	38	147	387
Total	1,576	2,887	4,137

(6) *Japan—West coast of South America (41).*

The whole of this trade is conducted by a service operated by the N.Y.K. with the assistance of subsidy.

(7) *Via Suez to and from Egypt (87), U.K. (220) and the Continent (420).*

In the great trade between the Far East and Europe, carried mainly through Suez by the leading shipping companies of the great maritime nations, Japanese shipping is represented by the N.Y.K., which runs a fortnightly passenger and cargo service and two monthly cargo services. The O.S.K. and K.K.K. also operate in the trade. Japanese competition in this trade has become more severe since a number of large new Japanese vessels began to operate in 1936 and 1937.

122. It will be seen from the foregoing statements that the progress of Japanese shipping has hitherto been at the expense mainly of British shipping between Japan and the British

Commonwealth and of United States shipping between the Orient and the United States. There are indications that the Japanese shipowner may soon seek to expand in other directions and at the expense of the shipping of other countries, including the United Kingdom. As will be seen from the graph below, from 1935 to the outbreak of hostilities in China in 1937 there was a rapid increase in the rate of new building in Japan. The ambitions of Japanese shipowners are expressed in the following extract of a translation from an article* by Mr. Shozo Murata, President of the O.S.K. Mr. Murata is entering the third year of his Presidency of the Shipowners' Association of Japan, a body which represents about 80 per cent. of Japanese tonnage. In September, 1937, he wrote:—

“ So long as there are no unusual changes in international economic relations it is safe to assume that our trade ten years from now will have increased to about double that of to-day If the amount of trade is doubled ten years from now [the ocean-going ships] must also, of course, similarly be doubled Exports of agricultural products and raw materials from our friendly neighbour, Manchuria, will increase in the future and their transport naturally falls in the domain of our shipping.

“ As has been repeatedly stated, the stream of trade in the Pacific will expand tremendously in the future. But as there are no countries bordering the Pacific that are specifically shipping countries, our country with its favourable geographic position should obtain the carriage of most of this trade and it will be an excellent sphere of activity for our tramps. The tendency is for passenger traffic to increase daily in the future along with the economic and cultural development of the countries on the coasts of the Pacific. Therefore it is the duty of the passenger ships of our country to take an active role in this direction in the future. Communications and transport in coastal and imperial waters, more especially between Japan and abroad, are expanding rapidly every year. There should be a great demand for shipping in this direction in the future. America has recently revised the Neutrality Law and stipulated that in time of war countries receiving supplies and which approach America for them must provide the ships themselves There is a need for a further increase in the number of tankers and other special ships

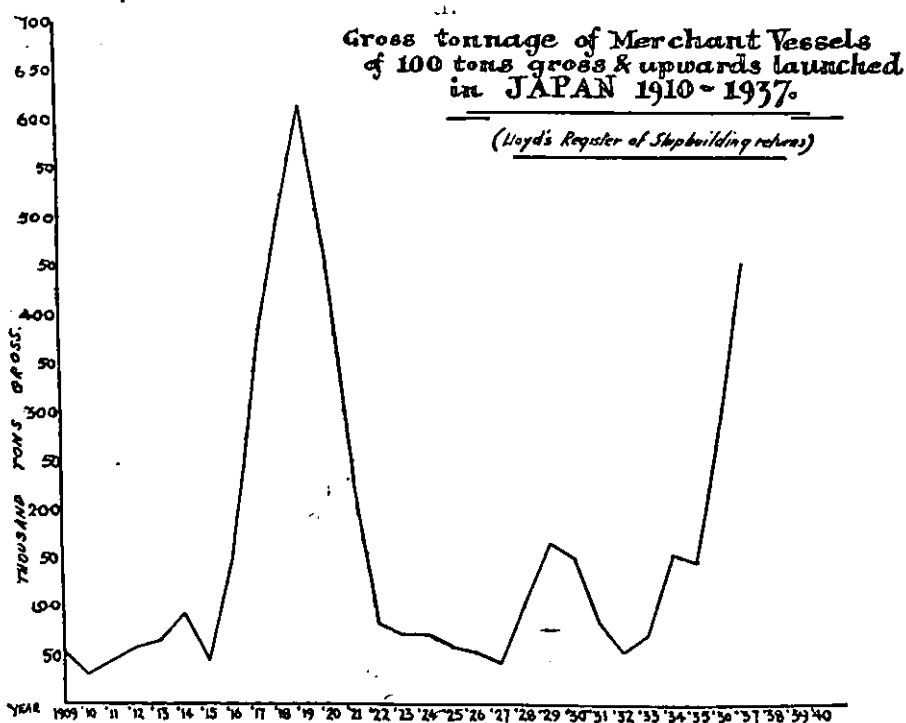
“ Our merchant fleet as a whole compared with that of other countries still occupies a somewhat inferior position.

* International Marine Transport, Vol. XII of the “Complete Library of Railways and Communications” published by the Shunkosha in Tokyo, September, 1937. Chapter XII, Section 5.

in point of age, type and speed of ships and other particulars

“ The next question is the rate at which the [merchant] fleet should be improved I think it will be necessary to eliminate at least on average 200,000 tons per year, [but if we build] in all more than 600,000 tons each year, . . . ten years hence more than three-quarters [of our merchant fleet] will be new ships of less than ten years of age, so we will be able to expect much work from it.

“ The recent advance in our ship prices is, of course, based on the unusual rise in price of iron and steel, and the phenomenon is a great handicap to the development of shipping.”



123. In Japan, as in the United Kingdom, shipbuilding suffered from a period of acute depression after the abnormal conditions which held during the Great War of 1914-8. The number of shipyard workers in Japan fell from 100,000 in 1919 to 50,000 in 1922. By 1931 the total had fallen to 28,000, and a number of those were paid wages merely to prevent their dispersion. By 1937 the number had been restored to about 67,000. In the last year or two there has been a serious and increasing shortage of steel materials, and in consequence, the recent output has not been up to programme.

124. Since the beginning of the present Sino-Japanese conflict a large number of Japanese vessels have been used to meet the extraordinary demand for transports between Japan and China, and there has also been some decline in the volume of Japanese trade to be carried, both imports and exports. Before October, 1938, apart from the diversion of shipping from Shanghai to Hong Kong, the hostilities had produced no very great changes in the trades of the Orient. The developments which have since taken place, resulting in the occupation by Japan of most of the principal ports of China, undoubtedly threaten a greater, if temporary, interference with seaborne trade, but such interference gives no indication of what may happen when conditions of peace are restored.

15. THE RELATIONS BETWEEN THE UNITED STATES AND THE ORIENT.

125. As we have seen, some of the trades between the United States and the Orient, notably those with Japan and China, are by way of Panama; others—India may be specially mentioned—are by way of Suez or the Cape; some, including those with British Malaya, the N.E.I. and the Philippines, are carried partly on the Westward and partly on the Eastward route. Of their total earnings from Oriental trades, British shipowners in 1936 obtained nearly one-sixth from trades with the United States.

126. The United States Government published figures until 1931 showing the value of United States imports and exports carried under the different national flags. The following table has been compiled from these figures, and shows the proportion of the trade between the United States and the principal countries of the Orient carried respectively in United States, British and Japanese vessels in 1929, a year of prosperity, and in 1931, a year of depression. Comparable figures are no longer issued.

1929.

U.S. Trade with	Total Value (\$ million).	Per cent. in U.S. Ships.	Per cent. in British Ships.	Per cent. in Japanese Ships.
Japan	683	17	13	66
China	273	45	20	32
British Malaya ...	254	32	63	5
Philippines ...	204	58	24	7
India	203	33	65	7
N.E.I.	128	10	41	4
Other Oriental Countries.	93	41	41	12
Total	1,838	30	31	30

1931.

Japan	359	16	16	58
China	155	37	27	21
British Malaya	88	25	57	7
Philippines	133	46	22	15
India	95	27	69	1
N.E.I.	49	7	41	1
Other Oriental Countries.	39	49	35	9
Total	918	27	30	29

127. It will be seen that between 1929 and 1931 the value of the trade between the United States and Orient fell by one-half, but that in each of these years almost the whole was carried, in nearly equal proportions, under three flags, the United States the British and the Japanese.

128. There was no considerable increase in trade between the United States and the Orient between 1931 and 1936. In the latter year, the total, in both directions, stood at \$1,072 millions, or little more than half the 1929 figure.

129. In the absence, since 1931, of figures giving the distribution of the carrying between different flags, it is not possible to make statistically accurate statements on that subject, but having regard to the great advance in Japanese carrying to and from the United States through Panama, to the introduction of new vessels by the M.B.K. on that route and to the disappearance or deterioration of important United States lines, it is probable that the proportion of Japanese shipping has increased fairly substantially, and at the expense, mainly, of American shipping.

16. THE RELATIONS BETWEEN THE ORIENT AND AUSTRALIA AND NEW ZEALAND.

130. As will be seen from the table below, a considerable proportion of Australian trade, both export and import, is with the Orient.

AUSTRALIAN TRADE WITH THE ORIENT.

Year ending 30th June.	1927.	1930.	1933.	1936.
	(£'000 sterling)			
Exports (Domestic Produce) from Australia to:—				
Japan	10,335	6,520	9,148	14,068
China (including Manchuria and Kwantung)	404	263	5,001	1,624
N.E.I.	2,038	2,060	932	1,003
British Malaya	1,832	1,365	742	977
British India	1,289	2,382	650	740
Total to the Orient	15,898	12,590	16,473	18,412
Per cent. of total Australian exports	12 per cent.	13 per cent.	21 per cent.	19 per cent.

Year ending 30th June.	1927.	1930.	1933.	1936.
		(£'000 sterling).		
Imports into Australia from:—				
Japan	5,183	4,182	3,537	4,970
N.E.I.	6,452	6,283	2,931	4,928
British Malaya	2,035	813	271	488
British India	6,661	5,021	3,423	2,732
Ceylon	2,153	2,125	625	961
Total from the Orient...	22,484	18,424	10,787	14,079
Per cent. of total Australian imports	14 per cent.	14 per cent.	19 per cent.	17 per cent.

131. These figures show that Japan is by far the most important destination for Australian exports in the Orient. The high value of the exports to China in 1932-3 was due to heavy purchases of wheat and flour. The imports into Australia from the Orient are derived in roughly equal proportions from Japan, the Netherlands East Indies, and the British territories in the Orient.

132. Of the liner trade between Australia and Japan, based mainly on the export of Australian wool, Japanese vessels carry about 80 per cent. There is only one British liner service from Australia to Japan—the Eastern and Australian Steamship Company, which operates three vessels. This line has had to meet the increasingly severe competition of four Japanese lines—the N.Y.K., O.S.K., Yamashita K.K. and the Japan-Australia. The Japanese companies operate more than a dozen vessels, including some of the most modern types, and are building more. The history and nature of the competition between the British and Japanese lines in this trade is described in Part II of this Report (paragraphs 275-281).

133. There is a large trade in wheat and ore from Australia to Japan and China. The trade is carried almost entirely in tramps, and only a very small part of it in liners. Here again, an increasing proportion has been done in Japanese vessels. By purchasing wheat and ores f.o.b. in Australia, the Japanese merchant or agent is in a position to choose the vessel for shipment.

134. For the most part, the traffic with British Malaya and the Netherlands East Indies is carried to and from East Australian ports by three lines, the British Burns Philp Line, the K.P.M., and the Norwegian African and Australian line. The Burns Philp service has been in operation for the last 50 years, and the two vessels now running secure about half of the trade. These vessels are over 16 years old and compare unfavourably

with the K.P.M. vessels which began to compete in 1930. The trade between West Australian ports and British Malaya and the N.E.I. is mainly carried by three Blue Funnel vessels, based on Singapore.

135. With India there is a monthly cargo service provided by the British India Company, supplemented occasionally by a few tramps. There is no foreign competition on this route.

136. The proportion of New Zealand trade with the Orient is very much smaller than that of Australia and is almost entirely to and from Japan. Nevertheless both the proportion and the value are beginning to grow. In 1926 the trade of New Zealand with Japan was less than £1 million in value, and less than 1 per cent. of her total trade. In 1937 the value exceeded £4 millions, and was over 4 per cent. of the whole trade of the Dominion. Almost the whole of this trade is carried in Japanese liners owned by one or other of the companies in the Australia-Japan Liner Conference.

137. It will be seen from the foregoing paragraphs that the major part of the trade between the Orient on the one hand and Australia and New Zealand on the other is carried in foreign vessels. In the coasting trade of Australia and New Zealand, although there is no legal reservation, the conditions of entry are such as virtually prohibit foreign competition.

17. TRAMP SHIPPING.

138. The gross receipts of British tramps in 1936 from trades with and within the Oriental seas amounted to some £5½ millions, or nearly 20 per cent. of the total gross receipts of British shipping from the carriage of cargoes in those waters.

139. Since the tramp vessel, as its name implies, is restricted to no one route, but is available for hire in any trade in the world, the problems connected with it are different from those of the liner, and cannot be fully understood without a brief consideration of wider than Oriental scope.

140. In its relation with Europe, the Orient has more bulk cargoes to despatch than to receive. The cargoes from the Orient to Europe are soya beans from Dairen, rice and maize from Saigon, rice from Rangoon, and ores from Vizagapatam. There are relatively few bulk cargoes from Europe to balance this traffic. Tramps bound eastward would have to make the voyage in ballast but for incidental traffic offering at various points along the route, such for instance as salt from Aden to India, coal from Durban to Colombo, Sabang and Singapore, coal from Calcutta to Far Eastern ports, salt and phosphates to Japan from Red Sea ports, and railway material and oats from the Black Sea to Vladivostok.

141. In its relation with Australia and North America, the Orient has more bulk cargoes to receive than to despatch. The principal importing countries are Japan, which takes metal scrap from the Atlantic ports of North America and wheat and ores from Australia; and China, which takes lumber from the West Coast of North America and wheat from Australia. Within the Pacific there is a triangular movement of tramps carrying wheat or ore from Australia to China or Japan, proceeding in ballast to the West Coast of North America and returning with lumber to Australia.

142. It would appear from our Card Index that in the year 1936, about 1,000 cargoes (excluding those in the Japanese coasting trade, reserved to Japanese shipping, and those in the trade between Japan and China, for which complete information is not available) were carried in tramps to, from, and within the Orient. An examination of the applications made to the British Tramp Shipping Subsidy Committee in 1936 shows that 511 of these cargoes, amounting to rather more than $3\frac{1}{2}$ million tons, were carried in British vessels.

143. The principal foreign competitors, in order of importance, were Norway, Greece and Japan. Norwegian competition was strong in the carriage of scrap from the East Coast of North America to Japan and of lumber from the West Coast of North America to the Far East; Greek competition in the trades from Saigon and India to Europe and from the Black Sea to Vladivostok; Japanese competition in the carriage to the Far East of wheat and ore from Australia.

144. Norwegian competition is of long standing, but it appears to have been intensified with the recent acquisition by Norwegian owners of fast new Diesel vessels. It will be seen from Appendix VIII that the earning power of such vessels is substantially greater than that of comparable older vessels, and that their operating costs are substantially smaller. We understand that in the trade between the United States and Japan a number of Norwegian tramps were on time charter to Japanese importers in 1935 and 1936. Norwegian wages are generally on the same level as British, and there does not appear to be any sound reason for Norwegian success in competition except efficiency. It would appear that in 1935 and 1936, of the 60 Norwegian tramps trading in the Orient, 20 were built in or after 1930. Of the 350 British tramps trading in the Orient in those years, 50 were built in or after 1930.

145. Until recently, Greek tramp shipping, which enjoys the competitive advantage of low wages, was practically confined to trades in the Mediterranean and in the Western Ocean. In 1937, however, owing to the decline of employment in the River Plate trade, there was an increase in Greek tramp

competition in the Orient. In 1935 and 1936, the River Plate trade employed more than twice as many tramp vessels as the ten principal tramp trades of the Orient added together.

146. Japanese tramp shipowners enjoy the competitive advantages of a depreciated currency and of a lower level of wages and other operating costs. In the past it would appear that the Japanese tramp shipping available has been insufficient for the needs of Japanese importers, who have employed substantial quantities of non-Japanese (including British) tramp tonnage on time-charter. In 1936 and 1937, however, there was a remarkable increase in the building of Japanese tramps and cargo liners. The figures are as follows:—

		No.	Gross tons.
1928-1935 (average)	...	8	42,000
1936	... ..	32	143,000
1937	... ..	53	265,000

147. Japanese tramps are at present fully occupied in connection with the military operations in China, but the full force of their competition will be felt when they are released on the markets for normal trade.

148. In February and March, 1935, the British Tramp Shipping Administrative Committee, acting in co-operation with the shipowners of certain foreign countries, instituted minimum freight schemes in some of the principal tramp trades of the world. In February, 1935, tramp freight rates had fallen to 69 per cent. of their level in 1929, but owing to the subsequent increase in the demand for chartering, they then rose steadily to 145 per cent. in mid-1937. At that time there was practically no unemployed tramp shipping in the world, but since then the demand has fallen off again. Tramp freight rates in 1938 were 5 per cent. below the level of 1929, and costs were higher.

149. Among the trades included in the foregoing schemes for establishing minimum freights was the grain trade from Australia to the Far East, but we understand that Japan, which has recently owned more than half the tonnage operating in this trade, is not a party to the scheme.

18. TANKER SHIPPING.

150. The gross receipts of British tankers in 1936 from trades with and within the Orient amounted to some £2 millions sterling, or a little more than 6 per cent. of the total gross receipts of British shipping from the carriage of cargoes in those waters. The chief trades were imports into India from Iran and the U.S.S.R., into Japan from the U.S.A. and the Netherlands East Indies, and into Australia and British Malaya from the Netherlands East Indies.

151. The position of British tanker shipping in the Far East is different from that of tramps or liners, inasmuch as the tanker tonnage of the world is almost entirely owned or chartered by the great oil companies. Japanese tanker tonnage is relatively small and has recently been employed mainly on military duties. There has been some increase in Norwegian tanker tonnage, but it would not appear from our evidence that the present position of British tanker shipping in the Orient is such as to cause anxiety.

19. SUMMARY OF PART I.

The following is a brief summary of the results of the foregoing survey:—

1. For the purposes of this Report, we defined "the Orient" as comprising India, Indo-China, China, Manchuria, Japan; the Philippines and the Malay Archipelago. Within this region, Japan is the only great shipowning country. All the principal territories of the British Commonwealth, with the exception of the United Kingdom, have seafronts within the Orient or facing the Orient across the Indian and Pacific Oceans; but they own very few oceangoing ships, although they are large importing and exporting countries.

2. Up to the Autumn of 1938, the hostilities in China caused comparatively little disturbance with the normal course of sea-borne trade in the Orient, and complete data for the years 1937 and 1938 are not yet to hand. Having regard to these two facts, we have felt justified in basing our survey mainly on the position as it was in 1936.

3. The scale of the interests involved may be indicated by the statement that in 1936, the gross earnings of United Kingdom shipping derived from Oriental trades were approximately £33 million sterling. Of this total, about one-half was earned in the trades with the Orient through the Suez Canal and round the Cape, and the other half from the trades within the Orient, between the Orient and the other shores of the Pacific and Indian Oceans, and between the Orient and the east coast of North America via Panama. The £33 millions is about one-quarter of the total gross receipts of the United Kingdom shipping industry from the carriage of cargo and passengers all over the world.

4. In the trades with the Orient both through Suez and round the Cape, British shipping maintains its long lead with between two-fifths and one-half of the tonnage of shipping and of the cargo and passengers carried. The remainder of the trade is mainly shared between half-a-dozen European countries.

5. In the trades within the Eastern Ocean and through Panama there are two great carriers, United Kingdom and Japan. Except as regards traffic through the Panama Canal,

complete information of these trades is not available, but it would appear from our Survey that in 1936, something like one-third to two-fifths was carried under each of the two flags, the remainder being shared among a number of countries, of which the United States and the Netherlands are the most important. Through Panama, there has been a substantial growth of trade with the Orient, and the Japanese share has risen to about two-fifths; the British share has fallen from one-third to one-fifth (although in quantity it has doubled), and the American share has fallen from one-third to one-eighth.

6. The increase of Japanese shipping within the Eastern Ocean and through Panama has occurred in the past two generations. During this period there has been a great growth in the trade of the Orient, although with a temporary decline during the world economic depression. The most important aspect of the revival, so far as it has taken place, is that it is not a return to the condition prior to the depression.

7. There are in this post-depression period certain factors which have already produced great changes in the picture of Oriental trade in 1936 (and 1937-8) as compared with 1929. The first of these factors is the growing industrialisation of the Orient. The outstanding example is the development of Japanese industries, which has caused a great development of Japanese foreign trade in both directions. But industrialisation does not always have that effect. To cite one example, the traffic from the United Kingdom to India through the Suez Canal and round the Cape has fallen off in a considerable degree as a consequence of the increased output of the Indian factories for Indian consumption.

Fiscal measures have also played their part. For example, the restoration of Chinese tariff autonomy and the subsequent increase of Customs duties have greatly reduced the volume of imports, especially of piece goods, into China. As other examples, the former large importation of sugar from the Netherlands East Indies to India has almost ceased because of Indian customs duties, and the former large exportation of rice from Siam and French Indo-China to the Netherlands East Indies has quite ceased, owing to an embargo imposed by the Netherlands East Indies. Both of these trades were formerly carried to a large extent in British ships.

8. When we turn from the dependence of shipping on trade to the promotion of trade by the provision of shipping facilities, we have to note the increased competition of subsidised German and Italian Lines in the Far Eastern and especially the China trades. By luxurious accommodation and superior speeds they attract much of the better-paying cargo and passenger traffic.

9. But much more important is the competition of the great and growing Japanese Mercantile Marine, based both on a growing trade to and from Japan and on special measures to support shipping as promoting new trade. As already developed there are nine principal Japanese shipping trades; they are, according to the values of imports and exports in 1936,

- (1) with the U.S.A.,
Value 1,441 million yen, or say £85 million.
- (2) with India,
Value 631 million yen, or say £37 million.
- (3) with the Continent of Europe,
Value 420 million yen.
- (4) with China,
Value 376 million yen.
- (5) with Australia,
Value 251 million yen.
- (6) with the N.E.I.,
Value 243 million yen.
- (7) with the United Kingdom,
Value 220 million yen.
- (8) with the East Coast of South America,
Value 126 million yen.
- (9) with British Malaya,
Value 100 million yen.

In regard to the foregoing trades, attention may be called to the following points:—

(i) By far the most important single trade of Japan is with the United States. Although comprehensive statistics are wanting there can be no question that, on the grounds given in paragraph 129, a predominant and increasing share of this trade is carried under the Japanese flag. According to official statements, the United States Government is taking steps to improve the position of the American lines, and the effect of this may be to throw some of the weight of Japanese competition against British Shipping in other trades.

(ii) The next most important trade of Japan is with India. As measured by the value of the goods carried, it is on the same scale as the Japanese trade with the United Kingdom and the Continent of Europe taken together. About four-fifths of the shipping engaged is under the Japanese flag at Bombay and Rangoon, and about half at Calcutta.

(iii) The fifth most important Japanese trade is with Australia. Four-fifths of the liner carrying is under the Japanese flag, and more than half of the tramp carrying.

(iv) The trade between Japan and the N.E.I. is on about the same scale as that between Japan and Australia. As the result of action taken by the N.E.I. Government in support of their shipowners and merchants, the carrying is divided between the Japanese and Netherland flags on a fifty-fifty basis.

(v) Almost the whole of the trade between Japan and British Malaya is carried in Japanese ships.

(vi) The trade of Japan with the three British regions, India, Malaya and Australia, grouped together, is on a scale about two-thirds as great as the trade of Japan with the U.S.A., and more than two-thirds of this British-Japanese trade is carried under the Japanese flag. Two generations ago, Japan had no mercantile fleet in the Western sense. Her fleet and trade have grown side by side. In the Orient, the British mercantile marine has shown no similar growth.

10. In indirect trade, Japanese ships found employment during the recent depression in the trade between Singapore and the U.S.A. in competition with American and British vessels. The Japanese tonnage has since been for the most part withdrawn, but it may return, for it is based on an important Japanese trading house at Singapore. Japanese competition has recently been established in the carrying of gunnies from Calcutta to the east coast of South America, a trade of certain importance hitherto shared between several British lines.

