KIDD ON
FOREIGN TRADE

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EDIT·2d ed

SECOND EDITION

NEW YORK

PRENTICE-HALL, INC.

1921

Published December 1, 1920
Second Edition, April, 1921

PREFACE

This volume appears at a time when the American business man is compelled to think in terms of world interests.

The smoke of the battlefields of Europe has not entirely lifted so that we are unable to make out clearly the form of the political and industrial organizations which are to be. The world is still dazed by the sweep of events since 1914. As Mr. H. G. Wells describes it, the state of public mind is that of "a man who has had some vital surgical operation very roughly performed. and who is not sure whether he can now go on living or whether he has not been so profoundly shocked and injured that he will presently fall down and die."

In this condition of exhaustion the future in many lands is menacing and uncertain because there has been a breakdown in the ordinary processes of the production and exchange of wealth. And from this breakdown, vast changes in the very structure of society itself may result.

But whatever changes may come, thoughtful men the world over are agreed on one thing, namely, that the rôle of the United States in international affairs is bound to be very important in shaping the future course of events.

This new importance of America in world affairs is primarily due to her economic power as compared with the European collapse which has followed hard on the heels of war.

When we speak of economic power we are not thinking of a vague abstraction. We are thinking of a very real fact—the fact that the United States stands today as the most powerful solvent trader in the markets of the world. Of all peoples we have the most goods to sell and the most gold with which to buy.

Self-interest dictates that we should make the most of our new opportunities in world commerce. And a broader interest demands that we use our economic mastery to help in restoring stability and in quickening the processes of reconstruction abroad. The solution of many acute problems in this and other lands hinges on our ability to maintain and develop still further our imports and exports, which now total over thirteen billions of dollars.

Our subject of foreign trade is naturally a matter of keen interest to American manufacturers, farmers and bankers who are directly concerned in importing and exporting goods or capital. And it is also vitally interesting to that group of men and women who wish to understand the trend of the times and the position of the United States among the nations of the world.

This volume is intended to be a general outline of our foreign trade problems at the present time. No attempt is made to more than sketch the outstanding phases and organize the material of this rather unwieldy subject. The general and technical discussion which is presented should serve as the groundwork for further study and research.

HOWARD C. KIDD.

1921

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FOREIGN TRADE

CHAPTER I.

INTRODUCTION

Foreign trade and domestic trade are fundamentally alike. In both there is an exchange of values. In the case of foreign trade, however, this matter of exchange usually becomes a much more complicated process than is true of commerce carried on within our own boundary lines. There are more complex problems of competition, transportation, banking, credit, language, commercial law, adjustment to special market demands, national and racial prejudices, etc., which justify a specialized study of foreign trade.

Broad scope of the subject.—In entering the field of foreign commerce, the student is at once impressed with its practically limitless extent. It sweeps a very broad horizon of time and space. From the standpoint of time, the history of international commerce leads us into the remote past, to the very beginnings of commercial relations between tribes. From this early period, to the rise and development of the foreign commerce of the United States, England, Germany, France, and Japan, many dramatic changes have altered the currents of trade in the swiftly moving stream of time. A study of the facts and causes of these mighty changes not only opens up an interesting phase of economic history, but also gives a valuable background to the student of the present situation of world trade.

From the standpoint of geographic scope, the student of foreign trade is bewildered with the fact that he is attempting to analyze vast forces which are not local, but international and world wide. While it must be said that a study of such proportions at once challenges interest, at the same time it suggests the difficulties which we shall encounter.

It is very obvious from this brief statement of the wide dimensions of foreign trade as a field of study that anything like complete analysis is not attempted in a work of this kind. Only certain of the outstanding phases of the export trade problems of the United States at the present time are outlined in this volume.

Allied subjects.—At the outset, it may be advisable to call attention to those allied fields of study which should constitute a background to any thorough understanding of our foreign trade problems. Such courses as are offered in the various schools of commerce and business administration are essential to any scientific business training, whether for foreign or domestic trade. In these courses special emphasis should be laid on modern foreign languages, statistics, accounting, commercial law, commercial geography, international law, transportation, insurance, money and banking, foreign exchange, foreign banking systems, credits and collections, commercial history, advertising, and salesmanship.

In addition to these courses which constitute the curriculum of our schools of commerce, training in technical subjects is desirable, because there is an increasing demand for men who have an understanding of the processes of production as carried on in shop, factory, and laboratory. Our growing sales of machinery abroad require men with this combination of technical and commercial education.

Reasons for interest in foreign trade.—Interest in the whole field of foreign trade has been stimulated in the United States, especially since 1900, as a result of a number of developments in our economic life. A few of these developments are here suggested.

1. **Industrial development.**—The trend toward big business was speeded up in the period immediately following the Spanish-American War. Although it would be a mistake to say that foreign trade is a field reserved for big business, yet it is here that large business units have the advantage over small firms. The success of our exporters of steel, glass, heavy machinery, office specialties, typewriters, cash registers, automobiles, shoes, harvesting machinery, electrical products, hardware, cameras, etc., is very largely the result of the efficiency of large scale production and marketing. Much of our foreign business by its very nature must be undertaken by what is generally termed "big business," or it would not be undertaken at all. Large investments often have to be made in foreign enterprises, on which a return can not be expected for many years. Transportation facilities, such as specialized ships, local railroads, or docks may have to be constructed, involving vast financial outlays. Direct selling organizations and elaborate selling policies, which would be out of the question for small corporations, may be undertaken by big business with the same success in foreign markets as in this country. This being so, the coming of the trust and combination era was bound, both to hasten our industrial development and stimulate the foreign trade activities of the

United States. (Chester Lloyd Jones, *Caribbean Interests of the United States,* Chapter XVIII.)

By way of digression, it may be noticed that as a result of our development as an industrial nation, the character of our exports has changed to a marked degree within the past few decades.

Manufactured goods for export.—Until 1880, raw materials, mostly corn, wheat and cotton, comprised the bulk of our exports. Since 1880, there has been an increase in the volume of manufactured goods for export, as the following shows:

	1880	1890	1910	1913	1918
Crude Material and Food..	85%	64%	55%	51%	42%
Manufactured Products...	15%	36%	45%	49%	58%

(*Statistical Abstract of the United States,* 1918.)

This trend in our exports to include an increasingly large volume of manufactured goods can be illustrated not only by the general statistics of commerce, but by the trade in particular commodities. In 1893, the value of our exports of iron and steel and their manufactures amounted to about 30 millions of dollars; in 1913 this figure had increased to over 300 millions of dollars; in 1918, the exports of these commodities amounted to 1,125 millions of dollars. Comparing 1893 with 1918, the value of our exports of cotton manufactures increased 1,500 per cent. In this same period the value of exports of agricultural machinery increased approximately 600 per cent. (*Statistical Abstract of the United States,* 1918.)

Character of Exports.—The changed character of our exports creates new problems of competition and marketing. In dealing with manufactured goods we are not handling articles which "sell themselves." An elaborate selling organization, or at least a well thought out policy, is now necessary to hold our own and continue to develop our export trade. Although during the war, we enjoyed a "seller's market," this condition cannot be expected to continue when European competition in manufactured articles becomes normal. It will no longer be a case of the buyer coming to the seller, but rather the seller going to the buyer. This is the situation which confronts the American exporter today.

2. **Panama Canal.**—To return to the reasons for our growing interest in foreign trade, the opening of the Panama Canal especially directed the attention of the eastern part of the United States to the supplies of raw materials and the market opportunities of the west coast of South America, and also to the possibilities of the cheap all-water route to the Far East.

3. **Imports.**—The significance of imports into the United States, due to the diminishing resources of raw materials in this country, has been emphasized, during the past two decades and is another reason for our growing interest in foreign trade. This attention to imports is seen in the reaction against the high tariff of the Dingley Bill of 1897, resulting in the compromise tariff of 1909, and the low tariff of 1913. Mr. McKinley in his last speech, at Buffalo, recognized this new tendency when he pointed out that "the time for exclusiveness is past." The period of our splendid isolation is gone, in trade as well as in international politics. We must buy as well as sell. We must exchange products for products. It is becoming more and more a necessity, from the standpoint of our diminishing resources and expanding industrial development.

Our growing dependence on the rest of the world for crude materials used for further manufacturing is brought out by the statistics of imports of raw materials on which our industries depend:

Year	Approximate Value	Percentage of Total Imports
1880	132 million dollars	20%
1913	635 million dollars	35%
1918	1230 million dollars	41%

There is another phase of this problem: by encouraging imports, we are making it more possible for Europe to recover from the ravages of five years of war. If Europe can pay us in goods, instead of gold, or in promises to pay, the reconstruction of the whole world will be hastened.

4. **Panic of 1907.**—The panic of 1907 called the attention of our business interests to the importance of having permanent foreign market connections to act as a stabilizer to business, when conditions of depression prevail in the United States.