11. The coasting and interport trades of the Orient are important, not only intrinsically, but also as feeders to oceanic shipping. The coasting trades of India and British Malaya are not closed by legislation, but to the extent of 90 per cent. or more, are carried under the British flag. In the coasting and river trades of China, the position in 1936 was that on the lower Yangtse, the British share was falling owing to increasing Chinese and Japanese competition, and that on the coast, the British flag was still rather more important than the Chinese and Japanese.

12. The Indian coasting trade is mainly carried in vessels owned by one or other of three companies, two owned in the United Kingdom and one owned in India. The Indian-owned company wishes to increase its share of the coasting trade and to engage in overseas shipping. From time to time, the Japanese have attempted to establish a footing in the Indian coasting trade, and the Government of India have brought the question to the notice of the Japanese Government: with what results remains to be seen.

13. The receipts of British tramp shipping in 1936 were little more than one-fifth those of British liner shipping in the Orient, but British tramps carried about half the tramp trades of the Orient, excluding coasting trade and that between China and Japan.

PART II.

THE FACTORS AFFECTING COMPETITION.

20. SYNOPSIS.

152. Before we pass from the foregoing survey to consider how the competitive position of British shipping in the Orient may be improved, we propose giving some attention to certain sources of strength and weakness affecting competition in that part of the world, the precise influence of which has been much debated. The relevant facts are not easily assembled and their effect is not always obvious.

153. We shall discuss them in the following order:—

- (a) Government assistance both for operating and building of ships,
- (b) the effect of foreign exchange control,
- (c) depreciated currencies,
- (d) contrasted standards of living, and
- (e) combination of shipping with industrial, mercantile and financial interests.

154. In the case of liners, which are the most important type of shipping in the Orient, the interplay of the foregoing elements in competition may be discerned in the history of the international shipping conferences in trades to and from and also within the Orient. We have no wish to magnify the importance of these bodies. As their name signifies, they are not powers in the shipping world, such as are the capital combines which link together groups of lines with a view to mutual support. A shipping conference is a meeting in which competitors face one another with the object of achieving that minimum of co-operation which will suffice to prevent such chaotic competition as might render impracticable the liner system of working ships. Each member of a Conference is seeking the minimum surrender of his competitive freedom which is compatible with this object; his attitude in debate is determined by the sources of strength which lie behind his diplomacy. For that reason the history of Shipping Conferences—the efforts of outsiders to enter them, the revolts from within, their agreements and rate-wars—are the most accessible evidence of the course of international competition on the ocean.

155. After some preliminary account of what may be described as Conference practice—there are about 60 major international Shipping Conferences in the world—we shall give in some detail (for that is necessary in order to convey a concrete impression of what is happening) the history of certain Conferences connected with Oriental trade. These will be

- the Bombay-Japan Conference,
- the Calcutta-Japan Conference, and
- the Australia-Japan Conference

as illustrative of the forces in action and of policies in negotiation;

the Straits-United States Conference and
the Netherlands Indies and Japan Conference

as illustrative of counteractions which succeeded or did not succeed.

21. GOVERNMENT SUBSIDIES.

156. It is commonly assumed that Government subsidies play a great part in the competition of the liner services under the various national flags. The problem of ascertaining how far this is the case is by no means a simple one; we shall endeavour to give the net effect of our information in the case of each of the principal countries with shipping interests in the Orient.

157. Broadly speaking, Government subsidies to shipping are granted under two heads—Operating and Building. Operating subsidies frequently take the form of mail subsidies, in regard to which we have to distinguish between commercial rates on a poundage basis for the carriage of the mail, and payments for such a degree of regularity and speed as is demanded for mail services and could not be maintained by the ordinary commerce along the routes followed. For building, there can be no question as to the non-commercial character of subsidies, though in some cases justification is urged on the ground that the assistance is necessary to offset subsidies granted to competing lines under other flags or to countervail inequalities in such matters as currency values.

(a) *United Kingdom Mail Payments.*

158. The United Kingdom Post Office makes an annual fixed payment of £295,000 to the P. & O. Company for the conveyance of mails via Suez between the United Kingdom and India, the Far East and Australia. In return for this payment the Company provides a weekly service to and from Aden and India, a fortnightly service to and from China via Ceylon, the Straits Settlements and Hong Kong, and a fortnightly service to and from Australia via Ceylon. The ships employed on these services are required to perform the voyages within certain specified periods of time. The Post Office has the right to send mails by any other of the Company's ships running on the mail routes.

159. The annual payment of £295,000 covers the conveyance of all letter mails, whatever their volume, and parcels up to 11 lbs. in weight. It must be taken as remuneration for the actual work done, with an addition of some allowance for the control exercised by the Post Office over the services. For the carriage of parcels weighing over 11 lbs. and of parcel mails

despatched by certain foreign postal administrations, additional payments are made, amounting at present to about £45,000 a year.

160. There are no other fixed payments by the United Kingdom Government in respect of ships trading to the Orient. Mails for certain countries in the East are carried by other lines, but are paid for at poundage rates.

(b) *German Subsidies.*

161. German shipping in the Orient is owned or controlled in the main by two great companies, the North German Lloyd and the Hamburg America, which are united on a profit-sharing basis. These two companies control more than half of the entire ocean-going shipping of Germany, and have received much of the financial assistance which successive German Governments have afforded to German shipping.

162. Since 1933, operating subsidies have been paid by the German Government to German shipping on the basis of 3 pfennigs per gross ton per day plus 20 per cent. of the wages and salaries of the crew, subject to a maximum rate, in the case of vessels of 1,000 tons gross and over, of 7·5 marks per gross ton per six months. A vessel of 6,000 tons earning at the maximum rate would presumably receive about 90,000 marks a year, representing at the official rate of exchange about £7,000, the equivalent of 20 per cent. or 25 per cent. of its total operating costs. Further sums have been placed at the disposal of German shipowners either by loans at rates of interest substantially below market rates or by grants for repair or for building. In February, 1934, it was stated officially in Germany that the German shipping subsidies were necessary, and would be continued so long as German shipping remained at a disadvantage with its competitors on the freight market in regard to foreign exchange rates. The building at the expense of the Government of three luxury passenger liners handed over in 1935 to the North German Lloyd for operation in the Far East was a measure of State assistance directed specifically to the improvement of German shipping services to the Orient.

(c) *Italian Subsidies.*

163. The reorganisation of the Italian Mercantile Marine, which was begun in 1926, is at the present time governed by Decree Law No. 2082 of the 7th December, 1936. Under this law the more important Italian lines have been grouped under four large companies, the Lloyd Triestino, the Italia, the Tirrenia and the Adriatica, each with a prescribed sphere of operations. A majority holding of the shares in these four companies is to be retained for six years by the State-owned Institute of Industrial Reconstruction. The decree law also set up a new

company, the Societa Finanziaria Marittima, with a capital of 900 million lire (£13 million sterling at the 1936 rate of exchange) to co-ordinate and give financial assistance to these services.

164. Under a contract made in 1932, the Lloyd Triestino receives from the Government a lump sum of 62,800,000 lire per annum (or about £920,000 sterling at the rate of exchange current in 1932) in return for maintaining services to Egypt, the Eastern Mediterranean, the Black Sea, India and the Far East, and complying with certain conditions, which include Government control over passenger fares and freight rates and an obligation to carry mails free up to 3 per cent. of the capacity of the ship's hold. The annual subsidy paid prior to 1932 in respect of the above services was smaller than the present subsidy by some 5 million lire.

165. Special machinery has been provided for the purpose of supplying facilities to shipowners for shipbuilding. Two organisations, the Institute of Naval Credit and the Consortium of Banks, grant loans to shipping companies; the rate of interest is 6½ per cent., towards which the State makes a contribution of 2½ per cent. in respect of vessels built in Italy. It was provided that the total of loans for the period 1928-36 should not exceed some 1,200 million lire (or say £13 million sterling at the 1928-30 rate of exchange).

166. Under a law in force from 1926 to 1938 the Italian Government has paid bounties for shipbuilding, the annual appropriations for which have been of the order of 50 million lire. Since 1929, it has also paid a fitting-out subsidy for vessels of over 14 knots speed. After 1934 this subsidy was extended to the refitting of certain vessels of 18,000 tons gross and over, subject to a provision that the speed of the vessel would be increased to over 20 knots, and to at least 3 knots more than the previous speed. The total expenditure for the 12-year period in respect of bounties and subsidies for fitting out and refitting was fixed at 684 million lire, or say £6,250,000 sterling. The foregoing system of bounties came to an end in July, 1938.

167. A decree law of 10th March, 1938, which is to remain in force for ten years, provides further assistance to Italian shipowners and shipbuilders. Shipbuilders are allowed duty-free importation of many of the materials and components used in shipbuilding. Shipowners receive certain grants and concessions, including an exemption from Income Tax for five years on income derived from vessels falling within the scope of the law. The foregoing assistance is subject to certain conditions, including an undertaking that metal-hulled vessels will be constructed in such a way as to permit of the installation of guns of 152 mms. calibre. The provisions of the decree are to be financed by

appropriations amounting to some 100 million lire annually for the ten-year period.

168. The foregoing particulars do not purport to give more than an indication, based on information which is necessarily incomplete, of the more important measures of recent State assistance to Italian liner shipping. But it would seem indisputable that Italian shipping in the Orient is in receipt of considerable financial State assistance in respect both of operating and building, and that it is virtually State-controlled.

(d) *French Subsidies.*

169. Under a contract made in 1921 and still in force between the French Government and the Messageries Maritimes, the Government makes annual payments to the Company sufficient to cover any deficits after the Company has made disbursements on operating and capital account under a number of clearly-defined heads. In return, the Company maintains regular mail connections between France and its Colonies and Protectorates in the Pacific and Indian Oceans, carries mail free, and carries passengers on Government account at reduced rates. The Government has been called upon for payments to cover deficits in every year that the contract has been in existence. The total Budget estimates of such payments from 1923 to 1932 averaged over 67½ million francs a year. From 1933 to 1937 the annual average rose to 191 million francs. It is clear that payments on this scale must be held to cover not merely the equivalent of poundage rates on mail matter, but also the maintenance of suitable services for the conveyance of mails.

170. Facilities to enable French shipowners to build new vessels were made available under a law of 1928, by which the Crédit Foncier undertook to advance 200 million francs annually for five years. The rate of interest was fixed at half the market rate, subject to a minimum of 4 per cent. The Government guaranteed the loan and reimbursed the Crédit Foncier for the loss on interest, but the Government's obligations on account of interest charges were limited to six million francs each year. Repayment was to be made within 20 years.

Under legislation passed in 1929 and 1931, the maximum amount available for loans was increased to 250 million francs annually, and the minimum rate of interest was reduced to 3 per cent. in the case of mail vessels and 2 per cent. in the case of other vessels.

In 1933, the law of 1928 was extended for four years, with the proviso that the total of loans was not to exceed 125 million francs in any one year. The total annual Government grant towards interest was not to exceed four million francs. During the period August 1928, to December, 1936, 88 loans totalling

464 million francs were granted under the schemes described above. It is not known how much of this money has been used to assist in building new vessels for Oriental as distinct from other services.

In 1937 the law of 1928 was extended for a further period of three years, but loans are not to exceed 110 million francs a year. In May, 1938, the annual Government liability in respect of interest was raised from four million to 20 million francs.

(e) *Netherland Subsidies.*

171. As regards Netherland shipping, there are three lines plying between the Western Ocean and the Orient—the Rotterdam Lloyd, the Netherlands Steamship Co., and the Holland-East Asia Line. In 1932, Government funds were made available to shipowners at a rate of interest of 5 per cent. In 1933, with the expressed intention of compensating Netherland shipowners for the competitive disadvantage at which they were placed by currency depreciation in other countries, the Government advanced money at 1 per cent. interest per annum to an amount not exceeding the difference between the wages on Netherland ships and those of the leading maritime countries off the gold standard. The loans amounted to between 5 per cent. and 10 per cent. of total operating costs. Two of the three great Netherland lines maintaining services to the Orient did not participate in this scheme.

172. In 1935 loans to the extent of 7 million florins (£578,000 sterling) were made to shipping companies free of interest, and in 1936 further loans of 6½ million florins (£537,000 sterling), also free of interest. It is understood that the Netherlands Government have released the shipping companies from the obligation to re-pay these advances.

173. As regards Netherland shipping within the Orient—the K.P.M. carry much of the coasting and local trades of the Netherlands East Indies, and have received subsidies for the maintenance of services to outlying islands (which services would not otherwise have been a paying proposition) and for the carriage of mail and Government cargo.

174. On the whole, it may be said that Netherlands Government subsidies to the Netherland shipping in the Orient are not considerable, and what assistance has been given in the past few years appears to have been to meet temporary disadvantages, more especially the growing disparity between Netherland and other wages costs before the Netherlands abandoned the gold standard.

(f) *United States Subsidies.*

175. During the last 20 years, with the important exceptions of tankers and the Isthmian line, almost the whole of that part

of the American Mercantile Marine which has been employed in trades with the Orient has consisted of cargo liners operated with the assistance of subsidy. With very few exceptions, the vessels maintaining these services were built by the United States Government during and immediately after the great War of 1914-18, and subsequently purchased by American ship owners at a figure substantially below the price which they would have had to pay in the open market. In return for this advantage, however, the shipowners undertook to maintain certain services for a period of years irrespective of whether they proved profitable or not.

176. As a result of the passing of the Jones-White Act in 1928, certain American shipowners received subsidies through a system of contracts made ostensibly for the carriage of mail. The payments bore no reference to the cost of carrying mails at poundage rate, but were based on the size and speed of the ships and on the mileage run. The total payments made to American shipowners during the eight years that the Jones-White Act was in force amounted to nearly \$180,000,000, of which little more than \$20,000,000 would have been paid for the conveyance of the mails at the U.S. poundage rate. Of these sums, about one-fifth represented payments in respect of services between the United States and the Orient, the annual payments for these services being of the order of \$5,000,000, or say £1,000,000 sterling.

177. The contract services maintained between the United States and the Orient under the Jones-White Act are given below. The most important of these services, from the point of view of American trade, were those operated by the Dollar Steamship Lines and the American Mail Line, which latter was also organised by members of the Dollar family. The figures in brackets show the minimum number of trips to be made in each year under the various contracts:—

- | | | |
|--|--------|------|
| (1) The Dollar Steamship lines :— | | |
| (a) San Francisco, Japan, China, Hong Kong, Philippines | ... | (26) |
| (b) San Francisco, China, Hong Kong, Singapore,
Colombo | | (26) |
| (2) The American Mail Line :— | | |
| Seattle, Japan, China, Hong Kong, Philippines | ... .. | (26) |
| (3) The States Steamship Co :— | | |
| (a) Portland, Japan, Hong Kong, Philippines | ... .. | (24) |
| (b) Portland, China, Dairen | ... .. | (12) |
| (4) The Tacoma Oriental Steamship Co :— | | |
| (a) Tacoma, Japan, Hong Kong, Philippines | ... .. | (12) |
| (b) Tacoma, Japan, Dairen, China | ... .. | (12) |
| (5) The Oceanic & Oriental Navigation Co :— | | |
| (a) San Francisco, Japan, China, Dairen | ... .. | (14) |
| (b) San Francisco, China, Hong Kong, Saigon | ... .. | (17) |

178. In 1936 a new Act was passed which provides that a new body, the United States Maritime Commission, is to administer a new system of subsidies sufficient to off-set the difference between the cost of building and operating ships in the United States and the cost of building and operating ships in other countries, and to off-set foreign shipping and shipbuilding subsidies. The conveyance of mails is to be paid for at poundage rates.

179. In a report published in November, 1937, the United States Maritime Commission made the following comments on the American lines which had received mail contracts for Oriental services under the 1928 Act. The Dollar Steamship Line was "not in a position to embark upon a satisfactory programme." The American Mail Line and the States Steamship Company presented "peculiar problems which may have to be met by merger or consolidation with other companies, by substitution of vessels or transfer of vessels to other routes or by realignment of existing routes." The Tacoma Oriental and the Oceanic and Oriental Services had already been liquidated.

180. Two lines plying between the United States and the Orient—the American Pioneer-Indian and the American Pioneer-Orient Line—are operated on behalf of the United States Government. In regard to these and other Government lines, the Commission stated: "Although these Companies are maintained at a net loss their record compares not at all unfavourably with that of certain of the subsidised lines, . . . At least two or three seem to have sufficient economic worth to warrant their continuation as at present constituted."

181. In October, 1938, the Commission entered into an agreement with the Dollar Company under which the Commission acquires complete control of the Company, and the Company is to receive a five-year operating subsidy at about \$3,000,000 a year and loans amounting in all to \$4½ million for repairing the Company's fleet and providing working capital. The operating subsidy is "subject to revision at any time conditions warrant such action." The Chairman of the Commission is reported to have stated that the major difficulty of the line was not lack of business, but unsatisfactory management. The new Chairman of the Company is an ex-Senator and the new President is a former executive Director of the United States Maritime Commission.

182. Later in October, 1938, it was announced that the Commission were preparing plans for three new Pacific Liners to be operated by the Dollar Line. It was stated that the ships would cost between \$8,000,000 and \$11,000,000 (£1,600,000 and £2,200,000), would accommodate eight hundred passengers and have a displacement of 35,000 tons. With a speed of

23 knots they would complete the return voyage across the Pacific in one week less than the present schedules.

183. It may be expected that other measures will be taken to strengthen the position of United States shipping in the Orient. The report of the Commission included a "tentative schedule" of services which would "cover the major requirements of the foreign trade of the United States." The investigation on which this list was based was not complete when the report was published, but it was stated that the final tabulations are not expected to alter greatly the rough outline of "essential trade routes" given in the report. Of the 23 such routes enumerated the following four were to the Orient:—

- (1) From Gulf ports to Philippine Islands and the Far East.
- (2) From Pacific coast ports to Philippines and Far East.
- (3) From Atlantic coast ports to India via Suez.
- (4) From Atlantic coast ports to the Far East.

184. If, as the statements above would seem to indicate, the proportion of Oriental trade carried in American vessels is going to increase, it is probable that the proportions enjoyed by one or other of her principal competitors—Japan and the United Kingdom—will decrease.

(g) *Japanese Subsidies.*

185. In the case of Japan, it is possible to trace with some clearness the development of Government policy in subsidising shipping and shipbuilding, and also to assess the importance of such assistance in the growth of the Japanese mercantile marine.

186. Ever since the Restoration of 1868, the Japanese Government has paid close attention to shipping problems, and soon after the war of 1895 in China, embarked on a programme of subsidies governed by laws enacted in 1896. The abnormal conditions prevailing during the Great War of 1914-8 diminished the need for subsidies, but soon after that war the annual amount of operating subsidies tended to revert to the dimensions of 1914. From 1922 to 1929, operating subsidies were of the order of 10 million yen a year, or say £1 million sterling. During this period, the Government did not give direct shipbuilding subsidies, but assisted shipbuilders by means of bounties on domestic steel production and certain exemptions from import duties. In 1929 the Government framed a programme for the assistance of shipping in the form of loans on easy terms for shipbuilding. A loan fund of 30 million yen (about £3,000,000 sterling at 1929-30 rates of exchange) was made available, but owing to the world economic depression which followed, little use was made of this facility.

187. In 1932 the Japanese Government took an important decision when, with a view to improving the unfavourable age distribution of the Japanese Mercantile Marine and to reducing the frequency of marine casualties, it introduced the first of three Scrap and Build Schemes. The first scheme, which took effect as from 1st October, 1932, provided for the construction of 200,000 tons gross of new shipping, on condition that two tons of vessels of 25 years and over were scrapped for each ton of new vessels built under subsidy. Each new vessel had to be 4,000 tons gross or over, had to be capable of at least $13\frac{1}{2}$ knots speed, and had to be built in a Japanese yard. The subsidy varied between 45 yen per ton for vessels of $13\frac{1}{2}$ knots and 54 yen per ton for vessels over 18 knots. The scheme resulted in the scrapping of 94 vessels of about 400,000 tons gross and in the building of 31 new vessels of about 200,000 tons gross. Fifteen of the new ships are capable of a speed of 18 knots or more, and 13 of these have a gross tonnage of between 6,000 and 8,000 tons. It was estimated that the expenditure involved in building the 31 ships was a little less than 55 million yen. The total Government subsidy was nearly 11 million yen, or about £650,000 sterling at 1934 rates of exchange.

188. The second and third Schemes, which took effect in 1935 and 1936 respectively, were on a smaller scale than the first. Their combined result was the scrapping of 100,000 tons gross and the construction of 17 vessels of about 100,000 tons gross, the rate of subsidy being little more than half that under the first scheme. The vessels built have a gross tonnage of 4,000 tons or more and are capable of over 14 knots speed.

189. By the early part of 1937, the three Scrap and Build Schemes had resulted in the scrapping of some 500,000 tons gross of old tonnage and the construction of 48 fast new ships of some 300,000 tons gross. These 48 included more than four-fifths of the total number of Japanese vessels of over 4,000 tons gross and less than five years old. At that time Japan had more tonnage less than five years old in proportion to her total tonnage than any other country.

190. A fourth Scheme came into operation in April, 1937, and provides for the subsidised construction of high class passenger and passenger-cargo liners of not less than 6,000 gross tons and 19 knots speed, at rates of subsidy approximating in some cases to half the building cost. In a supplement to the Official Gazette dated July, 1937, it was stated that the subsidies, though payable by instalments spread over 18 years, would be paid in respect of construction during the next four years of 150,000 gross tons of passenger vessels and 150,000 gross tons of passenger-cargo vessels. It was proposed to spend a total of over 50 million yen (£3,000,000 sterling at current

rates of exchange) on this scheme during the 18 years beginning with 1937-8.

191. In addition to providing direct subsidies, the Japanese Government has always been ready to provide credit facilities for shipping and shipbuilding enterprises. The Government has made arrangements with the Industrial Bank whereby loans for shipbuilding are made at low rates of interest, the rate in mid-1937 being 3.7 per cent. per annum. The Ministry of Finance adds 1 per cent., bringing the Bank's receipts from interest on such loans up to 4.7 per cent. The Ministry also undertakes to pay to the Bank up to 70 per cent. of any capital lost in case loans are not repaid. The system was instituted in 1930, and the Bank is at present authorised to make loans of this kind on certain conditions, up to a maximum of 100 million yen within four years from 1937-8. The loans may be made only in respect of the building of steel ships of 4,000 gross tons and over and of a speed of 13½ knots or over, but in exceptional cases may be made also in respect of the building of cargo ships of 2,000 tons or over and a speed of 11 knots or over. It is difficult, for obvious reasons, to assess the cost to the State of these facilities.

192. Compared with the foregoing assistance for building, subsidies for operation were of minor importance. From 1931 to 1938 operating subsidies averaged about 13½ million yen a year, or say £1,000,000 sterling. About half this sum was paid by the Central Government for transoceanic services, and half was paid by the Central Government and the Governments of Formosa, Korea, the South Sea Mandated Territories, North Sakhalin and Kwantung, for coastal services and services to China, Java and Singapore.

193. By far the greater part of the estimates for transoceanic subsidised services represent payments to be made to the N.Y.K. and O.S.K. in respect of the following six services. (The figures are taken from the estimates for the financial year 1938-9.)

<i>N.Y.K.—</i>	<i>Yen.</i>
Japan—San Francisco Line	2,501,231
Japan—Seattle Line	1,190,521
Japan—West Coast of South America Line	408,670
 <i>O.S.K.—</i>	
Japan—East Coast of South America Line	1,035,314
Japan—East Africa Line	300,000
Japan—West Coast of Africa Line	300,000

194. In addition, 150,000 yen is to be paid to the Yamashita Line for the Japan-Persian Gulf service.

195. Services operated by the N.Y.K. between Japan and London receive payments for the carriage of mails, the amounts varying in recent years between 500,000 and 750,000 yen.

196. All the payments for the transoceanic services are made under the Ocean Lines Subsidy Law of 1909. Under the original terms of this Law, vessels operating the services had to be over 3,000 tons gross and 12 knots speed, less than 15 years old, and built in Japan. The payments are made according to the length and nature of the route travelled and the speed and age of the vessels, and are subject to the conditions that mail and certain Government officials are carried free, that passenger fares and rates of freight, the ports of call, the number of voyages to be made and the number and kind of vessels to be used are all to be subject to Government control, and that the ships are liable to be requisitioned by the Government in time of war.

(h) *Subsidies to Tramp Shipping.*

197. In each of the years 1935 and 1936, the United Kingdom Government paid a subsidy of £2,000,000 sterling in respect of tramp voyages by British vessels. Freight rates having risen, no subsidy was paid after the end of 1936. Of the principal competitors of British tramp shipping in the Orient, Japanese tramp shipping alone is now (1938) subsidised in respect of operation. Tramps under some other flags are subsidised, but very few are engaged in Oriental trades.

198. In the Japanese Budget for 1937-8, provision was made for the first time for a subsidy for tramp ships amounting to some 1,100,000 yen, and it was stated that this was to be the first instalment of a total amount of some 10½ million yen (say £620,000) to be distributed in five years among tramp vessels continuously employed outside Japanese waters for more than 180 days. The vessels were to have a gross tonnage of over 4,000 tons and were to be less than 25 years old. The basic subsidy was 90 sen per ton of gross tonnage to be paid for each 30 days of the voyage, so that a ship of 5,000 tons gross continuously employed outside Japanese waters for 12 months would receive a maximum of about 54,000 yen, or £3,000 sterling at the prevailing rates of exchange. A British tramp ship of the same tonnage would have received about the same amount of subsidy from the United Kingdom Government had the subsidy granted in 1935 and 1936 been continued.

(i) *Effect of Subsidies.*

199. The foregoing information may be summarised very briefly as follows:—

(1) The P. & O. Company receives an annual fixed payment of £295,000 from the United Kingdom Post Office for carrying mails to the Orient and Australia and for maintaining certain services. Small additional payments are made for certain specified services.

(2) The payments made to the Netherland and Scandinavian Lines plying in the Orient are not on a substantial scale. What assistance has been given to the Netherland Lines has been to enable them to meet temporary disadvantages, more especially those arising from an over-valued currency.

(3) Financial assistance on a much more substantial scale, either for operating or for building, or for both, is given to German, Italian, French, United States and Japanese shipping plying to the Orient.

(4) German and Italian liner shipping in the Orient, which is on a smaller scale than the British, is virtually State-controlled.

(5) Japan pays a tramp subsidy at approximately the same rate per ton as a British tramp subsidy, which was given in 1935 and 1936 but which is now discontinued. So far as is known, none of the principal competitors of British tramp shipping in the Orient is subsidised.

200. Some of the subsidies have been intended merely to offset disadvantages such as those due to higher working costs or to over-valued currency—in other words, their object has been to establish equality of competitive conditions. Others, according to our evidence, have tended to depress rates of freight and passenger fares, and have provided foreign lines with ships of such speed as could not be afforded by ordinary commercial revenues. On the whole, as we have seen, British shipping appears to be maintaining its position fairly well in the trades with the Orient through Suez; but the main increase of competition in those trades in recent years is undoubtedly due chiefly to the advent of new German and Italian vessels built with heavy subsidies. Subsidies, as we shall see, are only one of many elements in Japanese competition, but they have been an important factor in the modernisation of the Japanese mercantile marine. In times of trade depression the competition of foreign subsidised shipping is likely to be felt more severely than say in the year 1937, when there was remunerative employment for all. A fixed subsidy acts as a buttress in time of difficulty. It tends to leave the subsidised line in a better position than the unsubsidised line at the end of a period of falling trade.

22. FOREIGN EXCHANGE CONTROL.

201. Evidence of the direct effect of Exchange control on British shipping is very difficult, if not impossible, to obtain, but it is obvious that the exporter in a country practising exchange-control may have no alternative but to ship by the national flag as soon as it becomes difficult for him to obtain the foreign exchange wherewith to pay a foreign shipowner. Moreover,

where foreign exchange is rationed between importers, it is obvious that, other things being equal, if the importer ships by the national flag, he is in a position, by avoiding payment to a foreign shipowner, to buy more of the goods that he wants within the limits of the foreign exchange allowed to him. There is a strong *prima facie* case for the conclusion that in general the effect of foreign exchange control is to increase the proportion of trade carried under the flag of the country exercising control.

There is no reason to believe that the effect of foreign exchange control on British shipping in the Orient has thus far been very considerable. We have referred to our information (paragraph 74 above) that the system of exchange control in Germany has tended to increase German carryings at the expense of other flags, and has made it unremunerative for certain British lines trading to the Far East to continue to call for cargo at German ports. The stringent system of exchange control recently adopted in Japan has not yet been in operation long enough, or in sufficiently normal conditions, to enable the effect on the shipping trade to be estimated, but if and when Japanese shipping is available, it must be expected to produce similar results.

The effect of exchange control on British shipping is potentially one of great importance. One of our correspondents argued that exchange control is potentially more damaging to British shipping than a policy of subsidising, for, as he pointed out, while subsidies make it difficult for unsubsidised shipping to compete, exchange control completely removes traffic from the sphere of competition.

23. CURRENCY DEPRECIATION.

202. The claim has been made that British shipowners obtained an advantage as compared with German and Netherlands competitors during the years immediately following the abandonment of the gold standard by the United Kingdom in 1931. It was for the purpose of offsetting this alleged advantage that shipowners in Germany and Holland received certain subsidies to which reference was made in paras. 162 and 171. There is, however, a considerable volume of expert opinion to the effect that during the years preceding 1931, sterling was relatively overvalued, and if that was so, the change which took place in 1931 may have acted merely in the direction of removing a British disadvantage. In so far as there was any net advantage in the years following 1931, the subsequent rise of prices and costs in the sterling area must have gone far to adjust it. Moreover, the Netherlands have since devalued their currency and Germany has secured the same result, indirectly, by allowing the use of blocked marks for many purposes.

203. From the point of view of shipping in the Orient a more significant instance of currency depreciation is that of

the Japanese yen. In December, 1931, Japan abandoned the gold standard, and thereafter the yen depreciated much more rapidly than the pound so that by 1935, while the pound stood approximately at 60 per cent. of its former parity with gold, the yen stood at no higher than 35 per cent. This exceptionally heavy depreciation appears to have been due less to any settled policy than to a combination of different factors adversely affecting the economy of Japan at the time, of which the collapse of the American market for Japanese exports of raw silk may be specially noted. Since 1935 the yen has been maintained at approximately the level then reached.

204. The depreciation of the yen has undoubtedly put Japan at an advantage in competition with the United Kingdom, but it would be difficult, if not impossible, to measure that advantage precisely. We are dealing with two currencies both of which have abandoned the gold standard, and have since changed in value at unequal rates. Even within a single country the different economic indices, such as those which measure wholesale prices, retail prices, cost of living, and wage rates, do not respond in any uniform fashion to a change in the value of the currency.

205. As regards commodities which enter into international markets, their relative prices in different countries must, other things being equal, fluctuate on any alteration of exchange rates. For example, if the yen depreciates, the Japanese shipbuilder will have to pay a higher price in yen for any raw materials he imports. But even if the price of all his materials and his labour costs were to rise in similar proportion to the fall in the exchange, his competitive position would remain substantially as before. For no foreign builder could afford to sell a ship in Japan without a similar rise in the price expressed in yen. And the Japanese shipbuilder would not need to raise his price in foreign currencies when he sold abroad.

206. But in fact it is only in connection with imported materials that his costs tend to rise in full proportion to the fall in the exchange. Commodities which do not enter into international trade and services, including labour, may indeed show some tendency to rise in price, when a currency is markedly depreciated, but there are extreme differences in the rapidity and extent of the adjustment in different countries. For a considerable time, rents and other fixed charges generally remain the same whatever the external value of the currency; and where there is an ample supply of labour available, wages, particularly in agricultural communities, remain relatively stable. To the extent that this is the case, internal costs and prices respond only slowly to the depreciation of the currency; and in so far as in any country prices do not rise in the same ratio as the currency depreciates, that country becomes a cheaper

market for foreign buyers and the local producers find their export trade easier and more profitable.

207. It is essentially in the field of wages, however, that any competitive advantage gained by Japan from the greater depreciation of her currency may be expected to be found. Since 1933 the yen has been held at 1s. 2d., and its present sterling value is 61 per cent. of its average sterling value in 1926-9. This fall in the currency has not been accompanied by any compensating rise in Japanese wages. Indeed, the figures of the League of Nations Year Book for Japan, which refer apparently to daily earnings, show that if 1929 be taken as 100, there was a decline to 92 or 93 in 1936. Since then there has been a rise, but even in 1937 the level was probably little if at all higher than in 1929. The Bank of Japan index for wage rates (1926=100) gives 98.6 as the average for 1929, with 80.9 as the figure for December, 1936, and 83.0 for October, 1937, i.e., an 18 per cent. drop since 1929, and a 3 per cent. rise between December, 1936, and October, 1937. While Japanese wage rates have fallen in this way, British wage rates have risen since 1929 by about 3 per cent.

208. The net effect of the data given in the preceding paragraph may be stated thus: that where the Japanese employer would, in 1929, have had to provide in yen the equivalent of £100 for a given amount of labour, he would in 1937 have had to provide only the equivalent of about £52. Owing to the rise in wage rates in the U.K. the British employer in 1937 would have had to pay £103 for the amount of labour which, in 1929, would have cost him about £100. It should be added that the Japanese employer in 1937 would probably not have obtained as great an output for his £52 as the British employer for his £103; and further, in many industries in Japan, there would appear to be considerable additions to cash wages in such forms as provision of cheap meals, lodging allowances and bonuses. It is clear, however, that with allowance for these facts, the Japanese employer has a considerable advantage. These estimates apply to wages in general but they are approximately true also of salaries and wages in the mercantile marine (see Appendix VIII). They go far to explain the expansion in recent years of Japanese export trade and shipping at the expense of the export trade and shipping of other countries.

209. In the cost of running a ship there are commodities, such as provisions, which can be produced and bought in Japan at relatively low cost. The wholesale price index for Japan in January, 1938, was 11.6 per cent. above that of 1929. In terms of sterling, the price level had therefore fallen 32 per cent. while the British wholesale index had fallen by 5.7 per cent. in January, 1938, and by 7.4 per cent. in February, 1938. If the Japanese index were divided between international

products and non-competitive Japanese products, the disparity in the case of the latter would be even greater. The advantage to be gained from the low relative price of commodities can of course be secured also by the foreign shipowner, so far as he is in a position to purchase such commodities in Japan.

210. For those commodities for the running of Japanese ships which have to be procured abroad Japanese shipowners must pay world prices, but this, as already indicated, does not necessarily affect their competitive position injuriously.

211. In shipbuilding, the advantage as regards cash wages appears to be in proportion to the depreciation of the currency, but a correspondent in Japan informs us that expenditure on "welfare" work in the most important shipyards probably amounts to a 20 per cent. addition to cash wages. The Bank of Japan index for shipbuilding wages (1926 = 100) gives 100.9 for the average of 1929 and 86.1 for December, 1936, i.e., a 15 per cent. drop. If after December, 1936, shipbuilding wages in Japan shared in the 3 per cent. rise in the general index mentioned above then in October, 1937, they were 12 per cent. below 1929. So if Japanese wage rates in shipbuilding were to wage rates in the United Kingdom as 100: 100 in 1929, the nominal ratio had become 88: 103 in October, 1937, or allowing for the 39 per cent. depreciation on sterling, a real ratio of about 52: 100. Lower costs of shipbuilding will of course also be reflected in the cost of running ships, as interest and depreciation will be calculated on a less sum.

212. Our conclusions in regard to the depreciation of the yen are (1) that as regards commodities procured abroad, whether for shipbuilding or for the operation of ships, Japan must pay a higher price in yen but that this cannot involve her in any serious competitive disadvantage as against foreign countries; (2) that in regard to foods and stores purchased in Japan, the Japanese shipowner is at an advantage which may in some degree be compensated to the foreign competing shipowner if he buys supplies in Japan; (3) that as regards rents and charges in Japan which are fixed more or less by custom, she is at a considerable advantage; (4) that the most important advantage is in respect of wages, both for shipbuilding and for operating ships, which may be put at 40-50 per cent. lower in terms of British wages than in 1929; (5) that the advantages secured to Japan due to the depreciation of her currency have not yet been nullified.

213. The relative lowness of Japanese shipowners' costs is therefore beyond dispute, even though an exact measurement of the difference would be difficult to arrive at. The effect of

low costs is different in times of good and bad trade. At a time when the merchant shipping of the world is fully employed, the advantage of low costs takes the form of high profits. On the other hand, when the merchant shipping of the world is under-employed, any country with exceptionally low costs can afford to cut rates, and may be able to keep its ships fully employed, the main burden of under-employment being thrown upon its competitors. The Mitsubishi Economic Research Bureau explained the exceptional activity of Japanese tramp shipping in oceanic trades in 1933 as due to the depreciation of the yen: at that time a large proportion of ocean-going tramp shipping under other flags went out of commission. It is obvious that a country with the advantage of low costs will tend to expand its mercantile marine.

24. THE ORIENTAL STANDARD OF LIVING.

214. Because of the different standard of living prevalent in the Orient, the cost of operating Japanese ships is relatively low in respect of wages and victualling, but in the case of other flags also, most ships plying to and from the Orient are manned in large measure by Orientals, so that their excess cost is limited to white superintendence and messing.

215. It is not possible to measure precisely the effect of the difference between the Oriental and the Western standards of living on the relative costs of building and operating ships. In addition to cash wages, it is necessary to take into account bonuses, allowances and payments in kind, and also differences in efficiency; and in comparing wages paid in different currencies it is impossible to separate the effect of long-established differences in standards of living from that of currency depreciation.

25. JOINT EFFECT OF CURRENCY DEPRECIATION AND THE ORIENTAL STANDARD OF LIVING.

216. In the paragraphs which follow, we compare the total annual cost of operating comparable British and Japanese vessels in 1936. In regard to the cost of building, we have obtained our information; in the case of the United Kingdom, through the Shipbuilding Conference, and in the case of Japan, from Japanese figures obtained from an authoritative source in Tokyo. In regard to the cost of operation, we base our statements, in the case of the United Kingdom, on figures which the British India Company have been good enough to supply to us, and in the case of Japan, on data published in the "I.L.O. Maritime Statistical Hand Book" for 1936 (see Appendix VIII).

217. The net effect of the data obtained from these sources is shown in the following table:—

Annual cost of roughly similar British and Japanese cargo liners in 1936.

	<i>Japanese vessel.</i>	<i>British vessel.</i>
	£	£
Annual capital cost (interest and replacement)	14,000	16,000
Annual operating cost	35,000	40,000
Total	<u>49,000</u>	<u>56,000</u>

218. It would appear from this statement that in 1936 the total annual costs of the Japanese vessel were from 10 to 15 per cent. below those of the British vessel, but because of the difficulty of obtaining adequate and accurate data, such estimates must be taken as being only of approximate value. The chief difficulty is to find like and like for comparison. The figures given above relate to a British medium-sized cargo liner, 8,000-8,500 tons deadweight, and to a Japanese vessel roughly similar in size, age, speed and efficiency, both vessels working in the same Oriental trade in the year 1936. Under such circumstances, any difference between the costs of the two vessels must be mainly due to the contrasted national circumstances in such matters as standards of living and the levels of prices.

219. It must be remembered, however, that in practice competition is more often than not between ships which are widely different in size, age, speed and efficiency. This observation applies with particular force to competition between British and Japanese cargo vessels in the Orient, where, in some important trades, the Japanese vessels are considerably newer and faster than the British. In the opinion of some of our witnesses and correspondents, the high speed of some of the new Japanese cargo vessels was furnished with a view to their possible employment as naval auxiliaries rather than to their suitability for particular trades. Other things being equal, it costs about twice as much to build a vessel of 17 knots as a vessel of 12 knots, and the faster vessel is the more expensive to run, but in many trades of the Orient, its earning power would not be correspondingly higher. It may be that in 1936, the annual costs of a British vessel were nearly 15 per cent. higher than those of a *comparable* Japanese vessel, but in some trades the type of British vessels employed was not comparable with the run of Japanese vessels competing with them; in those trades the difference between the annual costs of the typical British and Japanese vessels would have been less.

220. *Cost of building.*—The great majority of vessels registered in British ports are built in the United Kingdom; the great

majority of vessels registered in Japan are built in Japan; and it is difficult to find a proper basis for comparing shipbuilding costs in the two countries. Ships built in different countries, even when intended to operate in the same trade, are never similar in all respects. There is no doubt that in Japan wages are lower and hours are longer than in the United Kingdom. The average wage for skilled labour in Japan is about 2.50 yen (say three shillings) per day of 10 hours, and according to the information we have obtained, even if liberal allowance is made for additional payments in the forms of bonus, welfare facilities and so forth, this figure should probably not be increased to more than about 3.0 yen (say 3s. 6d.) per day. In regard to efficiency, it has been reported to us that the output per man in Japan, as measured in tons of construction, is considerably less than the output per man in the United Kingdom, but that allowance has to be made for the fact that in many Japanese shipyards, unskilled or semi-skilled labour at low wages is often used where machines would be used in the United Kingdom.

221. As stated in paragraph 187 above, the cost in Japan of building under the First Scrap and Build Scheme some 200,000 tons gross consisting almost entirely of medium-sized Diesel cargo liners with speeds of 14 knots and in some cases of 18 knots, was a little less than 55 million yen in 1933 and 1934, an average of 275 yen per gross ton, or, say, £16 8s. Very few fast Diesel vessels of a similar type were built in the United Kingdom in those years, but according to information submitted through the Shipbuilding Conference, a Diesel tramp cargo ship of 6,000 tons gross and only 10 knots would have cost £20 per ton, a Diesel vessel of 8,500 tons gross and 18 knots speed would have cost between £30 and £35 per ton, and a Diesel vessel of 4,000 tons gross and 16 knots would have cost between £35 and £40 per ton. It would appear from these figures that the cost of building in the United Kingdom the 200,000 tons gross of shipping constructed under the first Japanese "Scrap and Build" scheme would have been about twice the cost in Japan. Between 1934 and 1936, according to data published in the Japanese shipping periodical "Kaiji Nenkan," shipbuilding costs rose more rapidly in Japan than in the United Kingdom, but in 1936, according to data supplied to us through the Shipbuilding Conference, shipbuilding costs in Japan were still considerably below those in the United Kingdom.

222. We understand that a Japanese cargo liner of some 6,000 tons gross, Diesel engine and 12 knots speed would have cost the equivalent of about £140,000 sterling* in 1936 and that

* This figure corresponds roughly to data published in the Japanese shipping periodical "Kaiji Nenkan".

a comparable British vessel would have cost about £160,000.* Assuming interest and depreciation charges were each 5 per cent. of the cost of building, the annual capital charges of the Japanese vessel may be taken at £14,000 and those of the British vessel at £16,000. It should be added that since 1936, owing to the shortage of steel and other materials resulting from the hostilities in China, Japanese shipbuilding costs have approached more closely to United Kingdom costs, notwithstanding the very considerable increase in the latter.

223. We have assumed above that the Japanese vessel was built without the assistance of subsidy; and, having a speed of only 12 knots, it would not have qualified for assistance under any of the three Scrap and Build Schemes. But in fact, as we have seen in paragraphs 187-190, many of the Japanese ocean-going vessels built in the last few years have been assisted by subsidies amounting in the case of the First Scrap and Build Scheme, to about one-fifth of the total construction cost; in the case of the Second and Third Scrap and Build Schemes, to about one-tenth, and in the latest Scheme, to as much as one-half the total construction costs. Building subsidies on such a scale, reflected in annual costs, would put the British vessel at a further disadvantage amounting to about 6 per cent. as against a Japanese vessel built under the First Scrap and Build Scheme, about 3 per cent. in the case of the Second and Third Scrap and Build Schemes and about 15 per cent. in the case of the Scheme which came into force in 1937. If allowance also be made for the low rate at which capital is made available for shipbuilding (3·7 per cent.), and if operating subsidies be taken into account, the total disadvantage would be greater still.

224. *Operating costs.*—It will be seen from Appendix VIII that the annual charges for wages and victualling on a medium-sized British cargo liner in 1936 were about £8,000 sterling and those on a comparable Japanese ship were about £4,000. The figure of £4,000 was arrived at after taking into account various allowances paid to the Japanese crew. As regards shore staff and management, it would appear from our evidence that the rate of wages and salaries is lower in Japan than in the United Kingdom; but that greater numbers of clerical workers are usually employed for a given volume of work in Japan. It may be assumed that other operating costs such as fuel, harbour dues, pilotage and stevedoring, were at the same level for the two vessels.

225. The great British shipping company operating in the Orient to which we are indebted for information about expenses for crew and victualling, told us that they amounted to about

* This figure was supplied to us by the British India Company and confirmed by the Shipbuilding Conference.

20 per cent. of the total operating cost of that vessel. It follows that the annual operating cost of that vessel was about £40,000, and that the annual operating costs of the Japanese vessel, because of the lower cost of officers, victualling and management, may be taken at about £35,000 or £5,000 less.

226. (The Japanese claim that the vessels recently built in Japan are in no respect inferior to foreign vessels. The Japanese have taken full advantage of technical progress and inventions in other countries. The aptitude of the Japanese shipbuilder can be illustrated by a recent example. The contract for building a whaler, the "Nisshin Maru," was offered to a British yard because no Japanese yard had experience of building this type of vessel. The British yard said that they could not deliver the ship in time for the 1936 whaling season. The Japanese shipowner concerned thereupon consulted the Kawasaki yard. As a result, the Japanese shipowner purchased the plans from the British yard and the Kawasaki yard built the vessel in time for the 1936 season.

26. THE COMBINATION OF SHIPPING WITH MERCANTILE, INDUSTRIAL AND FINANCIAL ORGANISATIONS.

227. The depreciation of the yen and the lower standard of Asiatic living are important elements in the competitive strength of Japanese shipping, but no less important is the peculiar organisation of Japanese business as it has sprung from Japanese history. The relations between the shipowners and the firms responsible for originating and financing traffic are different under the Japanese system from those obtaining under the British system. We shall first describe the Japanese organisation in some detail and we shall then contrast it briefly with the British.

228. Practically the whole of the large-scale enterprise of Japan is under the financial control of one or other of three great family businesses (known in Japan as "Zaibatsu,"* or money-groups)—Mitsubishi, Sumitomo and Mitsui. The Mitsui and Sumitomo families have been important in Japan as financiers and bankers for over 200 years. Mitsubishi is of relatively recent origin, but all three were founded on the property and enterprise of feudal Japan.

229. It was upon these great pre-existent houses that the Japanese Government had to rely, after the Restoration of 1868, for the execution of its policy of creating rapidly the industrial equipment of a Great Power in a country with scanty resources and with little or no experience of Western technique. Apart from the three major groups, practically the whole of the

* There is a fourth Zaibatsu, Yasuda, but this is mainly interested in finance, and is not involved in shipping.

remainder of the Japanese industry and trade is in the hands of a vast number of small businesses. In the Zaibatsu and in the Government are now concentrated almost the whole of the mobile capital and business experience of Japan.

230. The organisation of the Zaibatsu is on an elaborate scale, and it is often difficult to detect the ramifications. Each of the Zaibatsu consists of a group of families. In the case of Mitsui we understand that there are 11 kindred families. But more important is the organisation of their greatly varied interests in a network of companies. Each of the Zaibatsu owns one of the six great banks of Japan, and controls a series of commercial and industrial companies. For example, Mitsui owns the Mitsui Bank and controls the Mitsui Bussan Kaisha (M.B.K.), a great merchanting company which handles between one-third and one-half of the coal, wheat, raw silk, sugar and cement in Japan's foreign trade, and owns a considerable and rapidly growing fleet of cargo vessels. Toyo Menkwa, a Mitsui concern, is the largest importer of raw cotton and exporter of cotton textiles. Steelworks, paper companies, engineering works, cement works, electrical-apparatus manufacturing firms, sugar mills, flour mills, coal mines, cotton mills and chemical works are under Mitsui control, including some of the most important plants in each of those industries. We do not enumerate the many interests of Mitsubishi and Sumitomo, but they too, are vast, though neither is quite as large as Mitsui.