5. **Federal Reserve Act.**—The Federal Reserve Banking Act of 1913, with subsequent amendments, improved our technical banking facilities for financing foreign trade, by creating a rediscount market, legalizing bank acceptances, and authorizing member banks of the system to establish banking connections abroad. As an example of the interest of the bankers in foreign trade, one prominent New York bank has established over seventy branches and agencies in foreign countries.

6. **European War.**—The European War profoundly changed the foreign trade position of the United States. We suddenly found ourselves confronted by a new set of conditions. Reference to these fundamental changes will

be constantly made in later chapters. At this time it is sufficient to point out that the results of the War, as regards our foreign commerce, are, (1) the development of a merchant marine under the American flag; (2) the change, in part, of the United States from a debtor to the position of a creditor nation; (3) the opening of new markets; (4) the establishment of closer commercial relations between the United States and South America; (5) the shifting of trade routes of the world, resulting in more direct trading between this country and foreign markets; (6) the maintenance of an abnormal excess of exports over imports from June 30, 1914 to June 30, 1919 on an average of three billion dollars a year. Altogether the position of the United States as a result of the war, makes her as never before, a dominant factor in world commerce.

Legislation and organizations.—The interest in foreign trade of which we are speaking, as a result of the tendencies which have been at work, is therefore not academic, but practical. This is reflected by the legislation passed by Congress in the last few years: The law creating the Tariff Commission; the Shipping Act, creating the Shipping Board; the Webb Law, legalizing certain combinations organized for the purpose of engaging in export trade; and the amendments to the Federal Reserve Act. The development of the efficiency of the Bureau of Foreign and Domestic Commerce, the broadened policies of banks and chambers of commerce, the scores of import and export organizations, and the general interest in the subject of education for foreign trade —all these point to a wide-spread alertness to the possibilities offered in the field of foreign commerce, and probably forecast a new era in our economic and commercial development.

Organization of subject.—The general organization of the analysis of foreign trade which is attempted in this volume is as follows:

1. Foreign Trade Theory.
2. Preparing Shipments for Foreign Markets.
3. Making Shipments.
4. Financing Foreign Trade.
5. Reaching Markets.
6. Developing Markets.
7. The Relation of the Federal Government to Foreign Trade.
8. Foreign Trade Promotion Agencies in the United States.

CHAPTER II.

DIVISION OF LABOR APPLIED TO FOREIGN TRADE

Theories.—Before taking up the more practical phases of the subject, it is advisable to analyze the basic theories which underly the whole process of foreign trade. The theories which are here presented are: (1) the division of labor theory; (2) surplus production theory; (3) the balance of trade theory; (4) the relation of investments to foreign trade; (5) the relation between colonization and trade.

Division of labor.—Foreign trade is begun for exactly the same motives as trade between individuals. In both cases mutual economic gains are sought. Individuals tend to become specialists in certain lines, and exchange the products of their labor. Thus we have the various industrial, agricultural or professional groups. Each gets the benefit of the other's specialization by the workings of commercial exchange. The same principle operates in international trade. Each nation tends to become a specialist in certain lines of products. These products form the commodity basis of world commerce.

Law of comparative costs.—Just what a nation's specialties are, in a production and exchange sense, is determined by the law of comparative costs. The statement of this law is as follows: A nation specializes in producing those commodities, whose cost of production is less than in other countries; and if the cost is less for several lines of commodities specialization tends to take place in those lines which show the greatest cost differential. If, for instance, the United States has the advantage in costs over England in three lines of commodities, the tendency for specialization in the United

States would be in that line which shows the greatest difference in cost. The other two lines, even though they cost less to produce in the United States, would tend to be imported into this country from England.

Cause of difference in costs.—The cause of differences in costs, between different countries, is based on the variety of fundamental economic conditions prevailing in the different parts of the world. Differences of climate and natural resources are, of course, basic features, which determine the relative and absolute advantage of one country over another in production.

Climate and natural resources.—Climate and soil have given Brazil, coffee; Argentina, wheat; the United States, cotton. The resources of mines have given England coal; India, monazite; and Chile, copper. These products of climate and land have created such advantages for some nations over others in production that it is natural to expect these items entering as imports into countries less favorably situated. The study of natural resources and commercial geography, as suggested previously, is obviously fundamental to an understanding of the basic facts of foreign trade.

Industrial development.—Besides climate and natural resources, the relative conditions of industrial development in different countries are important in determining comparative costs. China and Russia have the natural advantages of climate and resources superior in many respects to Europe or the United States. Their lack is that they are not as far developed industrially as the Western world.

Industrial development depends on the following conditions:

1. The amount of capital.—Capital may either be regarded as the amount of money invested in the industry, or the actual tools and machinery of production. A country with no investment capital must borrow from abroad, and, other things being equal, pay a higher rate of interest than a competitor nation, whose investment market is well developed. This higher rate increases the overhead cost at the outset, and creates a fundamental disadvantage for the debtor country.

Regarding capital as the tools and machinery of production, a country lacking an adequate supply of these, or lacking the most modern and efficient implements, has little chance to compete successfully in world trade against a technique of production, as highly developed as in England, Germany or the United States.

2. Business organization and management.—Besides the question of modern equipment, there is the equally important problem of business organization and management. The nation with men trained in efficient management, other things being equal, will easily outstrip other nations not so endowed. The application of science to administration and production, as in the development of by-product industries, and the employment of efficiency systems of management, place business in a strategic position of advantage in the matter of fixing prices and meeting competition, and the nation which has developed along these lines enters the marts of trade with the odds in her favor.

3. Status of labor.—Besides capital as a factor in industrial development, the status of labor is a very important consideration in understanding the position of a nation in international trade. Obviously a nation with a scarcity of skilled labor can not profitably employ machinery which requires a high degree of mechanical skill or training. Besides, it is a mistake to assume that a nation which has a low wage scale, necessarily has the advantage of selling her goods in competition with countries of higher wages and standards of living. High wages, paid to intelligent labor, under scientific and efficient management may mean low unit cost. A vivid example of this principle is presented by Professor E. A. Ross, in a comparison of Chinese and Belgian laborers: "At a railway center in North China is a government establishment that imports bridge materials from Europe, builds up the beams, fits and punches them, and sends them out in knock-down state to the place where the bridge is needed. Yet with labor five times as cheap, it cannot furnish iron bridges as cheaply as they can be imported from Belgium, which means that at present, one Belgian iron worker is worth more than five Chinese. It will take at least a generation or two for the necessary technical skill to become hereditary among these working people. Then, production is not always so cheap as wages are low. For all his native capacity, the coolie will need a long course of schooling, industrial training and factory atmosphere before he inches up abreast of the German or American workman." (*The Changing Chinese.*)

4. Control of Patents.—Another method by which industrial development of a nation can be stimulated is the control of patents. In this way a monopoly can be effected and the control of prices and markets assured. "This method of gaining a superiority over competing nations is very effective, in the case of materials which are regarded as essential for industrial purposes. The conspicuous example of this policy is the case of Germany, which through her control of patents created for herself a monopoly in the manufacture of dyes and certain chemical products. When the war came upon the world in 1914, Germany was producing approximately three-fourths of the world's supply of coal tar dyes. Even this, however, does not indicate the full measure of the world's dependence upon Germany. Dyes are made from intermediates, which are in turn made from coal-tar products. The making of these products and particularly the manufacture of the intermediates, involves in many cases technical knowledge of the highest order. Secrecy and protection through patents of the processes elaborated by the German chemists after many years of intensive and painstaking research, made competition difficult. The intermediates were the keystone of Germany's dye monopoly. Through the dye combines, Germany controlled one half of the dye productions in foreign countries, and was in a position to threaten the remainder. Germany to a large extent owned and operated the dye factories of Great Britain and France. In America, coal-tar colors valued altogether at $2,470,000 were produced in 1914 by seven establishments; but these establishments were almost entirely dependent on Germany for intermediates, and one was owned by a leading German dye firm." (W. S. Culbertson, *Commercial Policy in War Time and After,* page 34.)

5. **Intensiveness of cultivation.**—Another cause of

the types and varieties of industrial development in different countries is intensiveness of cultivation. Some countries because of prevailing economic conditions tend to extensive cultivation. In this case, the greatest profit is to be found in machine products, standardized and turned out in large quantities. In other countries the trend is toward intensive farming and industry. Here specialization tends to take place in the production of things requiring personal and individual attention. Professor Taussig has pointed out that although the production of flax in the United States has been stimulated by the protective tariff, yet in spite of this, flax is imported into this country from Belgium and France. The reason, he points out, is to be found in the methods necessary to the cultivation of flax. These methods, it is evident, are more adapted to European than to American methods of production. The ground requires careful preparation. The weeding is done almost entirely by the women and children, who must walk according to the direction of the wind, so that the stalks will not be broken. Each acre requires from 25 to 30 tons of fertilizer. In harvesting, the roots must be pulled by hand. The fibre must be rotted in vats, and carefully picked by hand. Clearly this is a method of production which does not lend itself to a machine process. It would not pay America to compete in this sort of production, when more profits are to be had by bringing into play the forces of large scale production. On the same principle, pen knives are imported into the United States, while table knives are not to the same extent. The pen knives require more hand labor, while the table knives are more adaptable to machine production. (Marshall, Wright and Field: *Materials for the Study of Elementary Economics,* 2nd edition, page 597.)

Conditions changing.—It is evident that the advantages which any nation may have as a result of industrial development are by no means permanent advantages. No one nation has a monopoly of economic and industrial progress. Countries now regarded as "backward" may quickly emerge as did Japan, and become competitors in making the very products we are now selling them. Capital is flowing into China, and in textiles, iron and steel, she may ultimately become independent of the Western World. The trend toward international labor standards may at some future time remove inequalities of wages and labor efficiency. Germany has lost her commercial grip on the world, which she gained partly by her patent control. The war has introduced American machine methods into Europe, and development, especially in France, in quantity production is to be expected. The following item taken from a recent issue of the *Journal of Commerce,* is one of many illustrations of the case in point:

"The unusually vigorous buying on the part of the Japanese is creating considerable comment. Admitting that the Japanese are a speculative people, no one will deny that they are sufficiently sagacious to stifle any future buying that might prove disastrous. It is therefore to be supposed that the immense quantities of steel, copper, iron and chemicals and other American commodities that are going forward to the Oriental Kingdom are to be converted into machinery and other things that contribute to the economic welfare of the people. Even with its present cramped condition, Japan is constantly building manufacturing plants, many of which will produce material which the Japanese have in the past depended on the United States to furnish."

This theory of the division of labor, which operates under the law of comparative costs which are controlled, in turn, by resources or conditions of industrial development, is the fundamental principle of all trade. It determines the channels of trade and the flow of goods. The operation of this theory, however, may be artificially manipulated and regulated. The checks to the free and natural operation of this tendency in the modern world are as follows: wars; inadequate transportation facilities; abnormal transportation rates; legal difficulties due to the lack of uniformity in commercial law; arbitrary, unnatural and artificial regulations of production and exchange. These are the barriers to international trade. The trend of civilization is toward the removal of these barriers. On their removal lies one of the conditions, not only of increased production, but of world peace. It is the recognition of this fact which led President Wilson to state the second and third of his "14 points" which may, in a sense, be regarded as the charter of internationalism:

"Absolute freedom of navigation on the seas."

"The removal, so far as possible, of all economic barriers, and the establishment of an equality of trade conditions among all nations consenting to this peace and associating themselves for its maintenance."

Although all will admit in theory the economic gains to the world which would result if the principle of division of labor were given free play, yet the realization of this commercial millenium is very far in the future. Nationalism is still a potent factor in human thought. The European War has impressed upon each nation that in certain products it must be independent of other nations at all hazards. Thus the British Board of Trade has listed the following as essential or "key" industries, in which Great Britain should be self-sufficient:

1. Dyestuffs.
2. Synthetic drugs, perfumes, etc., certain organic chemicals, analytical reagents, and certain fine chemicals.
3. Optical glass.
4. Illuminating glassware.
5. Laboratory porcelain.
6. Scientific and optical instruments.
7. Potassium compounds.
8. Tungsten powder and ferrotungsten.
9. Zinc oxide.
10. Lithopone.
11. Thorium nitrate.
12. Gas mantles and mantle rings.
13. Magnetos.
14. Hosiery needles, latch.
15. Gauges.
16. Cotton.

This action of the Board of Trade is in keeping with the resolution of the British Committee on Commercial and Industrial Policy (1917):

"In the light of the experience gained during the war, we consider that special steps must be taken to stimulate the production of food stuffs, raw materials and manufactured articles within the Empire wherever the expansion of production is possible and economically desirable for the safety and welfare of the Empire as a whole."

It is clear that economic internationalism and interdependence, terms which mean the division of labor applied to the whole economic order of the world, cannot in any sense be realized till the fear of war is taken from the mind of man. Whether or not the statemen of all countries can constructively work out a real scheme to eliminate war, and thereby make possible a more complete division of labor, is the serious challenge of this present time.

CHAPTER III

FOREIGN TRADE AND SURPLUS PRODUCTION

Surplus production.—The theory of surplus production was first emphasized by Karl Marx, the German economist.

Its influence on Germany.—Marx wrote in the middle of the 19th century, when the Industrial Revolution was in full swing in England, and was just beginning to be felt in Germany. The Industrial Revolution refers to the revolutionary changes in the technique of production which took place as a result of the application of power machinery to industry about the year 1800. Marx saw that as a result of the modern machine process, production was bound to exceed local consumption, and as an outlet for the surplus, foreign markets were a necessity for modern industrial nations. In the struggle for markets he predicted international cut-throat competition, which means selling at less than cost prices abroad. This policy, he said, is the heavy artillery which will batter down any Chinese wall of market opposition.

Whether influenced by the thought of Marx or not, German industry has followed the policy of expanding its plant beyond the necessities of domestic consumption, with the definite purpose of unloading the surplus on foreign countries. It is estimated that before the War 50 per cent of her wire production was for export and 60-70 per cent of her total production was available for export. (Hauser, *Germany's Grip on the Commercial World,* page 51.) This surplus production was the key to Germany's foreign commercial policy: establishing colonies, building a merchant marine, adjusting railroad rates to increase volume of exports, making investments abroad in order to control the market, devising a banking and credit policy which would lead to trade expansion, and adopting a liberal policy regarding prices in foreign markets which would insure the sale of German goods.

Surplus in United States.—In the United States, the existence of a general net surplus, which would have to find an outlet in the foreign market, became an established economic fact in the closing decades of the last century. From 1860 to 1873 with the exception of 1862, statistics show an unfavorable balance of trade, or an excess of imports over exports. In 1874 we had a favorable balance. In 1875, the balance again became unfavorable. From 1876 to 1888, the pendulum swung back again, and we had a favorable balance. Since 1890, with the exception of 1893, our exports have exceeded our imports. The average balance of exports over imports a few years before the war amounted to approximately from $500,000,000 to $600,000,000.

The reason for the existence of this surplus in the latter years of the 19th century and opening decades of the 20th, was our prodigious industrial development and expansion in large-scale production referred to in the introductory chapter. We had built a plant whose productive power was far in excess of the demands of domestic consumption. In normal times of business activity when the demand was greatest, our mills were not employed at maximum capacity; and in the slack years following the panic of 1907, this fact was especially noticeable. Accurate statistics regarding idle capacity are lacking. One of the most suggestive charts on this subject appeared in the *Annalist* of the *New York Times* for September 12, 1913, in which are tabulated the results of a study of unutilized machinery in the State of New Jersey during the period, 1907-13. Twenty-five industries, covering from 2,100 to 2,600 establishments, were made the basis of the analysis. The results were as follows:

Year	Proportion of Idle Capacity
1907	22.04%
1908	33.20%
1909	25.62%
1910	25.08%
1911	26.97%
1912	25.90%
1913	28.70%

It is evident that the problem of idle capacity is a constant problem, varying only in amount according to conditions of general prosperity. That the problem will become more serious as a result of our war expansion is clear. Production of munitions increased at an unprecedented rate as a result of the pressure of the War. The statistics of the volume of physical production show this trend in the United States: [1]

Year	1890	1895	1900	1910	1917	1918	1919
Index No..	39.8	40.7	54.0	100.0	131.3	124.8	114.4

(*Statistical Abstract of the U. S.,* 1918)

It is from this situation of industrial expansion, with

[1] These statistics, compiled by B. M. Anderson, economist of the Chase National Bank of New York, appear in the *Annalist,* Jan. 3, 1921.

its possibilities of idle machinery and unemployment, that the argument for the development of foreign markets draws its force.

The use of foreign markets to act as a stabilizer of American business conditions, particularly in the "seasonal industries" has been emphasized in recent discussions. (Federal Trade Commission, *Report on Cooperation in American Export Trade, Part* 1.) As an example, it has been pointed out by the Federal Trade Commission that the use of Portland cement falls off in the United States in the winter months. In Chile and Argentina, however, this time of the year is summer, and building is active. By securing these markets, therefore, American producers of cement can steady production, keep their labor force employed, and reduce operating costs.

Cutting prices in foreign markets.—But the question of using the foreign market as an outlet for our surplus production always brings up the question of prices. It is a common practice for American manufacturers to sell their products cheaper in London even after the 3,000-mile ocean haul than in the New York market. Popular indignation is always aroused when publicity is given to these facts. The price policy used by German firms in selling abroad was an important source of the world's exasperation with Germany. The following condition prevailed in 1903, as shown by comparing German domestic and foreign prices:

	Germany	Foreign Market
Coke	17 Marks	8.87 Marks
Sheet Iron	140 Marks	100 Marks
Alcohol	59.5 Marks	20 Marks
Nails	15 Marks	11 Marks
Ship Steel	200 Marks	160 Marks

Overhead costs.—The justification of this policy, from the standpoint of the exporter, is based on the theory of the relation of constant and variable costs to price fixing. The constant costs are those which go on all the time, irrespective of the volume of business. Such costs are interest on bonds, insurance, depreciation, sinking funds, taxes, and administrative expenses. These items are often referred to as the "burden of expense" or "overhead cost."