231. When opened to Europeans, Japan had no ocean-going ships. The first steamers were purchased by the Central or provincial Governments, and were handed over to the Zaibatsu, especially to Mitsubishi, for operation. Later the Zaibatsu, assisted by Government subsidies, became owners of the ships, and in the same way, Government shipbuilding yards passed into their possession. Mitsubishi, Sumitomo and Mitsui together control the greater part of Japan's ocean-going shipping. Mitsubishi controls the premier Japanese shipping Company, the N.Y.K.; Sumitomo has interests in the second great Japanese shipping company, the O.S.K., and O.S.K. has recently acquired the leading Japanese tramp shipping company, the Kokusai K.K.; Mitsui, as stated above, controls another great shipping system belonging to their merchant company, the M.B.K.

232. The three Zaibatsu control a large number of industries ancillary to shipping, including shipbuilding, insurance, warehousing and stevedoring. Thus, a single Zaibatsu can build ships in its own yard, operate them, provide them with fuel from its own mines or storage tanks, insure them and their cargoes, load and unload them, warehouse the cargoes and discount the warrants at its own bank. Its merchanting companies

provide a considerable proportion of the cargoes carried, both outward and inward, and of these goods in turn a substantial part comprises raw materials for its own factories, or finished articles produced by those factories.

233. The policy of the Zaibatsu appears to be that each of the many concerns controlled should maintain its position as an independent entity and work for its own profit. We have been assured, for instance, that a Mitsui producing or trading firm would not hesitate to put even a foreign shipping company into competition with Mitsui vessels if the foreign company offered better terms. None the less, it is obvious that in the main the whole group of companies financially controlled by a family interest will normally play into the hands of one another.

234. Under this system there is scope for competition between one Zaibatsu and another, and such competition has undoubtedly made itself felt among the great shipping companies, as for instance between the N.Y.K. (controlled by Mitsubishi) and the O.S.K. (controlled by Sumitomo). Of late the Government has used its influence and the powers which it has taken under the Shipping Routes Control Law (see Appendix X) to moderate such internal rivalry in order to prevent un-economic competition.

235. There is one exception to the vertical character of the organisation based on the historic Zaibatsu which is of importance from the shipping point of view. In the cotton spinning industry, on which the modern export trade of Japan has been largely based, there are a number of firms, of which by no means all have Zaibatsu connections. Some 97 per cent. of this industry as measured by numbers of spindles, co-operates in an Association (Rengokai) for the purpose, among other things, of bargaining with the Shipowners in regard to freight rates for the importation of raw cotton into Japan from Bombay.

236. The organisation of the British competitors of Japanese large-scale industry in the Orient is quite different from that of the Zaibatsu or Rengokai. Since the withdrawal of the East India Company's trading monopoly in 1833 by an Act which made it "lawful for any of His Majesty's subjects to carry on trade with any countries beyond the Cape of Good Hope to the Straights of Magellan," the great commercial expansion of Britain in the Orient has been carried out by a very large number of merchants, manufacturers, shipowners and financial houses usually independent of and competing with one another.

237. Whether based on low wages, a depreciated currency, or the advantages of close association with different industries, Japanese competition has made the position of many British

merchants in the Orient increasingly difficult. One of our correspondents, a man with great experience of the Shipping business of the Orient, told us that British merchants used to work on large margins of profit. "Under present conditions, however, business has to be done on narrow margins of profit or not at all, and large capital resources are required to carry the firm through catastrophic falls in prices. Control is frequently in the hands of a previous generation of eastern merchants who are not anxious to risk their capital for what, regarded in the light of their own experience, is an absurdly low margin of profit, and they are slow to adopt changes in practice."

238. The essential difference to-day between the British and Japanese mercantile organisation in the Orient may be summed up as follows:—The businesses of manufacturing, exporting and importing, financing, shipbuilding and shipowning are done in Japan under the financial control of one or other of three or four great houses; in the case of Britain, they are done under the control of a large number of separate firms, many of them relatively small, independent and competitive with one another. But despite his traditional independence—most of the East Indiamen in the 18th century were owned by private capitalists, and not by the East India Company itself—the British shipowner has been dependent on the British merchant for much of his carryings in the Orient, and as a result of the growing efficiency of the Japanese merchants, the share of trade in the hands of the British merchants is declining.

239. It does not follow that an attempt should be made to reorganise the British economic structure on the lines of that of Japan. The system that has been built up in Japan may be suitable for the peculiar conditions of that country, but may not be appropriate to other countries with a different industrial development. An organisation with a large number of interests is thereby insured to some extent against the effect of depressions confined to particular trades, but in a time of general trade depression, losses may occur in so many departments as to affect the solvency of the whole. A combination of a large number of enterprises, including shipping, may keep more constantly in mind that transport is a service and not an end in itself, and may be quicker than an independent shipowner to appreciate the essential needs of the merchant. On the other hand, the merchant-shipowner may find it difficult to secure cargoes from competing merchants if the tonnage under his control should at any time exceed his own requirements. There is, too, the danger that the affairs of a large organisation may become so intricate as to be unmanageable by any one individual or small group of directors.

240. The Balfour Committee on Industry and Trade discussed "vertical" organisations in the following terms:—

"The principal aim (of 'vertical' organisation) is to attain in some degree a position of self-sufficiency, and to avoid being dependent on the vicissitudes of the market as regards raw materials or semi-finished goods or at the mercy of a horizontal combination affecting some stage or process of manufacture. In a period of violent fluctuations of supply and prices, like that which immediately followed the war, it was often a great advantage to manufacturers to be able to rely on their own supplies within the ambit of their own business. In ordinary times, however, this advantage may sometimes be offset by the obligation imposed on the finishing sections of the organisation to obtain their supplies from the other sections, without being able to reap the full benefit of market conditions by buying outside on more advantageous terms.

"Obviously, the question of the relative weight of the various considerations for and against the vertical extension of any particular business, whether by expansion or combination, is one . . . which has to be solved in each case in the light of all the relevant circumstances, both technical and economic. The evidence before us, however, suggests that the recent results of this type of development have been relatively unsuccessful, and that there seems at present at least to be some reaction against vertical organisation both in Great Britain and in other countries, as compared with the dominant movement towards horizontal extension and combination."

241. There are many successful instances in the world of the integration of shipping with industries employing shipping. There is a combination of shipowning with merchanting of fruit from Central America, with the merchanting of meat from Argentina, with the merchanting and manufacturing of palm oil from West Africa and with the production and merchanting of petroleum all over the world. But it does not follow that the organisation of shipowning with merchanting can be extended indefinitely. In the cases quoted above, the cargoes are of a homogeneous character. Since a single cargo is frequently more valuable than the ship which carries it, it is naturally the merchant, manufacturer, or producer—never the shipowner—who takes the initiative in building up the vertical organisation. The majority of liner trades, however, offer cargoes of a miscellaneous character, and under conditions in the Orient it would be very difficult for Westerners to obtain a complete vertical organisation. It would, we think, be difficult to find any group of British shipowners, merchants, manufacturers, and financiers

connected with Oriental affairs who would be prepared to take the risk of bringing into existence an organisation on the lines of the Japanese Zaibatsu.

242. Nevertheless, it has to be recognised that the combination, under the same financial control, with those industries on which he depends for his business is an important source of strength behind the Japanese shipowner. In the traffic between Japan on the one hand and Australia and India on the other, the Japanese exporter, selling manufactured goods, sells c.i.f., and the Japanese importer, buying raw materials such as wool and raw cotton, buys f.o.b. In each case the Japanese merchant has the power of routeing cargo; and under present conditions, the Japanese shipowner, provided he can offer as efficient a service as his competitors, is assured of traffic in both directions.

27. SHIPPING CONFERENCES IN THE ORIENT.

243. We now propose to give attention to the conferences which regulate competition in the trades between India and Japan, Australia and Japan, the Straits and New York, and Java and Japan. It will be convenient to introduce our account with a brief statement of what may be described as conference practice.

Conference Practice.

244. It is important in the first place to observe that shipping conferences are what their name implies, meetings of the representatives of independent and competing lines, and not incorporated bodies. With due notice a line can be withdrawn at will from a conference. A shipowning company may belong to as many conferences as it has lines on different routes. There is nothing in common between such a conference and a combine of shipping companies linked by share holdings. Moreover, the ocean, being one and continuous, is inevitably a single arena of competition, and the majority of shipping conferences are international, in the sense that they consist of companies under various national flags.

245. The competing lines meet, confer together, and arrive at certain agreements, commonly binding in the first instance for short terms of years, and then continued from six months to six months unless denounced. Normally these agreements group themselves under three heads; first, an undertaking not to quote rates of freight or passage below an agreed minimum for each given category of cargo, passenger or ship; secondly, an agreement apportioning the traffic between the co-operating lines either by fixing the yearly number of sailings for each, or by constituting a pooling system for the allotment to each of a quota of the traffic offering; and thirdly, an agreement to pay what is known as a "deferred rebate" for the purpose of tying

shippers to the conference lines. Agreements under the second and third heads are not present in every Conference, and even where they are present, do not preclude active competition between the conference lines in canvassing shippers or soliciting passenger traffic.

246. The effect of the first and second of the foregoing agreements, in that they eliminate certain forms of competition, is to unite, up to a point, the interests of the lines constituting the conference as against shipping that is outside the conference. Should an outside shipowner cut rates against the conference, the co-operating lines stand together against him, sharing if necessary the losses involved in a rate war. Thus a newcomer must count the cost before attempting to force his way into a conference. Under the circumstances of some trades, this has sufficed to prevent uneconomic competition, but in a majority of cases, the conference lines seek in addition the support of regular shippers by allowing a rebate to them, say, of 10 per cent. of the freight, the payment of which rebate is deferred for a period usually of six months, and is then only made if in the meantime the shipper has remained "loyal," or in other words has not consigned goods by non-conference ships.

247. Very early in the history of the liner system it was seen that, at any rate in the great majority of trades, it would be very difficult to maintain a service of ships to run both in busy and slack seasons, unless protected from the competition of interloping vessels put on the berth only during the busy and profitable seasons. No one, looking forward to the 20 years of the normal life of a ship, would invest large sums of capital in costly vessels, unless there were some such guarantee against destructive interference. The fact that most of the conferences are of an international character is evidence of the general truth of that statement.

248. From the point of view of the shipper, whether merchant or manufacturer, regular sailings and the stability of rates of freight for appreciable periods are very desirable. In the early days of the liner system, when there were no Conferences to render freight tariffs stable, rates were liable to vary almost daily according to the competition in the local port, and the big customers could always obtain better terms than the small. Even to-day, when a rate war is in progress, trade may be seriously disorganised by irregular fluctuations in freight rates at short notice.

249. It speaks much for the prevalence, on the whole, of fair dealing all round, that a system of such slight internal structure, and so liable to abuse, should have lasted so long, and despite frequent criticism, should produce so few serious disputes.

28. THE BOMBAY-JAPAN CONFERENCE.

250. The P. & O. Company, the Austrian Lloyd and the Navigazione Generale Italiana were the signatories to the first Conference agreement in the Bombay-Japan trade, dated 5th December, 1888. Prior to that date, the P. & O. Company carried most of the trade in both directions, but thenceforth the traffic was to be divided on the following basis:—

	<i>Sailings per annum.</i>	<i>Shares of carrying upwards.*</i>	<i>Shares of carrying downwards.*</i>
P. & O.	Unlimited	39/60ths	40/60ths
Austrian Lloyd	12	10/60ths	10/60ths
N.G.I.	12	11/60ths	10/60ths

* "Upwards" is a technical term meaning the trade from Bombay to the Straits, China and Japan. "Downwards" signifies the trade in the opposite direction.

251. In 1896, a Japanese Line, the Nippon Yusen Kaisha (N.Y.K.), was admitted as a fourth member to the Conference. The history of this event is worth giving in some detail, for it was the beginning of a growth which has continued to the present day. We draw our information from the "Golden Jubilee History of the N.Y.K. (1885-1935)" and from other sources. We direct attention amid the details which follow to the gradual development of a policy and technique on the part of the Japanese and of a steady yielding of position on the part of the British company. Our object is not to criticise the British company in question, but to show the weakness of its position when contending alone against a combination of carrying with merchanting, industry and finance supported by the public opinion and the Government of a competing country.

252. The entry of the Japanese into competition with the three Conference lines appears to have been due to the action of Mr. R. D. Tata, the cotton magnate of Bombay, who in 1891 visited Japan for the purpose of conferring with the Japanese spinners in regard to the tariff rates imposed by the three Conference lines for the carriage of raw cotton to Japan, then as now the most important cargo carried eastwards in the Conference vessels. Negotiations followed, and in 1893 the N.Y.K., which had been founded eight years earlier, agreed to provide the necessary ships for the establishment of a Japanese line to Bombay. There were to be regular sailings every three weeks, the N.Y.K. and Messrs. Tata each guaranteeing the service of two vessels. Cargo for export was guaranteed by Messrs. Tata and other Indian merchants in Bombay, and the purchase of that cargo was guaranteed by Japanese spinners. Then began a rate war with the conference lines, as a result of which in February, 1895, Messrs. Tata, owing to the heavy losses sustained, dissolved their agreement

with the N.Y.K. and withdrew from the enterprise. But the Cotton Spinners' Association in Japan (commonly known in the trade as "Rengokai") continued to stand by the N.Y.K., with the result that in 1896 the three companies of the Bombay-Japan Conference consented to admit the N.Y.K. as a fourth member, with an 18 per cent. share of the traffic, a share apparently taken wholly from the P. & O. allotment under the agreement of 1888. That the N.Y.K. and Rengokai were strong enough to force this settlement was due to the system then established and since maintained of buying in such a way that the ownership of the cotton exported from Bombay passes into Japanese hands before it leaves India.

253. The agreement of 1896 held good, with minor modifications, until 1913 when, under pressure from the N.Y.K., a second Japanese line, the Osaka Shosen Kaisha (O.S.K.) was admitted to the Conference and the following shares agreed:—

	<i>Per cent.</i>
P. & O.	28
N.Y.K.	28
O.S.K.	12
Societa Marittima (formerly N.G.I.)	16
Austrian Lloyd	16

254. Thus, already before the Great War, from the modest beginning of 18 per cent. in 1896, the proportion of Conference carryings under the Japanese flag had advanced to 40 per cent., and the share of the P. & O. Company had shrunk from 68 per cent. to 28 per cent. In the meantime the scale of the trade was steadily growing.

255. The Austrian Lloyd and the Italian Line subsequently retired, thus leaving the British Line with two Japanese Lines as the only members of the Conference. In 1921, the Japanese companies, having expressed dissatisfaction with their respective shares, gave notice to terminate the agreement of 1913. After prolonged negotiations, a settlement was reached on the basis of equal shares, namely, one-third each to the P. & O., N.Y.K. and O.S.K. This agreement continued until 1925, when a joint recommendation was received from the N.Y.K. and the O.S.K. that yet another Japanese Line should be admitted—Kokusai Kisen Kaisha—(K.K.K.) with 12 sailings per annum from Bombay to Japan and six sailings from Japan to Bombay, but without specifying any particular share of the trade.

256. In 1928, an agreement was reached whereby in the year 1929 and thereafter the N.Y.K., O.S.K. and P. & O. each have the right to as many sailings as they may consider necessary up to a maximum of 36 sailings per annum from Bombay to Japan, and the K.K.K. have the right to 12 sailings per annum from Bombay to Japan and two sailings per annum

downward from Japan to Bombay. This agreement is still in force, but may be terminated at three months' notice. In fixing the number of sailings the intention was to provide for the greatest anticipated requirements of the trade, and the agreement provided: "it is understood that all lines will endeavour, as far as possible, to reserve sufficient space in each of their departures to carry approximately the proportion of cargo in relation to their share of the trade, and avoid exceeding their proportion of cargo to the detriment of the others". The agreement contained, however, no effective safeguard for observance of this provision, and in practice the Japanese lines have nearly always berthed their maximum number, with the result that in times of less activity all the steamers on the berth have sailed with unoccupied space. Even in the relatively busy season of 1934-5 little more than half of the available space was filled. Efforts made by the P. & O. to persuade the Japanese lines to restrict their sailings have not been successful. If the P. & O. had attempted to secure a larger share of the trade by berthing additional steamers they would have incurred, we are informed, heavy losses.

257. The P. & O. company with a service of four vessels, each some 5,000 tons gross, supplemented by a through cargo service from the United Kingdom to Japan, now carries approximately 20 per cent. of the trade from Bombay to the Far East and 15 per cent. of the trade in the reverse direction, practically the whole of the remainder being carried in Japanese vessels. The Lloyd Triestino have a subsidiary agreement with the Conference whereby they are permitted to lift cargo from Karachi for Shanghai and Japan; and since 1933, the American Dollar Line, with "round-the-world" westward voyages, has been admitted to membership of the Bombay-Japan Conference in the downward direction only, that is to say, from Japan to Bombay. The great decline in Indian imports of textiles has only slightly affected the trade from Japan to Bombay, though, as we have seen, it has seriously prejudiced the position of the British lines carrying between the United Kingdom and India.

258. It must not be assumed that the fall in percentages of carrying represents a fall in the quantities carried by the P. & O. Company. On the contrary, the exports of cotton from British India to Japan (which account for more than 90 per cent. of the upward carryings in the Bombay-Japan Conference) rose from 75,000 tons in 1897 to 433,000 tons in 1937. The 70 per cent. share of the P. & O. Company in the earlier of those years amounted to some 50,000 tons, and the 20 per cent. share in the latter year amounted to nearly 90,000.

259. It is a curious fact that the three Conference Lines do not fix the rates of freight with the Japanese importing firms. The rates of freight are fixed from year to year by contracts between

the N.Y.K. and Rengokai, and accepted by the other members of the Conference and by the merchant firms. It is incidentally noteworthy that there is a dispute at the present time between the merchant firms and Rengokai in regard to the rebate on freights which is allowed by the lines of the Bombay-Japan Conference to "loyal" shippers. This rebate has hitherto been paid to Rengokai, and not, as in normal practice would have been the case, to the importing merchants.

260. The freight rates arranged between the dominant Japanese interests have resulted, notwithstanding the increased quantities carried, in losses for the P. & O. The Conference agreement provides that rates of freight shall not be altered without the consent of the majority of the Lines, but it is obvious that as the costs on the Japanese vessels are lower than those on the British vessels, the Japanese lines may be ready to accept lower rates than the P. & O. would accept if it were in a position to negotiate without reference to its Japanese colleagues. If the P. & O. were to refuse to accept the rates arranged between the N.Y.K. and Rengokai, it is obvious that additional Japanese tonnage might be made available. A source of loss for all the lines must have been the vacant space in the steamers due to sailings in excess of the demand.

261. A new disturbing element has recently entered into the situation. The Mitsui Bussan Kaisha (M.B.K.) has come into competition with the Conference Lines, and is seeking to participate in the trade with 12 sailings per annum in each direction. The primary object of M.B.K. is to carry in both directions its own goods, the products of its own factories in the one direction and the raw material for them in the other. We are informed that N.Y.K. and O.S.K. within the Conference are supporting the regularised admission to the Conference of this new competitor, always provided that their own proportion of the trade is not diminished. We learn that the P. & O. Company pressed on the present Japanese members of the Conference that the share of any further Japanese line brought in should be satisfied out of the total now allotted to the present Japanese members, but that to this "a direct and emphatic negative was received".

262. The M.B.K. has recently been cutting rates in respect of raw silk from Hong Kong to Bombay, that is to say, in the interport trade, and silk shippers from Hong Kong who have remained loyal to the Conference vessels have lost business to their competitors. It is, of course, possible that the M.B.K. has taken this step with a view to bringing pressure to bear in the matter of their admittance to the Conference, and that if and when this is arranged, rates will be restored.

263. The position of the British line in the Bombay-Japan trade is an unhappy one. Its proportion of the trade has

diminished, and its operations in recent years have been unprofitable. While continuing to compete with one another, the Japanese lines have presented a common front to the British interest at each re-adjustment of the Conference agreement, with the result that at no stage has any Japanese member of the Conference surrendered to a new Japanese entrant any part of its already established trade, and in the aggregate nearly the whole of the great growth of the trade has gone to the steadily increasing number of lines in the Japanese group. The P. & O. has lost money on this service, partly because it has been forced to sail with unoccupied space, the Japanese lines having refused to rationalise their sailings, and partly because of the low rate of freight obtainable on cotton from Bombay up to 1937. There is at present a deadlock in the negotiations between the P. & O. and the Japanese lines.

264. The only recent development favourable to the P. & O. has been the raising of the rate of freight on cotton for the current year by about 45 per cent.; but this advantage is offset by the reduction in Japanese purchases of cotton and the rise in ship-owners' costs. As three of the four P. & O. vessels were built in 1920 and the fourth in 1921, a decision as to their replacement will have to be taken in the next few years.

29. THE CALCUTTA-JAPAN CONFERENCE.

265. Until the year 1911, British shipping carried the whole of the trade between Calcutta and Rangoon and the Straits, China and Japan. The pioneers in this trade had been the Apar and the Indo-China Companies. The British India Company, which originally ran only from Calcutta to Rangoon and the Straits and back, subsequently acquired the Apar line.

266. In 1911, the N.Y.K. started a service between Japan, China, the Straits, Rangoon and Calcutta, and cut rates drastically both in the cargo and passenger business. In 1913, the Indo-China and British India Companies sent a deputation to Japan to try to reach a basis of agreement. The main obstacle was the persistence of the N.Y.K. in their desire to enter the Indian coasting trade, and no agreement was reached.

267. The Great War, leading to the requisitioning of a large number of the British vessels in the Calcutta-Japan service, enabled the N.Y.K. to consolidate their position; and in 1918, the Calcutta-Japan Conference was formed, comprising the British India Company, the Indo-China Company and the N.Y.K. The N.Y.K. was allowed 26 sailings per annum, and the British India and the Indo-China Companies 52 sailings between them. As a part of the bargain, the N.Y.K. ceased to carry passengers and cargo between Calcutta and Rangoon, and undertook to respect the established trades of the British India Company.

268. In 1920, the N.Y.K. gave notice to terminate the agreement and began to berth more steamers than under that agreement would have been allowed. In 1921, the O.S.K. entered the trade at cut rates, and the N.Y.K., although at first expressing an inclination to oppose the O.S.K., had by the end of 1921 begun to support the admission of the O.S.K. to the Conference. In 1923-4 it was agreed that the two British lines should each be allowed 36 sailings per annum, the N.Y.K. 36 sailings and the O.S.K. 12 sailings.

269. In 1928, the O.S.K. gave notice to terminate this agreement, demanding a larger share of the trade, and the British lines eventually agreed to give the O.S.K. 24 sailings. This agreement is still in force, and may be terminated at six months' notice.

270. The total number of sailings permitted under the Conference arrangements of 1929 exceeded the requirements of the trade during the depression, but the Japanese lines refused to rationalise, and made a larger proportion of the sailings permitted to them than did the British lines.

271. The chief cargoes carried from Calcutta to Japan are pig iron (low-paying bottom cargo), jute (including gunnies) and lac; the two latter pay a higher rate of freight. The pig iron trade is controlled by an association of the Japanese importers, which has an agreement with the Conference as to rates of freight. The jute and lac trades are in the hands of a large number of merchant firms, the most important of which is Mitsui. The Japanese and British lines have agreed to divide the carriage of the pig iron on a 50-50 basis, but difficulties have arisen in regard to the proportion of the carryings of the better-paying cargo. For shipments of jute, gunnies and lac, the practice is to canvass shippers, and the British lines, although they are permitted a greater number of sailings than the Japanese lines, have not been successful in obtaining a corresponding proportion of the trade. It is alleged that the Japanese lines give secret rebates to merchants, and that the Japanese importers insist that the jute should be shipped in Japanese vessels.

272. In 1933, the British lines proposed to the Japanese lines a system of pooling freight on cargo from Calcutta on a basis which would ensure to each line a share of the earnings of the trade in accordance with the purport of the Conference agreement, namely 55 per cent. to the British lines and 45 per cent. to the Japanese lines, corresponding roughly to the ratio of yearly sailings allowed, namely 72 and 60 respectively. The Japanese lines rejected this proposal, and claimed shares based upon their carryings of cargo in recent years. The British lines intimated their willingness to consider the acceptance of 50 per cent. of the trade, but the Japanese lines replied

that the least share which they would be prepared to accept would be 61 per cent.; this figure they subsequently reduced to 56½ per cent.

273. No later attempts to find a solution of the problem have given any reason to hope that the deadlock will be overcome.