Variable costs.—Variable expenses are the direct costs of production, such as material and labor.

In markets where there is keen competition, or at times of business depression, it may be advisable for the business man, especially when his overhead expenses are heavy, to consider the question of reducing his prices. To what point will it pay him to reduce his price? Obviously, it will not pay him to sell his product at a price which will not cover his direct costs of labor and material. If he sells his product for even a fraction of a cent above his direct costs, he is reducing by that fraction of a cent the burden of expense or overhead costs. At some later time, or in some other market the price can be so adjusted that the total burden of expense will be taken care of.

If, for the sake of example, the direct labor and material cost in manufacturing a knife were 5 cents, and the overhead expense, apportioned by the cost accountant to each knife were 10 cents, we might say that the average minimum price would be 15 cents. But if there came a period of depression, it would pay him to reduce his price to 6 cents. It is evident that he is losing 9 cents.

However, he has sold his product at such a price that 1 cent is contributed to the overhead costs, which are going on whether the knife is manufactured or not. It is better to lose 9 cents than 10 cents. At some later time he may be able to raise his price to 24 cents, thus making up for his loss on overhead during the period of depression. If he does not care to "break" his home or primary market, where it might be difficult to raise prices later, he might maintain a higher price level in the primary market, and resort to minimum prices in other localities.

The same general principle applies to the case of idle or unused capacity of a factory. The overhead costs are practically the same whether the mill is operating at 60 per cent or 100 per cent capacity. It is often advisable, when local demand can take care of a 60 per cent output, to keep the mills running at 100 per cent, and market the surplus at some other point, even if to market this surplus, it is necessary to cut prices to the minumum—a point above the direct costs. All income above the direct costs helps pay the overhead, which would have to be borne by the domestic market entirely.

"Dumping" on foreign markets.—It is operating on this principle that the American manufacturer often sells his goods at a lower price in London than in New York. This practice is generally called "dumping" on a foreign market. From the standpoint of the American exporter, it is seen to be an expedient policy. But from the standpoint of the manufacturer in England, who suffers this competition of cut prices, the practice is ruinous and destructive. To survive, he must reduce his prices in his own primary market to a point which will make it impossible for him to meet his overhead charges. Bankruptcy would soon follow. On account of this train of consequences, the policy of unloading a surplus on the principle of "dumping" meets strong opposition in all nations which aim to develop their own industries.

Dumping on the foreign market may be classified according to whether it is merely a temporary expediency or a permanent policy, and also according to whether the intent is to eliminate competition.

Anti-dumping legislation in the United States.—Against this last type of dumping Congress enacted legislation on September 8, 1916. This law makes it illegal for anyone to import goods into the United States at a price less than the prevailing level of prices in the foreign market, additions for transportation cost and tariff duties being made to the foreign market price. But such importations become illegal only if "such acts be done with the intent of destroying or injuring an industry in the United States, or preventing the establishment of an industry in the United States, or of restraining or monopolizing any part of trade and commerce in such articles in the United States."

Canadian anti-dumping legislation.—The Canadian anti-dumping law also aims to prevent the unloading of foreign wares on her market at prices lower than the prices in the country of origin, by adding an extra tariff of not more than 15 per cent to all goods of a kind produced in Canada, with certain exceptions, imported at the low price level.

The Peace Conference undoubtedly had in mind Germany's pre-war policy of "dumping," because in the Treaty of Peace, as drawn up at Paris, we find Germany "agrees to give the Allied and Associated Powers adequate safeguards against unfair competition and she shall have special care to suppress false wrapping, marking and such trade trickery. Should the German Government engage in international trade, it shall have no special immunities." (Part X, Economic Clauses).

The Webb Law of 1918 provides that what has been declared to be "unfair competition" by the Federal Trade Commission within the United States, will be regarded as illegal in foreign trade. To what extent, if at all, dumping on foreign markets will be classified as "unfair competition" will depend on the decisions of the Commission.

The Clayton Act in section 2 has defined unfair competition to mean price discrimination, when the effect of such discrimination is to lessen competition or tend to create a monopoly.

CHAPTER IV.

BALANCE OF TRADE THEORY

Balance of trade theory.—The balance of trade theory was a doctrine advocated by a certain school of economists and statesmen of the 16th, 17th and 18th centuries. The basic theory of this school, called "mercantilists," is that national wealth and prosperity depend on possessing the greatest possible quantity of the precious metals, gold and silver. It was the business of statesmen, therefore, in the opinion of the mercantilists, to frame such legislation that gold would be accumulated, and in this way prosperity assured.

Policy of mercantilists.—But the statesmen of Europe who believed this theory understood that only through the channels of trade could their store of gold be increased, because there were no important mines within their territory to add to their supply. And so we find the leaders of public policy of this period directing their attention to making laws of commerce which would result in adding to the national supply of gold and silver.

Control of commerce.—Among the expedients resorted to, in order to accomplish their aim, were the following:

1. Prohibition of the exportation of gold or silver.

2. Establishment of minute regulations by which merchants selling in foreign countries must return with a certain percentage of coin.

3. Organization of the national economic life in such a way that the total exports would be greater than the total imports, so that the balance would be paid with gold. This idea colored the whole navigation and colonial policy of the period.

Discourage imports.—To maintain this "favorable balance of trade," imports were discouraged by the imposition of tariff duties, not primarily for fiscal or revenue purposes, but for the particular purpose of making the national trade balance come out the right way.

Encourage exports.—While imports were to be discouraged, exports were to be stimulated in every possible way. Bounties on exports were given in some cases. Manufacturing was encouraged, because by selling the higher valued manufactured goods abroad instead of the lower valued raw materials, the favorable balance would result. Instead of paying "tribute" to foreign ship owners, a national merchant marine was created by the navigation acts.

The net result of this system was the generally accepted belief that the key to national wealth and prosperity lay in successfully maintaining a favorable balance of exports over imports. So strong was this feeling that nations at war with each other thought that by allowing blockade runners to carry goods to enemy ports, the economic morale of the enemy country would be undermined!

Balance of trade theory unsound.—The balance of trade theory today is discredited, because it is seen to rest on the wrong principle of trade. Trade is a matter of mutual advantage to the buyer and seller. Both gain. The mercantilists seem to have looked on the sale of goods in a foreign market as a sort of clever trick in which the buyer was cheated, while the seller walked off with all of the advantage in the transaction.

Again, the mercantilists failed to see the conclusions which would follow from their theory. Supposing excess of exports were maintained for some length of time, and gold imported as a result, in country A (country importing the gold) prices would tend to rise; in country B (country exporting gold) prices would tend to fall. The higher prices in A would tend to check exports, and stimulate imports. Or, to put it in terms of the banker, the prevailing rates of exchange would make it an unfavorable time for B to purchase from A; but those same prevailing rates would tend to favor A placing orders in B. In a little while, with continued importations from B, gold would be exported from A to B to settle the balance. In this way, assuming the free movement of gold, an endless chain process is set in motion.

United States an exporting nation.—In the United States, it is probably a popular belief that there is some connection between prosperity and a favorable trade balance. The United States is, generally speaking, an exporting more than an importing nation. In the years immediately preceding the war our favorable balance averaged more than five hundred millions of dollars. But it was necessary for us to pile up this volume of credit in Europe to take care of certain payments we had to make abroad every year. These payments are often called our "invisible balance." The items and the amounts of these payments estimated conservatively, which made necessary our trade balance, are as follows:

Interest on securities and other property...	$175,000,000
Freight charges	25,000,000
Remittances by foreigners	125,000,000
Expenditures of American tourists abroad..	150,000,000
Insurance premiums and sundries	25,000,000
Total	$500,000,000

How the war has changed the balance sheet of nations is illustrated by the first item, interest charges. Instead of remitting abroad for this purpose, allowing for American securities still held abroad, the net income owing to the United States will be at least $450,000,000. The logic of our present position points to the conclusion that we must invest still more heavily in European securities, and that more and more Europe must find a market for her products in the United States as the method of settling her trade balance.

Effect of the War on the invisible balance items.—With regard to the other items: the development of an American merchant marine will reduce the amount of our annual remittances to England. Remittances of foreigners will probably be large owing to the desire of foreigners in this country to assist destitute relatives in the homeland, or because of remittances to bring their countrymen to the United States. Tourists will undoubtedly visit Europe in greater numbers than ever before, and this will constitute a heavy demand for London exchange. With regard to any of these items it is obviously impossible to indicate in more than very general terms, the changes that the War has produced in our "invisible balance." (F. W. Taussig: *Quarterly Journal of Economics,* November, 1919.)

Europe must export commodities.—That Europe within a short time will be in a position to manufacture products for export, is the belief of many who have studied the problem. It has been frequently pointed out that the War has taught Europe the advantages of large scale production both on the farm and in the factory. If labor adjustments can be effected so that production can be increased, ultimately gold will leave our shores, and we shall have goods in exchange.

War created unbalanced trade.—The economic conditions following the War have done more to emphasize the principle that in the long run goods must pay for goods than all the academic arguments of the economic theorists combined. Our business men know that what the United States wants is goods, not gold. We have sold, and we must buy. Our exports have been so abnormal that on one day in October, 1919, the premiums which foreign buyers would have to pay in settling with American sellers in dollars were as follows:

	Per cent
London	14
Paris	40
Amsterdam	6
Milan	50
Zurich	8
Antwerp	40
Copenhagen	20
Christiana	15
Stockholm	11
Berlin	85

To relieve this situation, an enormous volume of credit, referred to in our discussion on foreign investments, is asked for by Europe, to make it possible for her to produce goods and right her exchange problem by sending her products to this country.

A large part of the credit which Europe is requesting is, therefore, merely a temporary expedient. It is a means to an end. It is a temporary expedient because there are limits to our lending power. More important than this is the possibility that unrestricted loans to Europe, making it easy to purchase in the United States, might possibly tend to lack of thrift and energy on the part of the people of Europe. Our loans to Europe at the present time should be designed to put her in a position to go to work and help herself. Only by exporting and putting her currency on a gold basis can Europe solve her critical and acute exchange problem.

Imports and prices.—It should be pointed out and emphasized that imports into the United States should be encouraged, not only to solve the present exchange problem but also to reduce the price level in this country. Either the inflation of credit, which already is expanded to unprecedented proportions, or the importation of gold will have a tendency to make prices in the United States rise higher than the present level.

Business man's point of view on balance of trade.—To illustrate the modern business point of view regarding this question of balance of trade, two significant quotations are given. The first, which is the statement of Mr. J. S. Alexander of the National Bank of Commerce, New York, follows:

"It is axiomatic that what is bought must be paid for, and that nations engaged in foreign trade in the long run pay for imports by exports. The existing unpaid and unbalanced state of trade between America and Europe has been made possible by credits granted by the United States Government to the governments of Europe. These credits have largely ceased to be available for the support of the export trade and our exports are now going to Europe largely on open account. There has come as a consequence, a dramatic break in virtually all the European exchange rates and the foreign exchange markets are badly demoralized. It is recognized on the part of all of us that in the absence of special emergency measures the exchange rates will continue to fall until American exports to Europe are so checked that imports will pay for them.

"The exports and imports of one kind or another in the commerce of the world do not, from the point of view of any one nation, give evidence of trade—of exchange of commodities on a reciprocal and balanced basis. Therefore, I think we can be specific in our agreement that the chief abnormal international trade factor is this alarmingly unbalanced interchange of goods—that the balance of trade is too favorable to the United States and too adverse to Europe for the best interests of both, and that the correction of the exchange situation resulting from this one-sided trade balance will find its natural and permanent solution only through a reduction of our exports or an increase of our imports until a point of approximate equilibrium is reached."

That the development of a larger import trade as a balance to exports is regarded as essential to the maintenance of our foreign trade is strikingly illustrated by the second quotation, a formal statement by men chiefly interested in expanding our export trade. The following resolution was adopted by the American Manufacturer's Export Association at their meeting in New York, October, 1919:

"Resolved that so far as may be consistent with American interests, this country should encourage the importation of foreign products, especially those goods which are produced to advantage by other nations; and that the necessary machinery for improving and stabilizing foreign exchange should be immediately provided."

The shipping problem of unbalanced trade.—There is another angle to this problem of our present unbalanced trade—the point of view of the shipper. The *Annalist* for December 8, 1919, pointed out that for the first nine months of 1919, American vessels carried out of this country goods with an approximate value of over $1,-700,000,000 while they returned with cargoes aggregating half as much. In the month of October, 1919, almost 25 per cent of the ships entering New York came in ballast, while in the year 1914, only 8 per cent lacked a return cargo.

The conclusion from this set of facts is that the European importer will have to pay a higher freight rate, if ships cannot get return cargoes. This, added to the high prices the foreigner has to pay for American goods and the unfavorable rates of exchange, would soon make it impossible for Europe to buy.

Increased imports are thus seen to be a corrective to our trade which has been out of balance. As this balance becomes more normal, we may look for the gradual solution of our present problem of prices, foreign exchange and shipping.

CHAPTER V

THE RELATION OF INVESTMENTS TO FOREIGN TRADE

Investments and foreign trade.—That there is a close relation between foreign trade and foreign investments is a principle generally recognized by students of world commerce. In popular phrase, "trade follows the flag." It would be more true to the facts of the case to say that trade follows the dollar. Out of this investment situation arise treaties regarding concessions, spheres of influence, protection of property, trade rights, etc. All of this has come to be known as "dollar diplomacy." The basic fact of importance is that finance is the pioneer of trade. It blazes a trail, which in time becomes a highway of commerce.

The following extract from the testimony of Mr. James A. Farrell, president of the United States Steel Corporation, taken in the district court of New Jersey, shows the relation between finance and trade:

Q. "In doing this business in foreign countries have you been handicapped in any way by the fact that foreign bankers have financed the business of these smaller countries?"

A. "Yes, that is a condition that we are contending with all the time. A great many of these projects in foreign countries are financed by European bankers, and stipulations are made that the materials shall be bought in the country where the financing is being accomplished."

Q. "And you have had to fight against that all the time?"

A. "Yes, that has been a tremendous factor and is a tremendous factor in the business."

British Investments.—The key to the supremacy of Great Britain in international trade is not, in the last analysis, her far-flung colonial empire, her Grand Sea Fleet, or her merchant marine. These have been factors of great importance, but back of these there has been a silent, yet powerful force, insuring imports of raw material for her industries and guaranteeing markets in all corners of the globe for the finished product of her factories. This silent force is British overseas investments, which in 1914 amounted to about $19,000,000,000. This point of view is forcefully presented by the eminent British authority, Sir George Paish: "The investment of British capital has occurred simultaneously with the vast growth of British trade and prosperity, and in my opinion the growth of our trade and prosperity is largely the result of our investment of capital in other countries."

A quotation from an article in *The America's* gives added force to this statement by showing how British trade has developed by the side of British investments in South America:

"In the Argentine, of a total investment of foreign capital of approximately $2,000,000,000, over half is invested in railroads, of which about $800,000,000 is British. Various estimates have been made of the amounts of British investments in South and Central America, none of them less than $4,000,000,000, of which there is said to be $2,500,000,000 in railways of Argentina, Brazil and Chile alone.

The influence of this on trade is suggested in the article by the following figures relating to the Argentine and showing the total values of the imports of certain commodities, and the value of those from Great Britain for the year 1912:

ARGENTINE IMPORTS IN 1912

	Total Value	Imports from Great Britain
Coal	$25,047,240	$23,642,425
Iron axles and wheels	1,256,735	1,156,005
Locomotives	2,188,660	1,847,135
Materials for sanitary works	1,066,365	962,525
Railway coaches	1,191,240	1,073,510
Freight cars	3,813,510	2,650,155
Railway materials	5,013,430	4,152,660

The evident relation between investments and trade expansion becomes a matter of significance for the United States when we realize that during the war period, we emerged from the position of a debtor to that of a creditor nation. It would seem, therefore, drawing conclusions from the experience of England, that our new position in international finance places us at a distinct advantage in developing world-wide markets.

Before analyzing why investments influence trade expansion, it is interesting to notice the present and probable future status of our investment position.

At the time of the signing of the Armistice, the investment of our banks in foreign securities amounted to about $2,160,000,000. The loans of the United States Government to her allies totalled over $9,000,000,000. It is certainly a conservative estimate which places the total foreign investments of the United States, January 1, 1920, at $14,000,000,000.

American capital needed abroad.—But this is just the beginning. For the years of reconstruction and rehabilitation ahead of us, prodigious sums will be needed by Europe, the Far East, and South America to put their farms and factories on a "business as usual" basis. From what sources is this capital, so necessary to revitalizing the economic energies of the world, to come? Japan is undoubtedly in a favorable credit position. She made loans up to January, 1919, totalling over $900,000,000 to the Allies. The neutral states of Europe and some of the countries of South America can extend credits to a limited extent. But the bulk of the large scale financing, in many parts of the world, will be the burden placed upon, and the opportunity presented to, the American banker and the American investor.