274. The service of the B.I. Company is now maintained by five vessels, two of 10,000 tons gross, built in 1923 and 1924, and three of 7,800 tons gross, built in 1925; and the service of the Indo-China Company by four vessels, one of 5,500 tons gross, built in 1920, two slightly larger, built in 1922, and one of 3,200 tons gross, built in 1923. Both services have suffered heavily through Japanese competition.

30. THE AUSTRALIA-JAPAN CONFERENCE.

275. Australia and New Zealand are not in the "Middle and Far East", for they are not "Oriental" countries. None the less, they are already, and, inevitably in the future, closely concerned in Middle and Far Eastern trade. Liner services between Australia and Japan rest in the main on the export of wool from Australia. The export of wheat and ores in the same direction, is, as we have seen, mainly carried by tramps.

276. The post-War growth of the trade carried by liners between Australia and Japan is shown in the following table:—

			<i>Wool exported from Australia to Japan.</i>		<i>Imports into Australia of Japanese origin.</i>
			<i>Volume</i>	<i>Value*</i>	<i>Value*</i>
			<i>(tons).</i>	<i>(£'000).</i>	<i>(£'000).</i>
1913	...	...	4,805	735	950
1919-20	...	...	5,627	1,011	4,223
1923-24	...	...	22,529	6,213	3,558
1927-28	...	...	48,914	10,326	4,282
1931-32	...	...	84,231	5,902	2,397
1935-36	...	...	105,507	11,652	4,970

* Values in sterling.

277. Liner communication between Australia, China and Japan was first established by the British Eastern and Australian Line in 1872. The present line of that name was incorporated in 1894. Prior to 1895, the Eastern and Australian Line was alone in the trade, but in that year the N.Y.K. instituted a monthly service between Japan and Australia. Soon after the War, to meet the growth of trade, additional monthly services between Japan and Australia were inaugurated by the O.S.K. (calling at Hong Kong in both directions) and by the "Japan-Australia Line" (jointly conducted by the Kawasaki, Kokusai and Yamashita** companies). These two

** The Yamashita line conducts an irregular service between China and Australia, mainly in bulk lines of cargo.

lines forced their way into the trade by threatening a rate war. As a result of the successive entry of the three Japanese lines, the percentage of the trade carried by the E. & A. Line steadily diminished.

278. Notwithstanding the great growth in trade, the Eastern and Australian Line continues to be operated by three vessels, each of some 7,000 tons, built in 1912, 1913 and 1914 respectively. Some of the competing Japanese vessels, on the other hand, have been built during the last few years. The Japan-Australia Line's three vessels were built in 1919 and 1920, and the N.Y.K.'s eight vessels between 1908 and 1921, but three of the five O.S.K. vessels were built in 1929 and 1930 and the other two in 1936. The Chairman of the N.Y.K. announced in May, 1937, that his Company had decided to build two passenger and cargo vessels each of about 11,700 tons and a maximum speed of twenty knots, to replace two of the old vessels then employed on the service between Japan and Australia.

279. The four lines, the N.Y.K., O.S.K. Japan-Australia and E. & A. formed a Conference based on two pooling arrangements made in 1933, and current for two years, one for the southward trade in Japanese general cargo and the other for the northward trade in Australian wool. The southward agreement provided that the companies should pool 60 per cent. of their receipts from the carriage of general cargo; the share of the E. & A. Line was 25 per cent. The northward agreement provided for a pool of 50 per cent. of receipts from the carriage of wool, and the share of the E. & A. Line was 20 per cent.

280. In 1935 the Japanese lines declined to renew the northward pooling agreement, and in 1936, the southward agreement. The O.S.K. subsequently extended its itinerary to New Zealand, and placed two extra vessels in the direct trade between Japan and Australia (not calling at Hong Kong or New Zealand). In the latter part of 1936, a member of the Commonwealth Government stated that the E. & A. Line was experiencing competition of a character which was likely, if allowed to continue unchecked, to force the line out of existence. Negotiations followed between the British and Japanese companies concerned and, with the assistance of the Commonwealth Government (which informed Japan that certain trade negotiations then proceeding between the two Governments could not be concluded until the shipping question had been satisfactorily disposed of), an agreement was reached in June, 1938. This agreement, which runs for two years from the 1st July, 1938, provides, as in the agreement previously in force, that the companies concerned shall pay into a pool 50 per cent. of their receipts in respect of wool cargoes carried from Australia

to Japan and 60 per cent. in respect of all cargo carried in the opposite direction. Of the pool so formed, the British company's share is fixed at $22\frac{1}{2}$ per cent., thus leaving $77\frac{1}{2}$ per cent. for the Japanese lines.

281. The power of the Japanese lines in this Conference is based on the Japanese purchase of raw wool f.o.b. in Australia. The Australian graziers up-country sell their wool through wool brokers at the great public auctions of Brisbane, Sydney and Melbourne. The brokers naturally accept the best price offered, without reference to the nationality of the purchasers, and the Japanese purchaser ships in Japanese bottoms.

31. THE STRAITS-UNITED STATES CONFERENCE.

282. Until 1934 the important trade from the Straits Settlements to the Atlantic Coast of North America was mainly carried in the vessels of eight lines, six of which were British and two American. The six British lines (Bank, Prince, Silver, James Chambers & Co., Ellerman and Bucknall, and Alfred Holt & Co.) and the United States Dollar line, were associated in a Conference. The other American line, the Isthmian, was not a member of this Conference, but had an understanding with it. The Dollar line ran fortnightly, and the other lines monthly. All the services were round-the-world, sailing from New York via Panama to load at Singapore and other ports in the Far East and homeward by Suez or the Cape. One of the British lines informed us that of its total freight, about 40 per cent. was earned in the Malayan trade.

283. The Conference was protected from the competition of chartered ships by an agreement made in 1932 between the Conference and the members of the Rubber Trade Association of London, which also represents the Singapore Rubber Association in negotiations with the Conference. The Conference agreed to give equality of treatment, a reasonable service of ships at a fair rate of freight and an undertaking that the lines would not alter rates without three months' notice. In practice the rate of freight has from time to time been settled by consultation between representatives of the Rubber Trade Association of London and a Committee representing the Conference. It was also agreed that the Conference could make an additional charge for the carriage of rubber shipped by any merchants who did not undertake to be "loyal" to the lines.

284. Most of the cargo carried from the Straits in the vessels of the foregoing lines consists of rubber, and in order to explain the inception and subsequent increase of Japanese competition with the British and American lines, it is necessary that we should give a brief account of the rubber trade. The tonnage of rubber exported from British Malaya in the year 1937

amounted to about 500,000 tons, the annual export being subject to the percentage of release allowed by the International Rubber Regulation Committee. About half of the Malayan output is produced on European-owned estates and is sold by the agents of the estates. The other half of the production in Malaya is mainly produced on holdings of 100 acres and under. This rubber, usually termed "native production", is sold by the small holders to small up-country dealers, who, when they have acquired a sufficient weight, resell to large dealers, by whom it is sold to British, Chinese or Japanese packing and exporting dealers and American manufacturers' buyers.

285. Among the Japanese firms is Mitsui Bussan Kaisha. This great company, whose activities we have already described, has been established for many years as a merchant in the Straits, exporting rubber and tin to Japan and importing manufactured goods from Japan into the Straits. In August, 1934, the M.B.K. and another Japanese line closely connected with the M.B.K. at Singapore, the K.K.K., applied for admittance to the conference. This application the conference lines felt unable to resist. The M.B.K. was thus able to extend its rubber trade from Japan to New York. We have already noticed that it exported raw silk from Japan to New York in its own vessels on the same route, and returned with American raw cotton for Japan.

286. The rubber carried by the Japanese lines to America stood at about 10 per cent. of the total during the first two or three months after their entry into the conference, but in the early part of 1935 it increased at a remarkable rate, rising to 15 per cent. between November, 1934, and April, 1935, to 25 per cent. in June and July, 1935, and to 34 per cent. in August and September, 1935. In September, 1935, a deputation of the conference proposed to the Japanese members that the Japanese lines' percentage should be limited to 14 per cent. The Japanese lines refused to agree, and in November and December, 1935, their carrying of rubber for America rose to nearly 50 per cent.

287. In December, 1935, negotiations were reopened. The conference lines suggested that the trade should be divided between them by a quota, and should be distributed through a Central Booking Office. The Japanese lines refused to accept this arrangement, but offered to make a voluntary restriction of their shipments to 5,500 tons per month or 26 per cent. of the trade, whichever was the greater. The conference lines made a counter offer of 25 per cent. without a 5,500 tons minimum.

288. At this stage of the negotiations the rubber dealers intervened, and informed the conference that they were not prepared to allow the Japanese lines to carry more than 16 per cent. of

the trade. The rubber dealers had felt increasing competition from the merchanting department of M.B.K. very soon after the introduction of the M.B.K. ships into the carrying trade, and they argued that if M.B.K. carried its own rubber at less than conference rate, M.B.K. *qua* merchant could afford to pay Chinese dealers a higher price for their rubber than other merchants paying the full conference rate, and that the Chinese dealers could afford to offer higher prices to the smaller dealers. There is no conclusive documentary proof that part of the freight rate was used by the M.B.K. to outbid other merchants in Malaya, but it is obvious that such proof is very difficult to obtain. We understand that during a period when rubber prices were comparatively stable, the M.B.K. outbid all other merchants in Singapore and sold in New York at a lower price than any other dealers were able to accept. The rubber dealers feared that the transference from the Mitsui shipping department to the Mitsui merchanting department of a substantial proportion of freight receipts derived from the carriage of 25 per cent. of the rubber would enable the M.B.K. to dominate dealings in "free" rubber.

289. The M.B.K. denied that they had carried rubber at less than the conference rate and explained their success by superior organisation and efficiency. They turned down the offer of 16 per cent., pointing out that the conference lines had already offered them 25 per cent. During the six months beginning February, 1936, however, the Japanese lines' carryings declined to about 30 per cent. as compared with 50 per cent. in the earlier period. This decline was due to the diversion to other ports in the Orient of a proportion of their sailings, which fell from an average of 2.5 per month in the nine months preceding January, 1936, to 1.8 per month in the following five months. In June, 1936, the conference lines broke off negotiations, and cut the rate of freight from \$12.75 to \$8 per ton of rubber. The Japanese lines then withdrew more tonnage from the trade, and between 17th June, 1936, and 31st March, 1937, when the reduced rate was in force, their carrying fell to about 20 per cent.

290. Owing to the general improvement of trade in 1937, and to the losses which they suffered through the reduced rate, the conference restored the rate to United States, \$12.75, as from 1st April, 1937. During the four months that this rate was in force, the Japanese carried only 16.8 per cent. of the total rubber shipped. As from 1st August, 1937, the rate was increased to \$15, but during the next four months, the Japanese carrying fell still further—to 11.4 per cent. We are informed that after April, 1937, there was a greatly increased demand for space in Japan and other parts of the Far East for the United States, and that the Japanese lines diverted tonnage to these other loading places.

291. In consequence of the present strong anti-Japanese feeling among the Chinese merchant community of Malaya, the position of the Japanese interests is far less strong there than formerly. Thus, as a result of the Sino-Japanese conflict, the Hin Giap Trading Company, an important firm of Chinese rubber dealers, which had previously worked very closely with Mitsui, has now severed its connection with that company.

292. It is possible, nevertheless, that Japanese participation in the export and shipment of Malayan rubber will again increase, and that the question of counteraction will arise. Such action might have to be contemplated, not only by the British interests concerned, but also, if necessary, by the Government. From the political point of view, British Malaya could hardly regard with equanimity the passing of a large proportion of her export trade into Japanese hands, even though Japanese intervention, by reducing the middlemen's charges, might enable the producer to get a slightly higher price for his produce.

293. A suggestion as to the kind of action which might be taken was made by the conference lines to the Governor of the Straits Settlements in August, 1936. The suggestion was that the Government should take power to create a Central Booking Office to control the shipment of rubber cargo in proportions to be agreed between the lines, or in default by the Straits Settlements Government. The Japanese lines were prepared to agree to the principle of a Central Booking Office, but would not accept a smaller quota than 25 per cent. The proposal to set up a Central Booking Office was not proceeded with. We refer to this suggestion in Part III of our Report (paragraphs 351-356).

294. It is obvious that the combination of merchanting with shipowning in one company makes it possible for freight receipts to be surreptitiously transferred from the shipowning department to the merchanting department of that company, and that the possibility of such a transference is a potential source of danger to the conference system. We do not feel ourselves competent to offer any further comments on this subject other than that a Committee which the Governor of the Straits Settlements appointed, at our instance, to prepare evidence for us, reported that, "in general, there is perhaps a considerable degree of overstatement of Japanese malpractices."

32. THE JAVA-JAPAN CONFERENCE.

295. The movement of trade between Japan and the Netherlands East Indies (N.E.I.) is indicated by the following data in millions of yen:—

<i>Year.</i>		<i>Japan to Netherlands East Indies.</i>	<i>Netherlands East Indies to Japan.</i>
1929	... ..	87	77
1932	... ..	100	40
1935	... ..	143	78
1936	... ..	129	114

296. The-carryings in the two directions are roughly balanced, since the foodstuffs and raw materials imported from the Indies require approximately the same amount of space as the higher valued Japanese manufactured goods exported to the Indies. The carrying trade is shared between the Netherlands and the Japanese almost to the exclusion of other flags.

297. It happens that as regards this traffic, of such relatively simple structure, there is a most illuminating record, detached from British interests, both of Japanese technique in competition and of methods adopted to meet it by the Netherlands.

298. Prior to 1931, the Java-China-Japan trade was carried mainly by three lines, two of them being the Japanese O.S.K. and Nanyo Yusen Kaisha (Nanyo Y.K.) and the third, the Netherland Java-China-Japan (J.C.J.) Line. These three lines worked together in a conference. In March, 1931, another Japanese line, Ishihara, applied for and was refused admission to the conference. The Ishihara Line was an offshoot of the Ishihara Industrial Company, and was formed primarily to carry ore from an iron concession in the State of Johore to the parent company's smelting works in Japan.

299. With the assistance of its merchant interest, the Ishihara Line operated independently in the trade and cut rates against the conference lines. Its carryings, apart from its own ore, steadily increased, and after the rate war had continued for some eighteen months, Ishihara was admitted, in September, 1932, to the conference, which thus came to consist of one Netherland and three Japanese lines.

300. At this time the Netherland line carried about one-third of the total trade, but the Japanese companies declined to regularise this position and suggested a division of 25 per cent. of the trade for each of the conference members. No agreement was reached, and the Japanese lines subsequently increased their carryings at the expense of the Netherlands line. Moreover the Nippon Yusen Kaisha put vessels into the trade, a step which tended to reduce still further the carryings of the Netherland line.

301. In the new rate war which followed in 1933, the Netherland line enjoyed the support of shippers both in the N.E.I. and in Japan, much of the cargo exported to the N.E.I. from Japan being handled by Netherland firms. The Japan Industrial Federation, on the other hand, requested its members to ship to the N.E.I., so far as possible, by Japanese vessels. The carryings of the Netherland line increased to over half of the trade in the latter part of 1935 and early 1936. It would appear that the N.E.I. Government had played some part in organising this support.

302. In September, 1933, the N.E.I. Government had passed a Crisis Import Ordinance which allowed the Director of Economic Affairs to prescribe specific ports of entry for foreign goods. Action was taken to oblige Japanese ships to unload at Sourabaya and Batavia instead of going direct to ports in Sumatra. This Ordinance was followed by a number of restrictions on Japanese imports into the N.E.I., which led in June, 1934, to trade negotiations between the two Governments. The N.E.I. Government considered it essential that the Netherlands line should retain a place in the traffic between the two countries, and made it known that a satisfactory solution of the shipping problem was a *sine qua non* for the conclusion of a trade agreement. It was decided to leave the discussions on shipping to be carried on between the Netherland and Japanese shipping companies, which conferred together at Kobe in the early part of 1935. These discussions were abortive.

303. In an Ordinance of May, 1935, the N.E.I. Government took powers to regulate the carriage of imports from foreign countries so as to secure that a certain proportion of such imports was conveyed under the Netherland flag. It does not appear that the Netherlands Government took action under this Ordinance, but there seems to be little doubt that it was enacted with the object of assisting the Netherland line.

304. In order to maintain a united force of competition against the Netherlands, the four Japanese companies, with the encouragement of the Japanese Government, then subscribed capital to form a new company, the Nanyo Kaiun Kabushiki Kaisha, with the object of operating the 16 Japanese vessels in the trade. This new company took over the Japanese Government subsidies previously allotted to the individual companies amounting to about 400,000 yen per annum (about £24,000 sterling at current rates of exchange). A first step of the new management was to appoint a Japanese agent in the N.E.I. in place of the companies (three British and one Netherland) which had previously held separate agencies for the four Japanese lines.

305. The percentage of carryings of the Netherland line continued to increase, and at the end of 1935 negotiations between the Netherlands and Japanese shipping companies were resumed. Shortly afterwards, Ishihara withdrew from the Nanyo K.K.K. and formed an independent company with the object of engaging in cut-throat competition both with the Japanese and Netherland companies. This plan was, however, frustrated by the passing of the Shipping Routes Control Law by the Japanese Diet in May, 1936. (See Appendix X.) The object of this law is to prevent uneconomic competition of this nature between one Japanese line and another.

306. An agreement was finally reached—to hold good for three years as from July, 1936—between the Nanyo K.K.K. and the Netherland line whereby the following ratios were fixed for the freight to be carried by each:—

<i>Traffic.</i>	<i>Freight Ratio.</i>	
	<i>Netherland line.</i>	<i>Nanyo K.K.K.</i>
Java to Japan	40	60
Japan to Java	35·75	64·25
Japan to and from { Palembang Padang Menado }	50	50
Japan to and from K.P.M. ports	60	40
Japan to Oosthaven (Sumatra)	100	Nil

33. SUMMARY OF PART II.

I. It would appear that the main conclusions to be drawn from the foregoing consideration of special factors affecting competition in the Orient are:—

(a) That Japanese shipping and most of the other principal competitors of British liner shipping in the Orient receive subsidies, whether for operating or building, or both, on a fairly substantial scale, and that the German and Italian and particularly the Japanese subsidies have enabled their mercantile marines to be modernised with fast and efficient vessels. The German and Italian lines are State-controlled. The tendency is for subsidies to grow.

(b) That, apart from subsidies, the cumulative effect of currency depreciation and of the different standard of living makes it possible for Japanese vessels to be operated at a cost which in 1936 was perhaps of the order of 10 to 15 per cent. below the cost of operating comparable British vessels.

(c) That the major part of Japanese ocean-going shipping and also of Japanese overseas trade is under the financial control of a few great houses which have interests in banking, merchanting and manufacturing, and in ship-building yards and other firms and industries ancillary to shipping; and that, as a result, it is possible to bring powerful financial and commercial support to the aid of the Japanese shipowners in competition with the foreigner.

(d) That it is not possible to disentangle the influence of these several factors and to assign to each a measured value in competitive advantage or disadvantage, but that their combined effects may be read in the story of competition in the Orient as recorded in the annals of the international conferences which, along each trade route, have now for many years sought to regulate liner traffic both of passengers and cargo.

2. In the Summary of Part I, two trades stood out as of leading interest from the point of view of this Inquiry, namely, the trades between India and Japan, and between Australia and Japan. Three Conferences, Bombay-Japan, Calcutta-Japan, and Australia-Japan, control these two liner trades. Two other trades exhibit in the history of their conferences significant features, namely, the Straits-New York and Java-Japan trades, in the first of which may be observed an effort of merchants to co-operate with their national shipping but without the support of their Government, and in the second a similar effort at co-operation but with Government support. These five stories, as narrated in paragraphs 250 to 306 above, make evident, as no generalised statements could, the persistency and skilful technique with which the Japanese have pursued their rivalry with the old-established Western and especially British shipping interests, and the effectiveness or otherwise of the various attempts which have been made to secure a fair apportionment of carryings in these different trades.

PART III.

POSSIBILITIES OF STRENGTHENING THE POSITION
OF BRITISH SHIPPING IN THE ORIENT.

34. A SPECIAL PROBLEM.

307. We have come to the conclusion that British shipping in the Orient must be regarded as presenting a problem in some measure distinct from that of British shipping in the rest of the world. Until recent years all the principal competitors on the ocean were for practical purposes equidistant from the Orient; they were all based on the shores of the North Atlantic and Mediterranean. With the rise of the Japanese mercantile marine that is no longer the case; the region which is in the distant background for Europe and Eastern North America is in the foreground for Japan. This contrast of distances and of resultant outlook holds for the United Kingdom, but does not hold for the British Commonwealth at large, which in the great range of territories, India, Malaya, Australia, and New Zealand, has a front favourably placed for trade in the Eastern Ocean.

308. We have seen that in the great traffic between the United Kingdom on the one hand and India, British Malaya, Australia and New Zealand on the other, British shipping maintains its dominant position. But the proportion of British shipping in the trades between India and Australia on the one hand and Japan on the other has seriously declined, and the growing strength of the Japanese competition between those terminals gives incidentally to Japanese shipping a position of special advantage in the ports of call in British Malaya and China.

309. Between Europe and the Orient there has been a recent access of competition, due to the building by Germany and Italy of subsidised vessels with higher standards of speed than could be justified on a purely commercial basis. This, however, presents a problem that is not special to the Orient; it belongs to the general system of the services radiating from Europe over the world.

310. The special aspect of the Oriental problem appears in the fact that in the same quarter of the globe lies one of the great seafaring nations of the world, and also a range of four of the principal members of the British Commonwealth, each of them an important source of trade, each requiring for its produce sea carriage to the great consuming populations—the 600 millions of Europe and North America on the one hand, and the 600 millions of the Far East on the other—yet none of the four owning more than a very few ships engaged in oceanic trade.

311. In the trades between India and Japan, and between Australia and Japan, the Japanese shipowners, with the assistance of Japanese merchants and manufacturers, have obtained an ever increasing proportion of carrying, with the result that their British competitors have been reduced by gradual stages to a minority position. In bargaining within the conferences, rates and sailings have been fixed to suit the majorities. Trade has as a result been rendered unprofitable for the British lines; depreciation for rebuilding has not been earned; and old and uneconomic ships have remained running, because capital naturally tends to be applied to trades with brighter prospects. In short, a creeping paralysis is being suffered by these British lines, a malady which if continued long enough must end in their competitors achieving a monopoly.

312. It is important that the damage thus far suffered from foreign competition by British shipping in the Orient should not be exaggerated. To, from, and within the Orient about a quarter of the total British tonnage in the world is employed. British shipping still carries a major part of the great trades between the United Kingdom and the British territories in and near the Orient, also nearly the whole of the coasting trades of those British territories, and a large part of two other great trades—between the Orient and the Continent of Europe, and between the Orient and North America. In none of these trades has the proportion of British shipping seriously declined, and the amount of British shipping employed in them is many times as great as the total amount of shipping—British and foreign—employed in the trades between Japan and the British territories in and near the Orient.

313. In view of the great development of Japanese imports and exports a growth of the Japanese mercantile marine was to be expected. Hitherto that growth has been mainly absorbed in Japanese trades in which British interests have always been small or non-existent. Nevertheless, the sources of strength behind the Japanese shipowner are such as to threaten the position of British shipping in important Oriental trades which are still largely carried in British vessels. The trade between British Malaya and the United States may be specially mentioned. A reasonable apportionment of carrying as between the two great maritime empires in these trades should be the outcome of their competition. But if that is to be achieved the present trend must be checked and the balance must be restored.

35. CAUSES OF THE RELATIVE DECLINE OF BRITISH SHIPPING IN CERTAIN TRADES OF THE ORIENT.

314. The great increase of the Japanese mercantile marine and, in the Orient, the arrested development along certain

important routes of the British mercantile marine have resulted, in part at least, from the contrasted conditions presented by the two Empires. Neither would Japanese shipping have succeeded to the extent that it has succeeded but for the opportunities open to it in the British Empire in the East, nor would British shipping have relatively failed, where it has failed, had it not been faced by the peculiar competitive strength of Japan.

315. The most obvious advantages of Japan are the depreciation of the yen and the lower standard of living. We have discussed at some length the action of these two factors in competition, and have come to the conclusion that it would be very difficult, if not impossible, to measure their effect precisely. Our evidence suggests that in 1936 the net effect of these two advantages was to make the total annual costs of the Japanese shipowner about 10 or 15 per cent. below those of the British shipowner.