Bankers estimate that the immediate credit demand of France, Italy and Belgium is for $1,500,000,000. The following data was presented to the International Trade Conference at Atlantic City in October, 1919:

"1. France, Italy and Belgium have indicated their need of approximately $1,500,000,000 in materials in 1920, and detailed information has been submitted to the American Committee for consideration as to means of financing exports.

"2. A permanent organization has been effected which will perpetuate unified effort on the part of the countries forming the League of Nations in solving the economic problems of the world.

"3. France has indicated a wish to obtain credits amounting from $500,000,000 to $700,000,000 next year to cover her import requirements. She wants these credits funded for not less than ten years, including interest payments on existing debts. In order to obtain this she is willing to pay the current rate of interest, but as her needs are comparatively well covered for the next six or seven months she intends to wait a favorable moment before applying for further loans.

"4. Italy has estimated a need of $800,000,000 in credits for the next year, and she wants this funded until she is able to make payments out of indemnities received from Germany. In two or three years the adverse balance of trade will be corrected, and exchange will again rise to parity, at which time she can commence payment of her debts without the heavy discount of depreciated currency.

"5. The British delegation has submitted no data as to requirements and no information as to needs for financing, evidently preferring to await developments or to continue the flotation of loans through individual banking firms, as in the case of the recent $250,000,000 loan in New York."

"6. Belgium asks for $100,000,000."

How will this new turn in world finance, in which we are now lenders instead of borrowers, affect our commerce and trade? Is the fact that we are investors in foreign countries a matter of interest to the bankers alone? Or will it touch the whole fabric of our economic life, opening up wider markets for American goods, stimulating all the processes of production and exchange? The economics of the case clearly points to an affirmative answer to the last query.

Investments abroad affect trade, both because (1) they result in the control of purchasing on the part of foreign corporations, and also (2) because the sale of foreign securities in New York by their influence on exchange rates makes it easier for foreign orders to be placed in our markets.

Nature of investment.—The nature of an investment in a foreign country is in reality an extension of credit to a foreign buyer. The purpose of this credit is to buy steel rails, building material, cotton, or whatever is needed. The essential thing which is needed is goods, not gold. The loan, then, is of vital importance to the American farmer and manufacturer, because it brings to our shores new buyers. By floating their stocks and bonds in the New York market, the business interests and governments of Europe, South America, and China are merely creating bank balances in New York, which will ordinarily be used to purchase American goods. If the balances are not created, that is, if the foreign loans or credits are not made, the goods cannot be bought, nor our trade volume increased.

How investments bring trade.—It might be argued that the mere fact that foreign credits have been established in this country, creating "dollar exchange" will not necessarily result in increased exports from the United States. By the finesse of foreign exchange, the loan might be used in purchasing machinery and raw material in London, Paris, or Copenhagen, as well as in New York. However, in actual practice, the making of loans to foreign corporations is usually conditioned by the understanding, perhaps tacit, that the banking syndicate which underwrites the securities will have something to say in directing the purchases. One of the largest banks in New York is interested in the whole question of American investments abroad. It has many branches scattered over Central America, South America, Asia and Africa. It succeeds, not only in making investments, but in securing a market for American goods. Its foreign investment department is separately incorporated, having on its board of directors representatives of the most important manufacturing, engineering and construction firms in the United States. Its loan to China for railroad purposes within the past two years, has opened the market in that country for American steel rails, locomotives, electrical apparatus, and construction material in general. There is no better illustration than this instance of the principle that finance is the forerunner of trade. The following, taken from the news columns of the New York *Times,* illustrates the practical connection between investments and trade expansion:

"Details of the first important engineering work to be undertaken by the American International Corporation, i.e., the construction and financing, in connection with the Ulen Contracting Company of Chicago, of a $5,000,000 system of modern sewerage disposal and water supply in Uruguay, have been made public by the National City Bank. The dispatch with which the new contract, one of the most important ever obtained by an American firm in the foreign land, has been undertaken, is emphasized for the value which it may have in bringing other business to this country.

"A French construction company undertook the construction work before the war, and its engineers prepared the plans in detail for a system of filtering and electric pumping for the water supply, and of concrete pipe sewers, the work to be done for three cities simultaneously.

The war made it impossible for the French concern to carry out the work, and an American contractor, the Ulen Contracting Company of Chicago, last year undertook the plans.

"The arrangement was made in February, after the Stone & Webster organization had checked up the contracts between the Ulen Company and the Government of Uruguay, and had found that the specifications and estimates of cost were correctly figured. The agreement provided for the completion of the work in three years. Upon the closing of the arrangements here, not a moment was lost before the "mobilization" of forces and materials for the carrying out of the contract was begun. The Stone & Webster Engineering Corporation detailed three engineers, and the Ulen Company some twenty Superintendents and foremen, to go in squads to Uruguay. The first squad sailed on the first of March, a second about the first of April, and the rest are to follow shortly. Upon the arrival of these men in South America, they joined others that the Ulen Company forces already had, as veterans, and began the recruiting of laborers. The latter will be almost exclusively natives of Uruguay, who are declared to be most efficient workmen, physically strong and willing.

"Practically every pound of this machinery and material for this construction, not obtainable in Uruguay, is to be sent from this country. Some 15,000 tons of cast iron pipe, will be used, and all of that is to be made in "U. S. A." A large part of the cement required, will be purchased from local producers in Uruguay. In the quick mobilization of this construction force, the first thing needed would be engines, steam shovels, machinery for the making of concrete sewer pipe, derricks, and

other big and heavy tools, also thousands of picks, axes, crowbars, hand shovels, and the like. In the present condition of ocean shipping, it looked like a big problem to get these started, but 200 tons of space was contracted for in vessels, that were to sail in from three to four weeks. Then the efficiency of Stone & Webster and the Ulen organization in this country was drawn upon to gather the engines, and get them to the ships on time.

"Some big pieces came from Salt Lake City. Others came from Chicago. Several had to be purchased new, along with a mass of minor material. Not a day was wasted. The things were obtained, loaded on cars, and men, detailed from the various units of the Stone & Webster organization in different parts of the country, followed the movement of every car on its way to the shipping ports. In New York, a railroad map of the country, tacked to the top of a table with red headed thumb tacks, representing the cars coming eastward, with "munitions" was watched hourly as wires reported the movement of machinery. It was kept moving despite freight embargoes and it sailed on time. It is probably in Uruguay by now.

"More machinery and advance materials have gone since. However, the situation in regard to shipping is so precarious, and foreign freights were so high, that, considering the determination of the men managing this contract to have it done on time, it was thought best to do something heroic in providing for transportation. The American sailing schooner Alice M. Colburn, of Boston, was purchased especially for the purpose. She is a four-master of 2,000 tons net measurement. She flies the American flag. The ship cost nearly three times her normal market value, but it was figured that she will more than pay for herself in freights upon return cargoes, to say nothing of the saving upon enormous charges for the materials. The vessel is now at Savannah loading. Six months have been allotted for a round voyage to the River Plata."

Control of foreign corporations.—Another method besides conditional loans by which foreign investments lead to trade expansion is the purchase of the controlling stock of a foreign corporation. In this way the buying policy of the foreign corporation can be controlled. Other things being equal, if the controlling shares are held in this country, purchases will be made in the United States. It was this method of "peaceful penetration" which, before the war, was netting for Germany an expanding foreign commerce. An example of this policy is the German control of monazite deposits in Travancore, a small state in India. The operating company working the deposits was the Travancore Minerals Company. Although the firm was nominally a British corporation, it has been found that all the preferred stock and 11,000 shares of the common stock were held in trust for Auer & Company, Berlin. Machinery and equipment were bought in Germany, instead of in London. German firms were buying monazite sand for the manufacture of gas mantles at $20 per ton, while British buyers were paying $36 per ton.

German methods.—Germany had been so skillful in distributing her capital, that with a minimum outlay, she secured a maximum control. German investment in a large Italian bank amounted to only 9,000 shares, out of a total of 260,000 shares. Yet with the "marvelous discipline" of the minority shareholders, the German influence dominated the stockholders' and directors' meetings. With this situation in mind it is easy to understand Germany's commercial grip on Italy. The point of interest to the United States is, that if we are to compete successfully in the struggle for foreign markets, we must understand the importance of the part played by finance and investments in those countries where we are trying to win trade.

Investments affect exchange.—Foreign investments may be made in foreign government securities, banks, railroads, industrials, public utilities, mines, etc. It is important to indicate that loans to governments may lead to furnishing construction material for public improvements. Investments in banks control civilian buying power, and may throw purchasing in the way of the country whose capital controls the banks. The banks, too, in financing local industries may be able to dictate their purchasing. By investments in railroads, canals, etc., favorable rates which will give commercial advantage to the creditor country may be secured.

Besides controlling purchases directly loans affect foreign trade by their influence on exchange rates. An American loan of $1,000,000 to an English bank or an English industry for example, will mean, ordinarily, that $1,000,000 is placed to the credit of the English bank or industry in New York. This additional supply of dollar credits will tend to reduce the price of dollars in the London foreign exchange market. The lower the price of dollars in London, the easier it is for the European buyer to purchase and pay for American commodities. Conversely, the higher the price of American currency, the more difficult it is for the foreign buyer to purchase in the American market.

This situation sums up the problem of foreign exchange in the period following the War. In January, 1920, an English buyer who purchased one dollar's worth of goods in this country would have to pay at least $1.25. A Frenchman would have to pay more than $1.50. In other countries, especially in Central Europe, the situation was very much worse.

This exchange situation might be remedied if Europe could send gold or goods to the United States. But the relative scarcity of both of these in Europe makes this at present impractical. The only other alternative is for Europe to send her securities, which is equivalent to making loans in the United States.

The placing of loans on the part of Europe, however, is not the final answer to the problem. The loans will make it possible for Europe to purchase raw materials and commodities which, in turn, will make it possible for her to rebuild and replenish her destroyed and worn out equipment. Then she will be in a position to export commodities to this country. The placing of loans in this country, therefore, is merely a means of tiding Europe over the post-war crisis. Loans make it possible for Europe to buy, rebuild and export.

In a later chapter, mention is made of the new banking machinery which has been created by the Edge Law for the purpose of extending long-term credit to foreign countries. By this law international banks are authorized to be incorporated under the direction of the Federal Reserve Board. These international banks are authorized to purchase the securities of foreign corporations. To do this, however, it is necessary to marshal and mobilize American capital, for the purpose of making foreign investments. This is to be accomplished according to the Edge law, either by inducing American capital to subscribe to the stock of these new international banks, or to invest in the bonds or debentures which these banks are authorized to issue.

In view of the far-reaching effects of foreign investments on our trade development, this new banking machinery means that our trade gains can not only be held, but that further expansion is assured.

Investments stimulate imports.—We have discussed the influence of investments abroad in stimulating the export trade of the United States. In the main, this is the situation confronting any creditor country during the years when the loans are made or foreign credit extended. However, when those loans are paid back, or the interest on them is due, the tendency will be reversed. Imports will be stimulated. Goods from all over the world where our investments have been made will come to the United States, as a means of liquidating foreign indebtedness. This new significance of our import trade is the outgrowth of our creditor position.

CHAPTER VI.

COLONIES AND FOREIGN TRADE

Colonies and foreign trade.—In the past colonies have usually been regarded as necessary to foreign trade development. The supremacy of Great Britain in international commerce is often attributed to her colonial policy, and this has undoubtedly been an important factor in British trade extension. It is certain that Germany believed that her continued expansion in foreign trade depended on the establishment of German colonies throughout the world. In view of the prominence given to this important issue as a result of the World War, it is necessary to examine the relation between imperialism and commerce.

The relation between colonies and trade development is indicated by the statistics of commerce for 1913. In that year, 70 per cent of the exports of Hawaii, Porto Rico, the Philippines and Cuba came to the United States, and about 65 per cent of their foreign purchases were made in this country. The Philippines bought goods from the United States to the value of $63,000 in 1894. In 1914, the figure totaled $27,000,000. In the French colony of Algeria, 84 per cent of the overseas trade in 1913 was with France. Of England's foreign trade, about 30 per cent was with her overseas possessions. (Geo. L. Beer, *The English Speaking People,* Chapter VII.)

It is obvious, at the outset, that colonization, under whatever name, can effect trade in two ways; first, it can offer protection to investments; second, it can secure for the "mother country" certain commercial preferences.

Protection of investments.—As far as the protection of investments is concerned the problem arises only in the so-called "backward countries." In this case, trade follows the dollar, and then the flag follows trade. This has happened so many times in history that it has become an old story. But the significant thing at the present time is that the morality of and necessity for colonization are for the first time being challenged. In regard to this whole problem of protection to investments there are three distinct points of view.

Flag follows dollar.—The first point of view is the old one, namely, that the flag follows investments. Whenever the investments, or the larger commercial interests of the creditor country are seriously threatened, a colony, a "concession," or a "sphere of influence" is established. This is generally known as "dollar diplomacy" or financial imperialism.

Individual risks.—The second point of view is just the other extreme from the one stated. From this standpoint, investments and other enterprises involving foreign countries are undertaken entirely on the individual risk and responsibility of the investor. He has assumed the whole chance for profit or loss. He went into the venture with his eyes open to the hazards involved in the undertaking, and he needs to expect no special protection from his home government.

American view.—The third point of view is a compromise between these extremes. This may be regarded as an essentially American attitude. This attitude is that legitimate investments honestly made and honestly administered should, in general, receive the backing of the Government at Washington. But this government backing, according to the American view, must not go so far as to undermine the political sovereignty or independence of the country where the investment is made. This is the key to our interpretation of the Monroe Doctrine, the Open Door Policy, and the doctrine of Self-determination. It is really on this issue that so much sentiment has been aroused over the Shantung settlement. The control which Germany secured in her treaty with China in 1898 gave her not only an economic, but also a political strangle-hold on the territory involved. Regarding the question of political sovereignty, the Treaty states that "in order to avoid the possibility of conflicts, the Chinese Government will abstain from exercising the rights of sovereignty within the ceded territory." (*Nation,* September 20, 1919.) It is this sort of thing which the American mind challenges.

Lansing notes.—That American sentiment believes in encouraging and protecting foreign investments, within certain limits, is illustrated by three circulars issued by Mr. Robert Lansing for the State Department. The first statement was issued in November, 1916, at the time of the $5,000,000 loan of the Chicago bankers to China. Mr. Lansing said: "It is the policy of the Department to give all diplomatic support and protection to the legitimate enterprises of American citizens."

In July, 1918, the following statement was made: "The Government will be willing in every possible way to aid and to make prompt and vigorous representations, and to take every possible step to insure the execution of equitable contracts, made in good faith, by its citizens in foreign lands."

On October 21, 1919, the Department of State addressed a note to the American bankers underwriting the Chinese loan of $5,500,000 refunding notes, in these terms:

"The Department recalls that on November 16, 1916, it addressed to you a letter in which it stated that it was always gratified to see the Republic of China receive financial assistance from the citizens of the United States, and that it was its policy to give all proper diplomatic support and protection to legitimate enterprises abroad of American citizens.

"The Department has read with much interest the new loan contract which you have concluded with the Chinese Government and referred to the Department, and notes with pleasure this evidence of your continued interest in Chinese financial matters.

"The international consciousness resulting from the close association of our country with other nations, in consequence of the war, has further accentuated the interest of this Government in encouraging and aiding, in every proper way, the undertakings of its nationals in foreign countries, in furtherance of that free intercourse which, it is appreciated, is mutually advantageous and which should be encouraged and supported. To the accomplishment of this end, this Government is willing to take all proper steps to insure the execution of equitable contracts which are made in good faith." (*Annalist*, November 3, 1919):

Mr. Wilson and the "six-power loan."—However, American statesmen have frequently expressed the thought of this country regarding the matter of respecting the rights, and especially the sovereignty of debtor states. President Wilson disapproved of the participation of American bankers in the "Six-Power Loan" to China, because, he said, "The conditions of this loan seem to us to touch very nearly the administrative independence of China itself, and the government does not feel that it ought, even by implication, to be a party to this treaty. The responsibility on its part which would be implied by requesting the banks to undertake the loan might conceivably go to the length, in some unhappy contingency, of forcible interference in the financial, and even in the political affairs of that great Oriental State." (F. C. Howe, *Annals of American Academy of Political and Social Science,* November, 1916.)

Mr. John Hay.—The late Secretary of State, John Hay, in 1901, gave this interpretation to the Monroe Doctrine: "We do not guarantee any State against punishment if it misconducts itself, providing that punishment does not take the form of the acquisition of American territory by any non-American powers."

Mr. Elihu Root.—Mr. Elihu Root, Secretary of State in the Roosevelt Cabinet, undoubtedly expressed Mr. Roosevelt's views in his written instructions to the delegates of the United States to the Pan-American Conference of 1906: "It has long been the established policy of the United States not to use its armed forces for the collection of ordinary contract debts due to its citizens by other governments. It is doubtless true that the non-payment of public debts may be accompanied by such circumstances of fraud and wrong-doing or violation of treaties as to justify the use of force. This government would be glad to see an international consideration of the subject, which shall discriminate between such cases and the simple non-performance of a contract with a private person, and a resolution in favor of reliance on peaceful means in cases of the latter class."

It is clear that the American point of view justifies the protection of investments in backward countries, without justifying an imperial policy of colonization.

Preferences.—Aside from the investment argument, colonies have been demanded because of the commercial preferences which can be secured by the mother country.