316. In relation to the size of the Japanese ocean-going mercantile marine, Japanese subsidies for ship operation and shipbuilding have been fairly substantial, and their effect, when taken in conjunction with the advantages due to the Oriental standard of living and the depreciated yen, has been considerable. The three Scrap and Build schemes gave a great stimulus to the modernisation of the Japanese mercantile marine, and the present tendency is for subsidies to grow.

317. Another important source of strength behind Japanese shipping competition is the high degree of organisation, in part vertical (Zaibatsu), in part horizontal (Rengokai), which characterises the economic life of Japan. It is this which gives to her merchants the power of routeing cargo, bought in foreign markets for import into Japan, by Japanese ships. It is this also, in its financial aspect, which places such strength behind the Japanese shipping companies that competitors have rarely ventured to challenge a rate war in defence either of freight rates or apportionment of sailings.

318. In contrast to such concentration of strength we have on the British side an absence of concentration, evident not merely in the number of the governments which rule the British Commonwealth along its eastern front, but also in the divided control of traffic and shipping; traffic in the East and shipping in the West.

319. No narrow view confined strictly to shipping interests would bring to light the reasons for the relative decline of the British Mercantile Marine in the Orient. Tonnage of shipping is only one element in a carrying trade; there must also be adequate cargo offering for conveyance and fluid capital organised to finance its movement. In a large view of national interests, import and export merchants and exchange bankers

are partners with shipowners in a common venture. In the United Kingdom, the conditions have been such that no attempt has been made to give formal expression to this inter-dependence and the three interests have flourished, each on its own vocational basis, as clients to one another rather than partners. The merchants have routed their exports by the ships of any flag; the bankers have discounted impartially bills of exchange supported by bills of lading of any provenance; the shipowners have found cargoes in foreign, as well as United Kingdom, ports. All three interests have utilised the natural freedom of the ocean not only as regards foreign countries but in relation to one another.

320. Notwithstanding the nationally controlled competition of countries such as Russia, Germany, and Italy, it is still held in influential circles of British shipowners that freedom of organisation gives the maximum net advantage to British interests when considered on the world scale. There is the conviction that in the long run the efficiency which comes of vocational division of function will defeat national systems of organisation. We are not called upon to pronounce an opinion on such an issue as it affects the future of British shipping when viewed over the entire ocean from the standpoint of London, and we recognise that British shipping is holding its own in the direct trades from the United Kingdom, via Suez, the Cape and Panama, to Japan, India, British Malaya, Australia and New Zealand.

321. But at the other end of the British Commonwealth we have as yet no such highly-developed commercial communities as in the United Kingdom. In all the four British regions named, the majority of ships are visitors whose home is overseas, and the local shipping agents have only delegated authority. The sense of co-operation with the shipowners in the venture of foreign trade is inevitably weaker among the merchants of these regions than in the United Kingdom, and therein lies the opportunity for the Japanese competitor with his advantages of geographical position and of support from his traders and his Government.

36. THE IMPORTANCE OF BRITISH SHIPPING IN THE ORIENT.

322. As a general proposition no one is likely to dispute the desirability in Imperial interests at large, of maintaining and strengthening the position of British shipping in the Orient. Since a price may, however, have to be paid to achieve that object, it will be well to pass in review the issues involved. Those issues concern both naval and economic defence in time of peace and war.

323. The Navy, Air Force and Mercantile Marine are mobile elements in the defence of the British Commonwealth;

but they each of them depend on a ground organisation which is immobile. The bases of the Navy and of the Air Force are echeloned along the routes of the Empire; the Merchant Marine is dependent on the markets of the countries which are its clients. What Singapore is to the Navy and the Air Force, that are the markets of the Orient to the Mercantile Marine. Without the great base which has been constructed in British Malaya the naval and air strength of Britain could not be brought to bear in that part of the world; and similarly, without the established trade connections in the Orient, neither could the British Mercantile Marine continue to operate in that area.

324. The converse is, of course, also true, namely: that the maintenance of the Singapore base must, in the last resort, depend on ability to retain command of the seas, and the prosperity of the great British mercantile and banking interests in the Far East depends on the ability of British merchant shipping to keep its share of the carrying trade in Far Eastern waters.

325. Our investigation has shown that the chief trades in the Orient in which the position of British shipping requires to be strengthened as a matter of urgency are the liner trades between Australia and Japan and between India and Japan. It is obviously desirable that a substantial proportion of liner shipping registered in the British Commonwealth should operate in those trades as a means of ensuring the continuance of trade during periods when foreign shipping is withdrawn for reasons of national emergency. There is no doubt that the ships would be of great value to the maintenance of the trade of Australia and India in time of war.

326. The United Kingdom shipping industry has a direct interest in the continuance of the services between India and Japan and between Australia and Japan. These services are concerned not only with their terminal ports, but also with such British ports of call as Colombo, Rangoon, Singapore and Hong Kong. From a short period point of view, the financial position of the particular companies concerned might perhaps be strengthened if, instead of building new ships, they withdrew ships from these trades, but if they did so, Japan would acquire a monopoly of two of the most important carrying trades within the Orient. Since strength breeds strength, an intensification of Japanese competition might be expected in the Indian coasting trade, in the trade between Australia and China, and in the trades with the Far East via Suez, the Cape and Panama to and from Europe and Eastern North America.

327. Experience has shown that where Japan has substantially increased her proportion of the carrying trade of a British country in or near the Orient, she has extended her

activities in the merchandising of that country's produce. We have seen how the growing strength of Japanese shipowners trading from British Malaya to New York increased the competition of Japanese merchant interests with British merchant interests in the Straits Settlements. Statements which we have received from Chambers of Commerce in India show that the rapid growth of Japanese shipping plying between India and Japan is viewed with apprehension in Indian trading circles. The Bombay Chamber of Commerce expressed the view that the growing domination of Japanese shipping on the trade routes between India and the Far East must in the long run have a disadvantageous effect on the business of those banks and underwriters other than Japanese doing business with Japan. Bombay cotton interests stated that the powerful combine of Japanese merchant and shipowning interests could be effectively employed for discriminatory treatment, which, if and when put into operation, would adversely affect the price of Indian cotton.

328. In time and with the growth of their trade, more shipping should be on the register of the Dominions and India, but the difficulties in the way of such a development would be enormously increased if a foreign country had in the meantime obtained, or nearly obtained, a monopoly of the carrying.

37. POSSIBILITIES OF STRENGTHENING THE POSITION OF BRITISH SHIPPING IN THE ORIENT.

329. If we may treat it as accepted that it is in the interest of the British Commonwealth of Nations that the position of British shipping* in the Orient should be strengthened, we may pass to consider the steps needed to achieve that end. We have primarily in mind the position of British shipping in the trades between India and Japan, and between Australia and Japan, but if the Japanese mercantile marine continues to increase during the next ten years at the rate maintained during the past generation, some of our suggestions may become applicable before long to the position of British shipping in other trades in the Orient.

330. There are two questions to be answered; the first as to what should be done and the second as to how it may be done.

331. Our evidence, oral and written, is clear in reply to the first question:

- (1) New ships.
- (2) More devolution of management.
- (3) Better co-operation of rival British shipping concerns.

* British shipping, by our definition in paragraph 2, includes shipping registered in the British Commonwealth (including the Indian Empire).

- (4) More cargo consigned by British merchants in British ships.
- (5) More even division of traffic between British and foreign shipowners.

New ships.

332. The British liners plying between Australia and the Far East and between Bombay and Japan are ships of such an age that they cannot normally be run at a profit when freights are low. Moreover, it must be remembered that the new Japanese vessels have hitherto been employed for the most part against American and not British shipping; with the advent of a greater number of improved vessels, some of them already on the stocks, an intensification of competition is to be expected.

333. We have received a certain number of complaints in regard to speed, accommodation and service on some British passenger vessels working within, and, more especially, to and from, the Orient. Every experienced traveller knows that there has been in some quarters a tendency to complain of the treatment on certain British lines. This may be in part due to conditions now past, and we believe that there is less justification for such complaints to-day than formerly. But it remains true that some of the foreign liners plying to and from the Orient, whether as the result of the subsidies received from their Governments, or for other reasons, outclass the British liners in the accommodation provided, the speed of their schedule, the rates charged and sometimes in the service forthcoming. It is imperative that the British lines should not be content to rely on their regular *clientèle*, but should equip themselves so as to compete more effectively with the foreign lines for other passengers.

Devolution of management.

334. Until very recently it was practicable to work profitably under the system, at the end of the cable, which has developed during the past two generations. But we are dealing, on the other side of the world, with that other half of the human race which is now rapidly rising to equality with western management and technique. Japanese shipping is managed in and from Japan, and competing British shipping is managed directly or indirectly from the distant British Isles; and it would appear necessary for United Kingdom shipowners to establish a greater devolution than is at present the case. It is suggested that what is required is that the British shipowners should appoint as their representatives in the Far East men with a sympathetic understanding of the aspirations of Oriental peoples, and should entrust them with a greater measure of personal authority.

Co-operation between British shipowners.

335. We have been told by responsible and disinterested observers that in some of the ports of the Orient the agents of British shipowners do not adequately co-operate to present a united front in their dealings with shipping under competing flags. This no doubt arises from the fact that their personal success depends largely on their upholding the interests of their own line as against other British as well as foreign lines, but it is none the less regrettable, as being detrimental to British interests as a whole.

Increased support from British Empire merchants.

336. The shipowner does not originate traffic. He is dependent on those who control the routing of traffic. The British merchant is primarily concerned to get his goods carried as cheaply as possible. On the other hand, the advocates of a vocational basis for an independent shipping industry look upon that shipping as at the service of the world's trade. The trouble of to-day for those who hold that view is that so much cargo is "tied" to particular shipping and removed from the world pool of traffic. The Japanese merchants in the East, and notably in India and Australia, having bought raw cotton up-country in India and raw wool in the Brisbane, Sydney and Melbourne sale-rooms, are the owners, before export, of those products of the British Commonwealth, and are in a position to consign them by the flag of their choice.

337. Japanese shipping enjoys a very considerable measure of support from patriotic sentiment and public opinion in Japan, but British shipping in the threatened trades of the Orient has no comparable support from the peoples of the British countries in and near that part of the world. It is natural that it should be so; those British countries are not themselves owners of much shipping, while Japanese shipping is one of the most important industries of Japan and recognised in influential circles in that country as an instrument for realising Japan's ambition of becoming an ever-expanding power in the world and the dominant power in the Pacific.

338. Is it beyond the reach of policy in some practicable way and notwithstanding the separating breadth of the world, to bring about a sense and practice of partnership between the owners of the shipping in the United Kingdom and the producers of the cotton and wool in India and Australia? Without cargo, the mercantile marine cannot flourish; without shipping under the British flag, the producers of India and Australia would in the long run be at the mercy of their foreign customers and of the foreign shipowners.

339. This aspect of the question is already appreciated in India. In paragraph 327 we have referred to the representations made to us by the Bombay Chamber of Commerce and by the Bombay cotton interests as to the apprehension with which the

growing domination of Japanese shipping plying between India and Japan is regarded by them. Several Indian Chambers of Commerce have, however, written to us expressing the view that the support of Indian trading interests for British shipowners must be conditional upon action to encourage the development of the Indian-owned mercantile marine.

340. There can be no question that if there is to be the sense of partnership between the shipowner and the mercantile community which is a condition of any effective competition with the Japanese in the Orient, there must be created in a greater degree than exists to-day a genuine Indian interest in the mercantile marine of the Commonwealth. It must be admitted that there is an initial distrust to be overcome, the result partly of competition in the past between Indian-owned and United Kingdom-owned shipping enterprises, but we hope that in the face of the well-organised Japanese competition it will be recognised both by the Indian and the United Kingdom shipowners that a new and larger spirit of co-operation is called for. On the one hand, the aspirations of India to enter into the field of shipping operations are natural and should be fairly met in a co-operative spirit by the United Kingdom lines. India starts with a fine tradition of seamanship in her lascars, and ships' officers are already being trained in the new school at Bombay. On the other hand, in the management of shipping services the United Kingdom shipping interests have great experience. There will always be scope under the conditions of oceanic trade, growing with the increasing enterprise of the Orient, both for the Indian and the United Kingdom mercantile marine in the trade of India.

Division of traffic.

341. Due weight must be given to the fact that under the conditions in the Orient, if Japan carries the whole or a predominant share of the trade between Japan on the one hand and the British countries in or near the Orient on the other, Japan is likely to preponderate in the mercantile handling of those trades, and the British countries will assume a position of dependence on Japan contrary to their national interests. The main purpose of the suggestions made in the foregoing paragraphs is to secure such an apportionment of traffic between Japan on the one hand and the British territories in or near the Orient on the other that a reasonable proportion of the exports of each is carried under the British and Japanese flags.

342. The answer to the question *how* a more even division of traffic is to be achieved depends on the governments, the shipowners, and the merchants. It is our opinion that unless aided by the merchants and the governments, the shipowners can do little or nothing in their present circumstances to improve their equipment and organisation in the Orient. Under existing conditions they are not likely, in the interest of their shareholders, to sink capital in new equipment and more elaborate

organisation. It is a truism that capital goes to trades which promise best.

343. The Orient presents a special case which may call for special remedies. This is admitted by British shipowners who, while maintaining their strong preference for independence and for the minimum of Government interference in regard to traffic on the ocean at large, have expressly stated that in the Orient they require Government help.

344. Government help is asked for in negotiation, because the shipowners have found that in certain International Freight and Passenger Conferences in that part of the world their strength is not adequate to deal with foreign shipping interests, operating at low costs, backed by co-ordinated cargo interests and supported by Government subsidies.

345. If the Governments of the British Commonwealth enter this arena, they may find it necessary to support their words with action. Diplomatic talk alone, however skilful, will not produce results unless based on some effective bargaining counter or weapon. Attempts have already been made in connection with recent trade agreements between India and Japan and between Australia and Japan, to improve the position of British liner shipping trading between those countries respectively. We are informed that the Government of India felt unable to give up to shipping any of its bargaining power in negotiating with Japan because there was no Indian-owned shipping company trading between those countries. In the case of Australia, the Government secured, in effect, more than the Line could have secured by its own efforts, but this amounted to no more than a continuance for two years of the pre-existing conditions under which Japanese shipping carries nearly 80 per cent. of the traffic. That case shows that benefits for British shipping can be secured through negotiations between a Government of the British Commonwealth and the Japanese Government; but that the amount of those benefits depends, in reason, on the extent to which the British Government in question is willing to use its bargaining power on behalf of shipping.

346. There are three suggestions as to the form of Government action which may be considered with a view to helping the situation in the Orient:—

- (a) Reservation of coasting trades.
- (b) Apportionment of carryings.
- (c) Subsidies.

(a) *Reservation of coasting trades.*

347. British shipping which is employed in trades to ports in the Eastern Ocean may be divided into two classes; that which is, and that which is not based on United Kingdom ports. Of the latter, the major part is engaged in the various coastal trades of the British territories in and near the Orient;

but an important part, as we have seen, is engaged in the trans-oceanic trades of those territories with other countries in the Orient.

348. Hitherto there has usually been comparatively little foreign participation in the coasting trade of the British countries. By far the greater part of the Indian coasting trade is at present carried in British ships. Over 90 per cent. of the coasting trade of British Malaya is carried in British ships. The effect of the conditions for participation in the Australian and New Zealand coasting trades amounts virtually to reservation.

349. But if foreign competition were to increase substantially, the reservation of those trades to the British flag might have to be considered. The coasting trades of nearly all the principal competitors of British shipping in the Orient, including Japan and the N.E.I., are already reserved to the national flag, and although British vessels are at present permitted to participate in the coasting trade of Japan and of the N.E.I. under special licence, their share is very small and would seem more likely to decrease than to increase.

350. Under present conditions, however, such action would not materially alter the present position, and a threat to reserve coastal trades in eastern waters to the British flag would obviously be of little or no value in negotiation for a proper division of the overseas trades between the British territories concerned on the one hand and Japan on the other.

(b) *Apportionment of carryings.*

351. The second suggestion is that Government action should be brought to bear with a view to the apportionment of carryings between vessels under different flags. The Liverpool Steam Ship Owners' Association have, in consultation with the Chamber of Shipping, considered this proposal very thoroughly and have come to the conclusion that *as a measure of general application*, it would be undesirable and, in any case, almost impossible to bring into effect. They fear that any general system of such government control might create barriers to the flow of trade, and the proposal would be strongly resisted by the cargo interests in both British and foreign countries. In any arrangements which tended to restrict shipowners' freedom of entry into a trade, it would be necessary, but obviously might be difficult, to protect the interests of the shippers. It would, moreover, be difficult to devise any system of apportionment which would not run counter to the obligations assumed by the British Government under their commercial treaties. The effect of these treaties is to provide for reciprocal freedom of commerce and navigation between British countries and a large number of foreign countries, and this is hardly consistent with the allotment of shares of particular trades to shipping under specified flags. It is the policy of the British Shipping industry to aim at securing the maximum amount of freedom for shipping all over the world.

352. The shipowners' statements in the preceding paragraph were qualified by the words "as a measure of general application". Australia and India are not parties to the Treaty of Commerce of 1911 between the United Kingdom and Japan, which is the basis of Japanese navigation rights in British ports. Moreover the liner trades between Australia and Japan and between India and Japan are shared between Japanese and British shipowners virtually to the exclusion of other flags. There would not appear to be the same obstacles in the way of apportioning carryings in those trades as between British and Japanese shipowners. So long, however, as the shipment of the goods is controlled wholly or mainly by Japanese concerns, the position of the British lines will never be strong. A suggestion has been placed before us that if the Governments of Australia and India were prepared to make facilities for the sale in their markets of Japanese goods dependent on an equitable apportionment of their carrying trades with Japan with the object of securing an adequate share for the Empire mercantile marine, it is possible that an agreement for the reasonable sharing of the trade could be arrived at by direct negotiation between the shipowners themselves.

353. It is worthy of note, in this connection, that during the recent disputes between the shipowners of Japan and the Netherlands East Indies, the N.E.I. Government, mainly by legislation giving administrative power to ensure the carriage under the Netherlands flag of a proportion of imports into the N.E.I., did, with the exercise of patience, successfully assist the Netherlands shipowners to arrive at a settlement with their Japanese competitors on the basis roughly of half and half. The resistance of the Japanese was carried to the extent of two successive rate wars, but in the end an agreement was reached.

354. There is a suggestion relating to the apportionment of carryings which we have referred to in an earlier part of this Report, and one which it may be convenient to consider at this stage. The suggestion is that the shipowners in any given liner trade should receive cargo, not directly from the merchant, but through an agency (a central booking office) set up by agreement of the lines to distribute cargo in proportions previously agreed by them. Such arrangements are already in existence in certain liner trades in the world. There is no Government compulsion behind these agreements; they may, therefore, prove ineffective for the purpose of permanently limiting the competition of any particular line to a maximum figure. Their usefulness lies in a somewhat different field. We have frequently heard allegations that certain shipowners, with the object of inducing merchants to ship in their vessels, have given rebates contrary to conference agreements as to rates of freight. Such malpractices might take the form of accepting false measurements of cargo, or granting liberal allowances in settling claims for cargo damaged. These charges are of their nature almost

impossible to substantiate, but they are supported by a considerable amount of circumstantial evidence. It is obvious that malpractices would be checked by the establishment of a central booking office. At the same time, it has to be recognised that if a central booking office distributes an agreed proportion of cargo to each individual line, it removes an element of competition which, from the point of view of safeguarding the interests of the merchant, may be very useful, if not indispensable.

355. If a Government were to contemplate the enactment of legislation to establish a central booking office and to fix proportions of carryings under different flags, the considerations mentioned in paragraphs 351-353 above would be relevant.

356. If it is not possible for the Governments to secure a proper division of the carrying trade between their respective countries by inducing their shipowners to come to a mutually satisfactory agreement, it may be considered necessary to resort to unilateral action. It has to be recognised, however, that action by a Government to secure a compulsory proportion of a carrying trade to the national flags without reference to competing foreign shipowners is a policy which would be looked upon with disfavour by many British shipowners, and, unless adequate safeguards for their interests were provided, by many British merchants, producers and manufacturers.

(c) *Subsidies.*

357. The third suggestion is for subsidies. If a British Government is to be asked to secure a compulsory proportion of a particular trade for British shipping, the British ships must not be such as to give rise to complaints from the merchants and passengers whose freedom of choice would be restricted. In the Australia-Japan trade, the three vessels operated by the British line will not bear comparison with the new Japanese vessels in that trade either in speed, or quality of accommodation for passengers. In the trade between Bombay and Japan, the British vessels, though old, are no more so than the competing Japanese vessels, but there would seem to be little doubt that the Japanese lines are in a better position than the British to make proper provision for replacement. Unless the British lines introduce new ships of sufficient tonnage into these trades, it will obviously not be possible for the British Governments to secure an adequate proportion of the trades to the British flag; on the contrary, the British services will continue to deteriorate until they have lost even the trade which they still hold.

358. While it is not for us to formulate specific recommendations respecting Government financial assistance to the British lines, a strong case for such assistance has been put forward on their behalf. If it is the desire of the Empire Governments concerned that British lines should carry a fair share of traffic in the Eastern Ocean, some financial assistance may prove to be

necessary to enable them to meet present-day competitive conditions. If it is decided to grant such assistance, it might, in the first instance, take the form of a Government guarantee of the capital costs of construction, which would place at the disposal of shipowners the benefit of cheaper Government credit without necessarily involving any charge on the taxpayer. If new ships were introduced, they would, by virtue of their lower costs and greater earning power, be in a better position to compete with the older Japanese vessels. Similar or even a greater measure of assistance is at present provided by so many of the competitors of British shipping that such action in a limited sphere would not, we think, lead to a war of subsidies, but might even be the means of securing the reduction of the subsidies granted by other countries.

359. It has been suggested that operating subsidies might be given to the British lines for the purpose of countervailing unequal conditions of competition such as may result from subsidies, depreciation of currencies or differences in standards of living. But it is difficult to assess with any precision how far competitive advantages in any given case are due to such factors and how far they may be due to greater efficiency or better opportunities of trade. Moreover, as a rule, the operating subsidies granted by foreign countries to their shipping in the Orient do not differ substantially in scale from those granted to their ships operating in other seas, and if counter subsidies were to be granted to British shipping in the Orient, it is difficult to see where the process would stop.

360. Nevertheless, if the methods discussed above failed to secure a proper division of the trades, it might be considered necessary for the Governments concerned to contemplate the grant of operating subsidies for the purpose of enabling British shipping to compete with foreign shipping in such a manner that all the vessels, British and foreign, found their freight earnings and passenger fares insufficient to cover their costs. If this were done, it is inconceivable, notwithstanding the present degree of control exercised by Japanese interests over the part of the cargoes moving, that an agreement for a fair apportionment of carryings on a profitable basis could not be reached.

361. Any arrangement made for granting subsidies would require to be co-ordinated between the different Governments of the Empire concerned, and a special point has been brought to our notice by the Government of India. In view of the terms of the Government of India Act, 1935, there can be no commercial discrimination between Indian and United Kingdom firms. If any subsidies are granted direct to shipping companies from Indian revenues, the basis for distribution of such subsidies will therefore be the same for Indian and United Kingdom concerns. In the event of subsidies being also granted from United Kingdom revenues to United Kingdom shipping firms, any assistance which such firms may have received direct from

Indian revenues will presumably be taken into consideration in order to avoid the placing of Indian shipping interests at the disadvantage *vis-à-vis* United Kingdom shipping interests which would otherwise arise.

38. CONCLUSION.

362. We have reviewed the difficulties of British Shipping in the Far East in face of the organised competition of other countries and particularly of Japan. It is not for us to attempt to formulate the conditions on which assistance might be given, or to express any view as to whether the construction of new ships should be contemplated at present prices; but if the facts presented in this report lead the Governments to the conclusion that an effort should be made to support British shipping lines in the Orient, we believe that consideration should be given by the Governments to the practicability of financial assistance to the shipping companies for the modernisation of their fleets as a part of the solution of their difficulties.

363. But while the construction of new and more efficient vessels would facilitate the maintenance of British shipping in the Orient, any special assistance for this purpose might prove unavailing, and might indeed be entirely wasted, unless steps could simultaneously be taken, with the co-operation of the merchant and banking interests concerned, to ensure that a fair and reasonable share of the carrying trade between the various parts of the Empire and Japan is allotted to the mercantile marine of the Empire. In order to strengthen the bargaining power of the British lines in their negotiations with their competitors, the provision of some financial assistance towards the costs of operation may have to be considered by the Governments concerned, and possibly also some such action as making facilities for the sale of foreign goods dependent upon an equitable apportionment of carrying trades.

364. The measures which may be necessary for this purpose would require the co-operation of the Governments of the parts of the Empire concerned; and a greater degree of co-operation would have to be developed between the great shipping lines based on the United Kingdom and the growing mercantile marines of other parts of the Empire.

365. The evidence which we have taken shows that there is a unity of purpose behind Japanese sea policy. "It is essential to assist the advance of our shipping on ocean routes in order to have a powerful merchant marine" says a note to a recent Japanese budget estimate, and this expresses the national objective. Merchants, industrialists, bankers and popular opinion all support the national flag, and the Government has for the past 50 years carried out a consistent policy of development, sometimes by protecting coastwise shipping, sometimes by subsidies, sometimes by legislation such as the Shipping Routes

Control Law, enacted in 1936, which empowers the Government to set national before individual interests. (See paragraph 305 and Appendix X.)

366. The nations of the British Empire, on the other hand, have no definite shipping policy in the Far East; they have, in this regard, no unity of purpose such as that which inspires the Japanese nation; nor any organisation to initiate a common policy, and none to carry one out. Empire shipping problems are handled by a number of separate departments and it is, therefore, difficult to secure rapid or concerted action when such action is desired. The nearest approach to a common organisation to co-ordinate shipping policy is the Imperial Conference, which meets at considerable intervals and invariably places on record the sense of the importance which the Empire Governments attach to the British mercantile marine. But in practice the real community of interest which unites the different members of the British Commonwealth in their desire for a strong mercantile marine is obscured by local interests.

367. What can be done by a country where all interests are united under a definite Government lead is shown by the successful resistance of the Netherlands East Indies to the determined attempts by powerful Japanese shipping interests to obtain a preponderant influence in the Java-Japan carrying trade. (See paragraphs 295 to 306.)

368. The situation of the British Commonwealth, ruled by a group of Governments, is of course different from that of the Netherlands East Indies, which are controlled by a single Government. If the shipping of the British Commonwealth is to hold its own in competition with the Japanese, it may be necessary to develop some new form of organisation, appointed by the Governments concerned and specially charged to watch over British shipping in Middle and Far Eastern waters. We have not thought it to be within our terms of reference to make any specific recommendations as to the form that such an organisation might take, but, having regard to the rapidity with which developments are taking place in that part of the world, we feel that the problem thus presented is urgent and of sufficient importance to merit early and serious consideration by the Governments of the Empire.

39. POSTSCRIPT.

369. When we began this investigation in the spring of last year, hostilities had not yet broken out between Japan and China. In the early stages of the conflict Japanese commerce and shipping were to some extent dislocated for the transport of the Japanese Army, but, except at Shanghai and in the North, neutral shipping was not much impeded. The year 1937 was on the whole a prosperous year for British shipping in the Far East. In the latter half of 1938, however, the situation

has deteriorated, and by the Japanese occupation of the Yangtse River and of the main ports from Tientsin to Canton, the export trade of China has been substantially reduced.

370. No one can yet say what will be the position when peace returns. Only one thing seems reasonably probable. Chinese competition was perceptibly strengthening before the conflict, and was already backed by a growing national spirit. It would appear wise to anticipate and prepare for the impact of new forces in the balance of Oriental trade in the future. Whether that impact will be felt only after a lag due to exhaustion, and whether it will come as a great reinforcement of Japanese competition or in the form of a new development of Chinese shipping cannot be foreseen. The position of British shipping in the Far East is none too strong to meet such developments, and every effort should be made to strengthen it in advance. It is important to remember that the timely seizure of opportunities is essential to the success of any shipping policy.

371. We desire to place on record our sense of the industry, courtesy and ability with which we have been assisted in this Inquiry and in the preparation of this Report by our Secretary, Mr. Douglas Carter.

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 S. M. LANIGAN-O'KEEFFE, Southern Rhodesia.
 HENRY MOORE, Colonies and Protectorates.
 W. L. HICHENS, Shipbuilder.
 KENNETH LEE, Manufacturer.
 D. T. LEWIS, Merchant.
 ROBERTSON F. GIBB, Shipowner.
 T. HARRISON HUGHES, Shipowner.
 F. C. SHELMEKDINE, Civil Aviation.

D. CARTER,
Secretary.

London, 9th December, 1938.

NOTES.

(1) Mr. E. K. Scallan, the representative of the Government of the Union of South Africa, having been appointed Consul-General at Lourenço Marques, was not present during the discussion of the Conclusions (Part III) of this Report, or at signature. Mr. Scallan has resigned his seat on the Committee, and his successor has not yet been appointed. The signature of Mr. te Water, the High Commissioner for the Union of South Africa, must be taken as assent only to the factual and substantive matter of the Report.

(2) The representative of the Government of Eire has not signed this Report because he was not able to take any part in the Inquiry.

APPENDIX I.

COPY OF PRESS NOTICE DISTRIBUTED IN BRITISH COUNTRIES.

The Imperial Shipping Committee has commenced an Inquiry into the position of British shipping in Middle and Far Eastern waters, having regard to the changing conditions of sea-borne trade in those waters, and particularly to the increased competition of foreign flags.

Communications in connection with the Inquiry should be addressed to the Secretary of the Imperial Shipping Committee, Mr. Douglas Carter, New Public Offices, Great George Street, London, S.W.1.

March, 1937.

APPENDIX II.

NAMES OF WITNESSES FROM WHOM THE IMPERIAL SHIPPING COMMITTEE HAVE TAKEN ORAL EVIDENCE IN THIS INQUIRY.

Professor G. C. Allen	...	...	University of Liverpool.
Mr. D. G. M. Bernard	...	...	Director of Matheson & Company.
Mr. A. O. Brown	...	...	Partner in Mackinnon, Mackenzie & Co. (Calcutta).
Mr. H. M. Cleminson	...	...	General Manager, Chamber of Shipping of the United Kingdom.
Mr. David S. Erulkar	...	...	Managing Director, Scindia S.N. Co.
Mr. W. A. Fell	...	...	Director of Harper, Gilfillan & Co., and member of the Executive Council of the Straits Settlements.
Mr. W. L. Foggitt	...	...	Senior Assistant, Mackinnon, Mackenzie & Co. (Japan), Ltd.
Mr. R. Graham	...	...	Secretary, British India S.N. Co.
Mr. Walchand Hirachand	...	...	Chairman of the Scindia S.N. Co., representing the Federation of Indian Chambers of Commerce.
Mr. R. V. Harris	...	...	P. & O. S.N. Co.'s agent at Singapore.
Mr. Martin Hill	...	...	Joint Secretary, Liverpool Steam Ship Owners' Association.
Dr. L. Isserlis	...	...	Statistician, Chamber of Shipping of the United Kingdom.
Mr. W. Keay	...	...	Partner in Mackinnon, Mackenzie & Co. (Bombay).
Mr. A. O. Lang	...	...	A Managing Director of the P. & O. S.N. Co.
Mr. W. MacGillivray	...	...	Managing Director of the Prince Line.
Sir John Niven	...	...	Partner in Andrew Weir & Co., Managing Owners of the Bank Line.
Mr. R. E. N. Padfield	...	...	Joint Manager, London Office, Hong Kong and Shanghai Banking Corporation.
Mr. F. A. Pollock	...	...	Director, Jardine, Matheson & Co.
Mr. G. W. Robins	...	...	Chairman of the Liverpool Steam Ship Owners' Association.
Mr. H. C. Street	...	...	Representing the Council of the Rubber Growers' Association.
Mr. G. W. Swire	...	...	Managing Director, Messrs. John Swire & Sons, Ltd.
Mr. H. V. Wilkinson	...	...	Partner in Mackinnon, Mackenzie & Co. (China), Ltd.
Mr. C. E. Wurtzburg	...	...	Managing Director, Glen Line, Ltd.

APPENDIX III.

THE CARD INDEX.

The Imperial Shipping Committee have caused a Card Index to be prepared of the voyages of vessels of 3,000 tons gross and over covering the period October, 1934, to March, 1937. By far the greater part of the world's ocean-borne trade is carried in such vessels. The Card Index does not include the voyages of tankers or of vessels wholly engaged in coasting trades or short sea trades such as the Mediterranean or Baltic, nor does it include ships continuously laid up. The information has been mainly derived from successive issues of Lloyd's Shipping Index, supplemented, in the case of United Kingdom tramps, by particulars of cargoes carried, obtained from applications made to the Tramp Shipping Subsidy Committee in 1935 and 1936.

In order to test the completeness of the Card Index a comparison has been made (1) with Lloyd's Register of Shipping giving the total number of vessels in existence (or nearing completion) on the 30th June, 1936, and (2) with the total number of vessels of 3,000 tons gross and over reported in Lloyd's Shipping Index on the same date. The figures are as follows:—

	<i>Vessels.</i>
Lloyd's Register of Shipping	7,576
Lloyd's Shipping Index	6,641
Card Index of Voyages	4,627

The differences between these figures have been carefully examined in consultation with Lloyd's Register and are accounted for as follows. The 935 vessels included in Lloyd's Register but not in Lloyd's Shipping Index, were either engaged in the coasting trade of the United States, or in the trade between Japan and China, or were building or launched but not yet completed, or had been laid up for a term of years. The 2,014 included in Lloyd's Shipping Index but not in the Imperial Shipping Committee's Card Index of Voyages were either tankers, or engaged in coasting trades other than the American, or in short sea trades other than that between China and Japan, or had been laid up for shorter terms.

The following table gives an analysis according to flag of the 4,627 ships, liners and tramps, included in the Card Index of voyages, and also enumerates the liners normally trading within or to and from the Orient in 1936:—

Flag.	Total number of vessels in Card Index (Liners and Tramps).	Of which, <i>liners</i> normally trading in Orient.
British	1,777	387
United States	578	58
German	324	80
Japanese	273	233
Norwegian	263	25
Italian	261	32
Netherland	214	97
French	206	27
Others	731	45
Total	4,627	984

APPENDIX IV.

SOURCES OF INFORMATION.

§ 16. There are no data to show the proportions of all the trades to and from countries in the Orient carried under the British and other flags. In the case of each country there are figures of entrances and clearances of shipping tonnage; but since vessels often call at a port without loading or discharging much cargo, or embarking or disembarking many passengers, it cannot be assumed that the proportion of entrances and clearances under a particular flag necessarily corresponds to the proportion of traffic carried under that flag. There is, however, some information as to carryings of a particular trade or a particular group of trades in the Orient under the various flags:—

(1) Japan publishes figures showing the proportions of Japanese trade, measured by value, carried under the various flags.

(2) In the case of the United Kingdom, since 1935, and of the United States, before 1932, there are figures showing the values of particular trades carried under the various flags to and from the United Kingdom and the United States respectively. Data similar to the foregoing, except that they are based on volume and not on value, are available in Italian, Greek, Danish and Egyptian official statistics for the trades based on those countries. In the case of the Philippines, there are figures for a considerable number of years showing both the volume and value of particular trades carried under the various flags to and from that country.

(3) There are figures of tonnage of shipping and of the traffic through the Suez and Panama Canals, distinguishing the various flags.

(4) The foregoing information has been supplemented by information supplied by shipowners and by our Card Index of Voyages.

In the case of the United Kingdom, we have figures supplied to us by the Chamber of Shipping of the United Kingdom of the gross earnings of British shipowners in particular trades in 1936; and in the case of Japan, there are figures published by the Japanese Government of the gross earnings of Japanese shipowners, distinguishing earnings in "direct" trade to and from Japan and earnings in "indirect" trade between other than Japanese ports.

§ 19. The division of traffic through Suez and Panama into "Oriental" and "Non-Oriental" is based on tonnage of shipping. It was calculated, in the case of Suez, from figures compiled from the Returns of Shipping, Cargo and Passenger Traffic in the Ports of Egypt and Suez Canal Transits, issued by the Statistical Department of the Ministry of Finance of the Kingdom of Egypt; and in the case of Panama, from figures compiled from successive issues of the "Panama Canal Record".

§§ 32-3. Almost the whole of the transoceanic trade of the world is carried in vessels of over 3,000 tons gross. The figures have been compiled from Lloyds' Confidential Index.

§§ 38-44. These figures are compiled from the Returns of Shipping, Cargo and Passenger Traffic in the Ports of Egypt and Suez Canal Transits (see § 19 above). It has been ascertained that the movements of cargo and passengers shown in these Returns as originating in or bound for different countries are based on the country in which the ship began its outward or homeward voyage, and not on the countries of origin and destination of the cargo or passengers carried. Thus, labourers carried in an Italian vessel from Italy to Massawa would be shown as bound for China if the Italian vessel proceeded to a Chinese port as its last port of call on the outward voyage. For this reason, the figures given must be taken as being only approximately accurate.

§ 45. Statements based on our card index of voyages.

§ 47. Statistics compiled from the Accounts relating to the Sea-borne Trade and Navigation of British India, issued by the Department of Commercial Intelligence and Statistics, India.

Since there is a larger amount of cargo for export from the East coast of India than from the West coast, there is a considerable transfer of ships which have unloaded on the West coast round to the East coast for loading, but in such cases only the first entrance and the last clearance have been shown in the Indian statistics. The local traffic between India and Ceylon is also distinguished in the returns, and since the separation of Burma from India only took effect in 1937, the considerable traffic between those two countries is not included in the statistics relating to Indian foreign-going trade in 1936.

§ 49. Figures compiled from "Overseas Trade of the United Kingdom, 1936: Nationality of Carrying Vessels", H.M. Stationery Office, 1937, and from the corresponding publication dated 1938.

§ 57. Based on information supplied by the Burma Chamber of Commerce.

§ 58. The official statistics of British India include under the heading of Coasting Trade the entrances and clearances of foreign-going ships which call at more than one Indian port to discharge or take on cargo and/or passengers of foreign origin or destination, irrespective of whether they also load cargo or embark passengers at one Indian port for another Indian port. There are no published statistics to show the nationalities of vessels carrying coasting trade proper—in other words, cargo or passengers between Indian ports only.

§ 71. Figures compiled from "Overseas Trade of the United Kingdom, 1936: Nationality of Carrying Vessels", H.M. Stationery Office, 1937, and from the corresponding publication dated 1938.

§ 75. The speeds of the vessels are as indicated in Lloyd's Register of Shipping, 1938-9, Vol. III, where it is stated:—"The speeds recorded are given on the authority of the Owners as being the speeds which the Steamers and Motor-ships are capable of maintaining at sea in ordinary weather and under ordinary conditions of loading. The Society of Lloyd's Register of Shipping is not responsible for the accuracy of the information so furnished."

§§ 76 and 78. Statistics compiled from the Straits Settlements Blue Books for 1929 and 1936.

§ 91. Statistics compiled from Annual Reports of the Insular Collector of Customs to the Honourable Secretary of Finance, issued by the Commonwealth of the Philippines Department of Finance, Bureau of Customs, Manila.

§ 95. Figures compiled from the "Trade of China", Vol. 1, published by the Maritime Customs of China.

§§ 100-106. Based on information supplied to the Imperial Shipping Committee by Messrs. John Swire & Sons.

§ 112. The figures of Japanese vessels have been compiled from the statistical tables of Lloyd's Register of Shipping, and the figures of value and volume of Japanese trade from "The Foreign Trade of Japan", published by the Japanese Government.

§ 113. This paragraph is based on the result of enquiries which were made of Lloyd's and the Chamber of Shipping.

§ 121. The information in this paragraph was obtained from various sources, but mainly from oral and written evidence from British ship-owners and merchants.

§ 126. Statistics compiled from "Foreign Commerce and Navigation of the United States" for the calendar years 1929, 1931 and 1936, published by the United States Department of Commerce: Bureau of Foreign and Domestic Commerce.

§§ 138-149. These paragraphs are mainly based on our card index and on the answers to a questionnaire which we addressed to the Chamber of Shipping of the United Kingdom.

§§ 150-151. Information supplied by the Chamber of Shipping of the United Kingdom.

§§ 158-160. Information supplied to the Imperial Shipping Committee by the United Kingdom Post Office.

§§ 161-198. The paragraphs on subsidies are mainly based on information, marshalled from various sources, compiled by Overseas Officers of the Department of Overseas Trade. For obvious reasons, the completeness and accuracy of the information cannot be guaranteed. Moreover, subsidies are not usually given in respect of shipping services to and from Oriental ports only, and it is therefore often difficult, if not impossible, to determine the subsidies which are ultimately spent on such services.

Published Authorities which have been consulted include "Shipping and Shipbuilding Subsidies" by Jesse E. Saugstad—a publication issued by the United States Department of Commerce; and "Subsidies to Shipping and Shipbuilding in the Post-War Years 1919-1930" by Ernst Walther Schiedewitz, Hamburg, 1931.

In certain cases, also, it has been possible to obtain copies of relevant laws or decrees.

§§ 224-232. These paragraphs are mainly based on a memorandum prepared for the Imperial Shipping Committee by Professor G. C. Allen, of the University of Liverpool. The information in this memorandum was obtained from various sources; from conversations with business men (Japanese and foreigners) in Japan, from officials of the Mitsui, Mitsubishi and Sumitomo groups who made some specific inquiries at Professor Allen's request in 1936, from M. Susuki's study entitled *Nihon Zaibatsu Ron* (An Essay on the Japanese *Zaibatsu*) and other books and articles (in Japanese) on this question, and from articles in the *Mitsubishi Monthly Circular* and the *Oriental Economist*.

§§ 250-294. Mainly based on evidence supplied to the Imperial Shipping Committee by the British Shipowners concerned.

§§ 295-306. Mainly based on information supplied to the Imperial Shipping Committee by the Department of Overseas Trade.

APPENDIX V.

SUEZ CANAL.

*Commercial Traffic according to Nationality of Vessel, 1909-13, 1929, 1936, and January to June, 1938.
(In thousands of tons net—Canal measurement.)*

Nationality.	Average, 1909-1913.		1929.		1936.		1938 (January-June).	
	Tons.	Per cent.	Tons.	Per cent.	Tons.	Per cent.	Tons.	Per cent.
British	11,141	62.5	18,493	56.9	14,657	49.0	8,548	49.8
Italian	226	1.3	1,517	4.7	4,474	15.0	2,352	13.7
German	2,788	15.6	3,453	10.6	2,880	9.6	1,577	9.2
Netherland	1,026	5.7	3,543	10.9	2,255	7.5	1,488	8.7
French	831	4.7	2,141	6.6	1,615	5.4	867	5.0
Norwegian	74	.4	702	2.2	1,275	4.2	685	4.0
Greek*	—	—	—	—	—	—	407	2.4
Japanese	343	2.0	952	2.9	835	2.8	385	2.2
Danish	124	.7	404	1.1	422	1.4	247	1.4
U.S.A.	3	—	513	1.5	484	1.6	221	1.3
Swedish	103	.6	368	1.1	279	.9	171	1.0
Others	1,149	6.5	528	1.5	693	2.6	222	1.3
Total	17,808	100.0	32,514	100.0	29,869	100.0	17,170	100.0

Note.—The above figures, which have been taken from the Suez Canal Company's "Bulletin Decadaire," are not strictly comparable. For the years prior to 1935, the figures relate to merchant vessels and mail vessels (including those in ballast) but exclude Government owned and Government Chartered vessels; for the year 1936 the figures exclude only warships and military transports; for 1938 the figures include commercial vessels, mail and other (including those in ballast) and warships and military transports.

* Prior to 1938, figures for Greek tonnage were included with "Others."

APPENDIX VI.

CAPE OF GOOD HOPE. COMMERCIAL TRAFFIC WITH THE ORIENT ACCORDING
TO NATIONALITY OF VESSEL IN 1936.
(In thousands of tons net.)

Nationality.	Tons.	Per cent.
British	1,008	44
Japanese	383	17
Netherlands	359	16
Greek	184	8
German	128	6
Norwegian	100	4
American	53	2
Danish	47	2
Others	15	1
Total	2,277	100

Note.—The above figures have been compiled from the Card Index prepared by the staff of the Imperial Shipping Committee (see Appendix III.) They do not include warships, military transports, tankers and vessels bound for other than Oriental ports. They are, therefore, not comparable with the figures given for Suez Canal traffic in Appendix V.

APPENDIX VII.

SHIPPING CONFERENCES.

The following table, based on material submitted to the Imperial Shipping Committee through the Chamber of Shipping of the United Kingdom, gives the names and members of the Conferences covering the cargo and passenger trades between the United Kingdom/Continent and the Orient. The Conferences are usually known by their terminal ports, but they deal in most cases with rates of freight at a number of intermediate ports.

<i>Conference.</i>	<i>Membership.</i>
INDIA.	
A. Between India and U.K.	
U.K./Calcutta Conference.	P. & O. B.I. Clan. Ellerman's City. T. & J. Harrison. T. & J. Brocklebank.
Glasgow/Calcutta (part of U.K./ Calcutta Conference).	T. & J. Brocklebank. Ellerman's City. Clan.
Calcutta/U.K. Conference.	P. & O. B.I. T. & J. Brocklebank. Ellerman's City. T. & J. Harrison. Clan.

<i>Conference.</i>	<i>Membership.</i>
U.K./Bombay Conference* (Bombay Outward Freight Conference).	Ellerman's Hall. Ellerman's City. Clan. Anchor. P. & O. B.I.
U.K./Karachi Conference.	Ellerman's City. Ellerman's Hall. P. & O. B.I.
U.K./Madras Conference.	P. & O. B.I. Clan.
Madras/U.K. Conference.	P. & O. B.I. Ellerman's City and Hall. Clan.
 <i>B. Between India and Continent.</i>	
Calcutta/Continent Conference.	P. & O. B.I. T. & J. Brocklebank. Hansa (German). Holland/B.I. (Neths.). Wilhelmsen (Norw.). Swedish East Asiatic (Swed.).
Continent, Bombay and Karachi Conference.	P. & O. B.I. Ellerman's Wilson (Dunkirk only). Hansa (German). Holland/British India (Neth.). Wilhelmsen (Norw.). Swedish East Asiatic (Swed.).
Cont./Colombo and Madras and Calcutta Conference.	P. & O. B.I. T. & J. Brocklebank. Hansa (German). Holland/B.I. (Neth.). Wilhelmsen (Norw.). Swedish East Asiatic (Swed.).
 <i>CEYLON.</i>	
<i>A. Between Ceylon and U.K.</i>	
U.K./Colombo Conference.	P. & O. B.I. T. & J. Brocklebank (Well Line). Bibby. Clan.
Colombo/Homewards Conference.	Aberdeen & Commonwealth. Ben (Wm. Thomson & Co.). Bibby. B.I.

* In the trade from Bombay to the U.K./Continent there is no Conference, but there is a system of co-operation by means of Agency Meetings in Bombay.

Conference.

Colombo/Homewards Conference—
(*cont.*)

B. Between Ceylon and Continent.
Colombo/Continental Conference.

Membership.

T. & J. Brocklebank.
City.
Clan.
Glen (Glen & Shire Joint Services).
Hall.
T. & J. Harrison.
Alfred Holt.
Orient.
P. & O.
Blue Star.
Nippon Yusen Kaisha (Jap.).
Messageries Maritimes (French).
Osaka Shosen Kaisha (Jap.).

Aberdeen & Commonwealth.
Bibby.
Blue Star.
B.I.
T. & J. Brocklebank.
Alfred Holt.
City.
Ellerman & Bucknell.
Glen (Glen & Shire Joint Services).
Hall.
T. & J. Harrison.
Orient.
P. & O.
Clan.
Messageries Maritimes (French).
Chargeurs Reunis (French).
Compania Trasatlantica (Sp.).
North German Lloyd (German).
Deutsch-Australische Dampschiffs
Gesellschaft (German).
Hansa (German).
Dollar Line (U.S.).
Det Ostasiatiske Kompagnie
(Danish).
Hamburg Amerika Linie
(German).
Holland British Indie Lijn
(Neth.).
Holland Australie Lijn (Neth.).
H.O.A.L. (Neth.).
Rotterdamsche Lloyd N.V.
(Neth.).
Stoomvaart Maatschappij (Neth.)
"Nederland" N.V.
Lloyd Triestino (Italian).
Nippon Yusen Kaisha (Jap.).
Osaka Shosen Kaisha (Jap.).
Svenska Ostasiatiska.
Kompaniet (Swed.).
Wilhelmsen (Norw.).

Conference.

BURMA.

*Between Burma and U.K./
Continent.*

Rangoon Conference.

FAR EAST.

*A. Between U.K. and Far East.
U.K./Straits, China and Japan.**B. Between Continent and Far
East.*Outward Continental/Far East
Conference.Homeward Japan, China and
Straits Conference.*Membership.*P. Henderson.
Bibby.
B.I.
Hall.P. & O.
Alfred Holt.
N.Y.K.
Ben (Wm. Thomson & Co.).
Glen & Shire Lines.
Ellerman.
Blue Star.
M.M. (French).
E.A. Co. (Danish).
Compania Trasatlantica (Spain).P. & O.
Alfred Holt.
Glen & Shire.
Ben.
Ellerman.
Blue Star.
M.M. (French).
N.D.L. (German).
H.A.L. (German).
E.A. Co. (Danish).
S.E.A. Co. (Swedish).
Wilhelmsen (Norw.).
O.S.K. (Jap.).
N.Y.K. (Jap.).
H.O.A.L. (Neth.).
*S.M.N. & R.L. (Neth.).
Rickmers Line (German).P. & O.
Alfred Holt.
Glen & Shire Lines.
Ben.
Ellerman.
M.M. & C.R. (French).
N.Y.K. (Jap.).
O.S.K. (Jap.).
H.A.L. (German).
N.D.L. (German).
H.O.A.L. (Neth.).
E.A. Co. (Danish).
S.E.A. Co. (Swedish).
Wilhelmsen (Norw.).
Lloyd Triestino (Italian).
Dollar Line (U.S.).
Compania Trasatlantica (Spanish).
S.M.N. & R.L. (Neth.) (from
Straits Settlements only).

* Holland to Malay Peninsula only. (Separate agreement with German Lines operative from April, 1936.)

<i>Conference.</i>	<i>Membership.</i>
Outward Europe/Philippines Conference.	P. & O. Alfred Holt. Glen & Shire Lines. Ben Line. Ellerman. M.M. & C.R. (French). N.Y.K. (Jap.). O.S.K. (Jap.). H.A.L. (German). N.D.L. (German). H.O.A.L. (Neth.). E.A. Co. (Danish). S.E.A. Co. (Swedish). Wilhelmsen (Norw.). Compania Trasatlantica (Spanish).
Homeward Philippines/Europe Conference.	P. & O. Alfred Holt. Glen & Shire Lines. Ben. Ellerman. Prince Line (to Naples only). Silver Line (to Naples only). M.M. (French). N.Y.K. (Jap.). O.S.K. (Jap.). H.A.L. (German). N.D.L. (German). H.O.A.L. (Neth.). E.A. Co. (Danish). S.E.A. Co. (Swedish). Wilhelmsen (Norw.). Lloyd Triestino (to all ports in Italy and Mediterranean ports East thereof only). (Italian). Dollar Line (to Naples, Genoa and Marseilles and Spanish ports with transhipment at Genoa and Marseilles only). (U.S.). Compania Trasatlantica (to Spanish ports only). (Spanish).
Batavia Vrachten Conferente. (Batavia Freight Conference.)	N.V. Stoomvaart-Maatschappij (Neth.). Rotterdamsche Lloyd (Neth.). Nederlandsche Stoomvaart-Maatschappij "Oceaan" N.V. (Neth.). Nippon Yusen Kaisha (Jap.). Osaka Shosen Kaisha (Jap.). Lloyd Triestino (Italian). Deutsch-Australische Dampfschiffs Gesellschaft (German).
Deli Freight Conference.	Alfred Holt. P. & O. S.M.N. (Neth.). R.L. (Neth.). K.P.M. (Neth.). N.D.L. (German). Lloyd Triestino (Italian) (Adriatic and Levant ports only).

Conference.

Far Eastern Passenger Conference.

Membership.

P. & O.
 British India.
 Messageries Maritimes (French).
 Chargeurs-Reunis (French).
 Dollar Line (U.S.).
 Hamburg-America (German).
 Norddeutscher Lloyd (German).
 Lloyd-Triestino (Italian).
 N.Y.K. (Jap.).
 Rotterdam Lloyd (Neth.).
 Nederland Line (Neth.).

APPENDIX VIII.

MONTHLY CREW AND VICTUALLING EXPENSES ON BRITISH AND JAPANESE CARGO LINERS IN 1936.

1. *British Cargo Liner.*

(Information supplied by the British India Company.)

(Middle Seniority Rates.)

	Rs.	<i>Sterling at 1s. 6d.</i>	
		£	s. d.
Master	900	67	10 0
Chief Officer	425	31	17 6
2nd „	305	22	17 6
3rd „	255	19	2 6
4th „	200	15	0 0
Chief Engineer	680	51	0 0
2nd „	425	31	17 6
3rd „	305	22	17 6
4th „	255	19	2 6
Junior „	200	15	0 0
	Rs. 3,950	£296	5 0
Wireless Operator		10	15 0
Clerk	250	18	15 0
Carpenter	120	9	0 0
		£334	15 0
<i>Deck Crew.</i>			
1 Serang	60		
1 Tindal	37		
1 Cassab	30		
1 Winchman	28		
4 Seacunnies, Rs. 55 each	220		
14 Lascars, Rs. 24 each	336		
1 Bhandary	25		
2 Topasses, Rs. 22 each	44		
1 Barber	—		
26	Rs. 780	£58	10 0

		Rs.	Sterling at rs. 6d.	
			£	s. d.
<i>Engine Crew.</i>				
1	Serang	60		
2	Tindals, Rs. 32½ each	65		
1	Cassab	28		
1	Donkeyman	28		
1	Lampman... ..	26		
3	Oilmen, Rs. 26 each	78		
9	Firemen, Rs. 23 each	207		
9	Trimmers, Rs. 18 each	162		
1	Bhandary	25		
<hr/>				
28		Rs. 679	50	18 6
<hr/>				
<i>Saloon Crew.</i>				
1	Butler	80		
3	Cooks, Rs. 45 each	135		
1	Pantryman	37		
4	General Servants, Rs. 30 each	120		
1	Topass	22		
<hr/>				
10		394	29	11 0
<hr/>				
Total Wage Bill			£473	14 6
<hr/>				
<i>Messing.</i>				
11	at Rs. 82s. 8d.	907	8	0
2	at Rs. 45s. od.	90	0	0
64	at Rs. 12s. od.	768	0	0
<hr/>				
		Rs. 1,765	8	0
<hr/>				
Wages and Messing			£606	2 9
Plus Leave Pay of Officers and Engineers, one-sixth of £296 5s. od.			49	7 6
<hr/>				
Per Month			£655	10 3
<hr/>				
Per Year			£7,866	3 0
<hr/>				

2. Japanese Cargo Liner.

(1936 Scale, over 2 years' Service.)

Note.—Except in the case of 4th Officer, Junior Engineer, Clerk, Boatswain's Mate and Storekeeper, all rates of wages are from the Schedule of 1/8/1936 as published in the "Maritime Statistical Handbook" of the International Labour Office (League of Nations), 1936, but against sundry unspecified allowances and to give a reasonable liner standard all scheduled minimum rates have been increased by 25 per cent.

		Yen.	Plus 25 per cent.	Yen.	Sterling at rs. 2d.	
					£	s. d.
Master		225	56½	281	16	7 10
Chief Officer		145	36½	181	10	11 2
2nd "		100	25	125	7	5 10
3rd "		80	20	100	5	16 8
4th " (if carried)		60	15	75	4	7 6

	Yen.	Plus 25 per cent.	Yen.	Sterling at 1s. 2d.
Chief Engineer	225	56½	281	£ 16 7 10
2nd " "	145	36½	181	10 11 2
3rd " "	100	25	125	7 5 10
4th " "	80	20	100	5 16 8
Junior (if carried) ...	60	15	75	4 7 6
Wireless Operator ...	125	31½	156	9 2 0
Clerk	75	18¾	94	5 9 8
Carpenter	70	17½	87	5 1 6
	<hr/>		<hr/>	
	Y. 1,490		1,861	£108 11 2

Deck Crew.

Boatswain	75	75		
Boatswain's Mate ...	50	50		
4 Quartermasters,				
2 at	62			
2 at	57	238		
10 A.B.s, average rate	44	440		
2 O.S., average rate	30	60		
	<hr/>			
18	Yen 863			
	Plus 25 per cent.	216	1,079	62 18 10

Engine Crew.

Donkeyman	75	75		
3 Greasers,				
1 at	62			
2 at	57	176		
9 Firemen, average				
rate	44	406		
9 Trimmers	40	360		
1 Oilman	57	57		
1 Storekeeper	55	55		
	<hr/>			
24	Yen 1,129		1,411	82 6 2
	Plus 25 per cent.	282		

Saloon Crew.

Chief Steward	75	75		
3 Boys	44	132		
2 Cooks	62			
	and	57	119	
	<hr/>			
6	Yen 326			
	Plus 25 per cent.	81	407	23 14 10
				<hr/>
				£277 11 0

Messing.

11 at 22s. od. = Yen	242			
50 at 18s. od. = Yen	900			
	<hr/>			
61	1,142 at 1s. 2d.			66 12 4
	Per month			<hr/>
				344 3 4
	Per year			<hr/>
				£4,130 0 0

APPENDIX IX

EFFICIENCY OF MODERN CARGO VESSELS.

[*Note.*—This appendix was prepared for the Imperial Shipping Committee in January, 1938, by the Engineer-Surveyor-in-Chief of the Board of Trade of the United Kingdom and his staff. It incorporates material accumulated and analysed by the Board of Trade, and also the substance of memoranda prepared for the Committee, at the instance of Mr. Clement Jones, C.B., by Mr. Sanderson, head of the Construction Department of the Booth Line, and by Mr. MacMillan, Director of the Blythswood Ship-building Company, Limited, of Glasgow.]

1. Very considerable improvements have been effected in the last two decades in the design of hulls, machinery, cargo spaces and crew accommodation, and in the facilities for handling cargo. In pre-war days, when the price of bunker coal was low (10s. to 12s. per ton at colliery ports in the United Kingdom), shipowners were inclined to regard efficiency as of less importance than first cost, and accepted a bluff form of hull and the simplest form of machinery such as the steam reciprocating engine with coal-fired boilers; a margin of power was not usually provided, and the rated speed could only be maintained in service when the weather was favourable and the fuel efficient.

2. Pre-war conditions no longer hold to-day. The price of bunker coal has almost doubled in the United Kingdom and correspondingly higher prices prevail abroad.

Oil fuel has not varied so much in price. It can be obtained in the United Kingdom at 45s. per ton and at lower prices in the vicinity of the oil-producing districts, and the fact that it has 50 per cent. more energy available over a similar weight in coal makes possible its wider use for ships. In many cases oil fuel is used for firing boilers, and to a large extent Diesel engines for marine service have been adopted.

Older vessels built to meet earlier conditions are left at a serious disadvantage.

3. In the following paragraphs an attempt is made to assess the competitive advantages of vessels of modern construction of 5,000 to 6,000 tons gross, over similar size cargo vessels built about 1912 and 1924 respectively. These advantages are summarised in the following paragraphs, and a number of typical cases are given in Annex A for reference.

(i) A modern vessel has a greater earning power than a comparable pre-war vessel by virtue of greater deadweight cargo capacity, and in addition has lower operating costs in loading and discharging, and in reduced port charges. Where a shallower draft is adopted wider trading conditions are available.

These advantages have been achieved by:—

(a) Improved design of hull form for economy in power, with larger beam and if necessary reduced draught; larger hold spaces with wider hatches; and wider spacing of hold pillars to reduce obstruction of cargo stowage.

(b) Improved modern methods of construction including the adoption of welding, resulting in an appreciable reduction in scantlings and weight of hull structure; such gain results in an increase in the cargo deadweight rating.

(c) Improvements in machinery design resulting in decreased weight and space required for a given power particularly in the case of the Diesel engined vessel; additional gain as in (b).

(d) Less space required for fuel bunkers in view of more economical machinery; and in oil fired steamers and Diesel vessels, the use of double bottom tanks for the storage of oil fuel.

(e) Improved auxiliary machinery, more efficient steering gear and improved facilities for ease of stowage, and the quick handling of cargo and the provision of appliances for heavy lifts.

(ii) Present day practice is towards higher speeds. The average speed of a pre-war medium-sized cargo vessel was 8 to 9 knots; the average speed of a comparable modern vessel is 10 knots or more. The modern vessel can be designed to maintain her rated speed in service even under adverse weather conditions and with poor quality fuel. As an instance of such provision, a recently built vessel with modern equipment averages in the same service $1\frac{1}{2}$ knots more than similar vessels of earlier design. On a basis of only one knot faster, assuming 230 days per annum at sea (many merchant vessels in the Orient spend about one-third of their time in port), a modern vessel would travel 5,500 nautical miles further in a year than a pre-war vessel. The difference in earning-power is therefore considerable, particularly in times of prosperous trade. Where quick passages have to be made, the pre-war vessel is either unable to compete or can only make them at the cost of a high rate of fuel consumption.

(iii) The modern cargo vessel requires considerably less fuel than a comparable older vessel to perform a given voyage at the speed of the older vessel. A typical British cargo vessel of some 6,000 tons gross, built in 1912, consumes 42 tons of coal per day in maintaining a speed of $10\frac{1}{2}$ knots. Another vessel of approximately the same tonnage, built in 1924, requires 33 tons of coal a day to maintain the same speed. A comparable vessel built within the last two years requires about 22 tons of coal per day for this speed, i.e. about half the amount required by the vessel referred to built in 1912. Taking the best case of a pre-war vessel (on Welsh coal) the comparative consumptions would be $36\frac{1}{2}$ tons pre-war and 22 tons modern, or a reduction of about 40 per cent. in fuel.

Assuming these vessels were 230 days at sea in a year, the modern vessel would require about 5,100 tons of coal; the post-war vessel about 7,600 tons of coal; and the pre-war vessel from 8,400 to 9,600 tons. If the coal cost 25s. a ton, the annual fuel bill of the modern vessel would be £3,100 less than that of the post-war vessel, and £4,100 to £5,600 less than that of an old vessel. These comparative costs are obviously approximations, for coal obtained in various ports varies considerably both in cost and in quality.

Even when modern vessels maintain higher speeds to obtain a greater mileage over a given period of time, their fuel bill is not always greater than that of older vessels. As shown in Appendix B, the fuel bill of an efficient pre-war vessel maintaining 10 knots over 6,300 nautical miles was £200 (or 30 per cent.) greater than that of a typical modern vessel maintaining 11 knots over a similar distance.

(iv) Since 1924 there has been a large increase in the building of Diesel-engined vessels, and considerable improvements have been effected in the hull and machinery of such vessels. A Diesel vessel of about 5,000 tons gross, built in 1924, requires 10.4 tons of oil per day to maintain a speed of 10.2 knots, whereas two modern Diesel vessels require respectively 7 tons per day for 11 knots and 11 tons per day for 12 knots. The modern Diesel vessel, on account of smaller machinery space and the use of double bottom tanks for stowage of oil fuel, can carry considerably more cargo than a comparable pre-war steam vessel, and is better suited to maintain the rated speed at sea. Where good Diesel oil is available at reasonable rates, as in Burma and Java, the Diesel engined vessel may have an advantage over a modern steam driven vessel, and many British and foreign* owners

* 36 of the 48 vessels built under the three Japanese scrap-and-build schemes of 1932-7 are Diesel vessels.

have adopted Diesel vessels for certain Oriental trades. The modern steam vessel on the other hand, is better suited to certain trades in the Orient. The advantages in earning power of the modern Diesel or steamer over the pre-war steamer are referred to later.

(v) The modern vessel also embodies considerable improvements for the comfort of the officers and crew. Under recent regulations, seamen and firemen have to be accommodated in separate rooms for each watch. Sanitary arrangements have been improved and hot water is available in wash places. Such improvements must tend to bring more efficient men to modern ships, and make it difficult for owners, especially when trade is prosperous, to find suitable men for the pre-war type of vessel.

4. It is not easy to assess the advantages in the preceding paragraphs in terms of earning capacity for comparison of the modern and pre-war vessel, but a schedule* covering four kinds of vessel is shown in Annex B. The four kinds are (a) an efficient pre-war vessel, (b) a steamer built in the last few years, (c) a modern steamer embodying the latest practice, and (d) a modern Diesel-engined vessel.

5. It will be seen from this Annex that, on the basis there taken, the modern steamers of greater speed have 20 per cent. to 30 per cent. greater earning capacity than the pre-war vessel, while the Diesel-engined vessel has approximately 34 per cent. greater earning power than the old type of vessel. The advantages of the modern vessel over an average pre-war vessel are even greater.

6. No account is taken of costs of maintenance and repairs, which would be heavier for the old pre-war vessels, or of interest and redemption on capital cost which would somewhat offset the advantage of the Diesel vessel. The comparisons are also approximations for full cargo passages. With all reserve for these deficiencies, however, it is evident from the table that considerably greater earning power is available with a modern vessel.

7. On the whole the advantages of the modern vessel by virtue of the improvements referred to and the other reduced operation charges may be set down as of the order of £10,000 to £15,000 a year. The actual gain in any given trade would not be constant, but would vary with circumstances such as freight rates, cargo available, and passages in ballast.

8. In Oriental trades it is possible that a modern British vessel would possess advantages over an old foreign vessel which would more than counter-balance any advantages which any such foreign vessel might possess by way of lower operating costs arising from lower wage-rates or depreciated currency. It will, however, be manifest that as against the vessels of a foreign flag combining the advantages of modern construction and efficiency with those other advantages the British owner will find it difficult, at any rate in times of depression, to obtain freights for vessels other than those of recent construction.

* N.B.—The basis taken is *reasonably true for comparison* but is not intended as a measure of earning capacity over a period of say one year. Such a measure would be based on freight passage earnings less cost of passages in ballast.

ANNEX A.

Analysis of Coal-burning cargo vessel consumptions.

Age of Vessel.	Fuel Coefficient.	Reduction in Fuel Consumption.	Remarks.
Pre-war vessel ...	16,000	Per cent. —	Average
Post-war vessel...	18,500	13·5	Average
Modern vessel ...	26,000	38·5	Average
Modern vessel ...	32,000	50·0	Outstanding cases

Actual cases referred to a speed of 10½ knots.

Year of build.	Type of machinery.	Gross tonnage.	Length in feet.	Tons of coal per day.	
1912 ...	Reciprocating ...	6,368	410	42	} Average 22
1924 ...	Reciprocating ...	4,373	367	33	
Modern...	Turbine ...	5,267	410	23·7	
Modern...	Reciprocating with reheat ...	5,171	425	19·7	

Estimate of Earning Power of Cargo Vessels.

Basis. Passages of 6,300* nautical miles with full cargoes, for comparison only.

Vessel.	(a) Efficient pre-war (coal).	(b) Average modern (coal).	(c) Outstanding modern (coal).	(d) Modern Diesel (oil).
Gross tonnage	5,002	5,029	5,171	4,960
Length and Beam	400' by 51' 9"	412' 6" by 55' 9"	425' by 57' 6"	422' 9" by 54' 3"
Draught	24' 6 $\frac{1}{4}$ "	24' 0 $\frac{1}{2}$ "	24' 6"	25' 6"
Deadweight tonnage	8,400	8,714	9,250	9,200
Speed, knots... ..	10	11	10 $\frac{1}{2}$	10.22
Fuel consumption (tons per day)...	30.5	26	20	6.73
Passage, in days	26.2	24	25	25.6
Total deadweight, tons	8,400	8,714	9,250	9,200
Non-earning d.w., tons :—				
Crew, stores, fresh water, etc. ...	50 } 1,010	50 } 800	50 } 650	50 } 257
Bunkers for passage, plus 20 per cent.	960 }	750 }	600 }	207 }
Net cargo deadweight	7,390	7,914	8,600	8,943
Freight earned at 25s. od. per ton...	£9,237	£9,892	£10,750	£11,178
Deduct :—				
Fuel at 22s. 6d., coal; 45s. od., oil	£900 }	£703 }	£562 }	£387 (oil) }
Crew, wages, stores, etc. ...	£660 }	£660 }	£660 }	£660 }
Net earning for passage	£7,677	£8,530	£9,528	£10,131
Passages per year of 230 steaming days.	8.8	9.6	9.2	9
Potential earning power per annum	£67,557	£81,878	£87,657	£91,179
Percentage Increased Earning Capacity.	—	Per cent. 21	Per cent. 30	Per cent. 34
On a basis of 10 knots	—	Per cent. 15	Per cent. 25	Per cent. 32

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Note.—No allowance made for costs of maintenance and repairs (which would be heavier for the old vessel), or for interest and reduction of capital which would to a certain extent offset the advantage in case (d).

* A fair average voyage to or from the Orient (e.g., United Kingdom—Bombay).

APPENDIX X.

TRANSLATION OF JAPANESE SHIPPING ROUTES CONTROL LAW.
Law No. 35 of 29th May, 1936.
Enforced from 1st August, 1936.

Art. 1.—The word “shipping” as used in this Law shall be taken to mean the business of transporting in ships, as a common carrier, either goods or passengers.

Art. 2.—This Law shall apply to Japanese subjects and to Japanese juridical persons engaged in shipping in distant waters, local waters, or in such coastal districts as are designated by Imperial Ordinance.

Art. 3.—(1) The Government, having in mind the sound development of shipping, shall, when it is deemed necessary, issue advice relating to the prevention of excessive competition amongst shipping concerns.

(2) In cases where the advice mentioned in the previous clause proves inefficacious, the Government may, when it is deemed necessary, order the formation of a Conference for the operation of shipping routes, or may prohibit or control the operation of the routes.

(3) The prohibition or control of the operation of a shipping route shall only be put into effect where the formation of a Conference ordered under the previous clause has not been carried out; except in cases where circumstances render it essential.

Art. 4.—When the Government deems that the fares and freights charged, or other operating conditions are contrary to the public interest, it shall issue the necessary instructions with regard to the terms of operation.

Art. 5.—Shipping concerns shall report to the competent authority on all matters prescribed by ordinance.

Art. 6.—For the purpose of carrying out the functions prescribed in Articles 3 and 4 the competent authority may order to be made, an investigation of, or a report on, shipping concerns.

Art. 7.—In cases where a shipping firm is neither a Japanese subject nor a Japanese juridical person, but the whole or a part of the capital is owned by Japanese subjects or by Japanese juridical persons, this Law shall apply when it is so laid down by Imperial Ordinance.

Art. 8.—(1) Except in cases where special regulations are provided by Imperial Ordinance, when orders are to be issued under Article 3 clause (2) and under Article 4 the Committee for the Control of Shipping Routes shall be consulted.

(2) The necessary provisions relating to the Committee for the Control of Shipping Routes shall be laid down by Imperial Ordinance.

Art. 9.—Any contravention of an order relating to the control or the prohibition of the operation of shipping routes under the regulations of Article 3 clause (2) or of an order under the regulations of Article 4 shall be punishable by a fine not exceeding Yen 5,000.

Art. 10.—Any refusal, obstruction, or avoidance of the investigation mentioned in Article 6, or failure to supply the report mentioned in the Regulations of the same Article, or the publication of a false report, shall be punishable by a fine not exceeding Yen 300.

Art. 11.—The manager or other representative of a shipping concern, or the master of a ship or any other person employed, shall not, if he contravenes this Law or the orders based on it, escape punishment on the ground that he was not acting on his own initiative.

The fines applicable to shipping concerns specified in this Law and in the orders based on it, shall be applied in the case of legal persons, to directors, managers or other officers in charge of the business, or if these should be minors, or persons adjudged incompetent, to their legal representatives.

Art. 13.—(1) Contravention of Article 5 shall be punishable by a fine not exceeding Yen 500.

(2) The regulations of Articles 206-208 of the Procedure in Non-Contentious Cases Law shall be applied to any penalties levied under the previous clause.