British preferences.—The most common type of commercial preference is some form of tariff discrimination. The United States, Italy and France have, in recent years, taken advantage of their colonies in this way more than the other powers. In the case of Great Britain, preferences are granted by some of the self-governing Dominions. But such tariff arrangements are more in the nature of treaties of reciprocity between independent nations, because the British Parliament does not in practice exercise any jurisdiction over the tariff-making power of Canada, Australia, New Zealand and the South African Union. This point is emphasized in a statement made November 6, 1911, by Mr. Arthur Balfour. "We depend as an Empire upon the co-operation of absolutely independent parliaments. I am not talking as a lawyer, but as a politician. I believe from a legal point of view that the British Parliament is supreme over the parliament of Canada, Australia, New Zealand or South Africa, but in fact they are independent parliaments, absolutely independent, and it is our business to recognize that and to form the British Empire upon the co-operation of independent parliaments." (London *Times*, November 7, 1911.)

Regarding the matter of granting tariff concessions, the policy usually reacts to the advantage of the producing country and to the disadvantage of the country of consumption. Further, the international friction which is often the result of any policy which tends towards monopoly and exclusion makes it of questionable advantage in the long run.[1]

Japanese imperialism.—An example of the use of political power to secure commercial preferences is the case of the demands made on China by Japan in 1915. Although it is stated in the preamble that the agreement is intended to strengthen "the friendly relations and good neighborhood" existing between China and Japan, the trade advantages which Japan sought are evident from a glance at the following significant proposals:[1]

1. Mining rights of all mines in South Manchuria and Eastern Inner Mongolia are granted to the Japanese.

2. The consent of the Government of Japan must first be secured before a third power either builds a railroad, or lends money to build a railroad in South Manchuria or Eastern Inner Mongolia.

3. The control of the Kirin-Chang-Chun railway is given to Japan for 99 years.

4. The Chinese Government shall employ influential Japanese advisers in political, financial and military affairs.

5. The Chinese shall purchase 50 per cent of their munitions of war from Japan.

[1] Culbertson: *Commercial Policy in War Time and After.*

6. If China needs foreign capital to develop mines and public works in the province of Fukien, Japan shall first be consulted.

Psychological factor.—Besides commercial preferences of a legislative character, there are commercial preferences of a sentimental or psychological nature. Trade once established tends to become permanent. A prejudice in a colony in favor of goods from the home country is not to be disregarded. In colonial government contracts, especially, the trade of the mother country is benefited.

The force of the psychological factor in determining trade is suggested by the statement of William E. Peck of New York (*Journal of Commerce,* Feb. 9, 1920):

"With fast ships, lower freights, an advantage of perhaps 25 per cent in exchange, and the fact that the large number of Europeans residing in South American countries prefer home goods to American, foreign manufacturers, if they can make deliveries, should recover a considerable percentage of their pre-war trade." This statement of Mr. Peck's suggests the influence of colonies on trade, whether the term "colony" indicates political control, or the mere collection or settlement of people who turn to the homeland for trade.

Problem of imperialism.—On account of the economic advantages of protection to investments and also commercial preferences, which nations secure from colonies, it is no wonder that imperialism and foreign trade usually go hand in hand. In the modern industrial state, colonies are both a source of raw materials and a market for finished products.

However, since colonies are such valuable economic assets, and since they are limited in number, it is obvious that the demand for these prizes must be much greater than the supply. International competition on a huge military basis is bound to be the result. Militarism is the logical outgrowth of the scramble for economic control of Africa and Asia in the last one hundred years.

Besides this problem of militarism, with war lurking in the background, colonization brings up the question of the rights of the native population. How to effect the economic development of backward countries, and at the same time insure the political and social development of their native populations is a difficult problem to solve.

Mandatory theory of colonies.—A step toward the solution of this problem was made at the Paris Peace Conference when the idea of the mandatory was proposed for the German colonies which were lost to her in the war. The mandatory idea is that the erstwhile German colonies are to be under the general control of the League of Nations. The colonies are to be administered by the various allied nations, who are to hold them as trustees for the League. In theory, at least, the open door policy will be maintained and the development of the native populations fostered.

Policy of the United States.—As an illustration of the present policy of the United States regarding backward countries, our treatment of Cuba, San Domingo and Haiti may be cited.

Cuba.—In the case of Cuba, under the Platt Amendment of 1901, the following agreement was authorized between the United States and Cuba:

1. No treaty is to be made which will impair the island's independence.

2. No part of the island is to pass under the control of a foreign power.

3. No debt is to be contracted beyond the ability of the island to pay.

4. The United States reserves the right to intervene to protect Cuban independence.

San Domingo.—President Roosevelt, in order to prevent the interference of European States in the affairs of the defunct Government of San Domingo, proposed:

1. That the United States is to adjust the claims of foreign creditors.

2. That the United States is to assume control of all customs houses.

3. That 45 per cent of customs receipts shall go to the Government of San Domingo.

4. That 55 per cent of customs shall be used to pay loans, etc.

Haiti.—The arrangement with Haiti, arrived at by President Wilson's Administration, is as follows: (Jones—*Caribbean Interests of United States.*—p. 142.)

1. A Haitian receivership of customs is created under American control. There is to be an American financial adviser.

2. There is to be a native Haitian rural and civil constabulary commanded by American officers.

3. The United States, through its customs control, is to manage all expenditure of public moneys. The receipts are to be devoted to the payment of the expenses of the receivership, to the interest and sinking fund of the public debt, to the maintenance of the con-

stabulary and the reminder to the Haitian Government for its current expenses.

4. Haiti promises to cede no territory to any nation but the United States.

5. All revolutionary forces are to be disarmed.

6. The convention lasts for ten years, and an equal additional period if its objects are not accomplished within that time.

If it is possible to generalize on the present American colonial policy it would seem that the United States recognizes the necessity of protecting our commercial interests abroad; of using force to safeguard investments and property rights; and of establishing protectorates in backward States. On the other hand, the United States is not disposed to dictate a repressive commercial policy to weaker states, or on account of its power, to monopolize their trade. Further, the United States has indicated a disposition to withdraw from political control of backward states, when these have shown a desire and capacity for self-government. The general conditions governing such withdrawal on the part of the United States are that the state which has been regarded as a protectorate shall (1) maintain civil order, (2) insure reasonable sanitary conditions, (3) not allow the political or military dominance of any foreign government.[1]

[1] Mr. H. G. Wells describes American colonial policy as one in which there "is no organization for and no tradition of what one may call non-assimilable possessions." "There cannot be in the United States system a permanently subject people." (*The Outline of History,* Vol. II, p. 504.)

CHAPTER VII

PREPARING FOREIGN SHIPMENTS

I

War economy in packing.—The American manufacturer has been lectured a good deal during the past few years on the subject, "Packing for Foreign Trade." The prominence given this subject in our journals and government reports indicates its vital importance to our commercial future. Efficient packing creates the asset, "good will," toward American products in general. Packing which is not efficient creates prejudice, a liability which is hard to overcome. All this is worth remembering at this time when we are reaching out to new fields of commerce. Commonsense packing now may go a long way to help the United States win the "war after the war"—the struggle for world markets.

The War emphasized the necessity of careful packing as a partial solution to the problem of conserving cargo space. The War Department experimented in the subject of boxing, baling, etc., in order to work out the greatest possible economies. The use of baling instead of boxing wherever practical was resorted to, because of the saving of space and material which resulted.

Packing to save cargo space.—The relation between efficient packing and the whole question of space economy is illustrated by an article in the *Textile Recorder*, of Manchester, England. It is here pointed out that the average density of the American cotton bale is 22 pounds, the Egyptian 37 pounds, the Indian from 45 to 60 pounds. The article concludes that were baling more efficient in the United States, there would result a saving of vessel cargo space of 9,000,000 dead weight tons per year.

Good and bad packing.—Now, in spite of the many gloomy articles which have discussed this subject, all American packing is not bad. Neither is it all good. The fact is, that whenever the American business man goes into foreign trade seriously, he competes successfully with his German and English rivals. On the other hand, American commercial methods are discredited by practices of exporters in this country who fail to take foreign trade seriously. Either they are inexperienced and have not taken the trouble to master the important details and technique of foreign trade; or else they regard the foreign market as a merely temporary dumping ground for their surplus products. There are many evidences of the attitude of the exporter and of the efficiency of his export department, but there is none which tells the story so accurately as the condition of packing when the goods reach their destination at some interior point in China, Argentina or Africa.

Favorable criticism.—Looking over reports of American consuls, it is a striking fact that in markets which have been developed for years by standard industrial firms, criticism of American packing is usually favorable. However, in markets which are new and exploited by firms which are after quick profits, caring nothing about established, permanent trade relations, criticism is frequent and very severe. For instance, American packing of goods consigned to established markets in Europe is, in general, highly praised; but in the newer markets of South America, the results have been, in many cases, anything but successful. This point is brought out clearly by the report of General Consul R. P. Skinner, of Hamburg:

"Where business is carried on between American firms on one side, and German firms on the other, it is usually the case that both have had extensive experience in handling goods for export, and carelessness, when it occurs, is remarked and usually corrected. It happens at times that new concerns attempt to engage in foreign commerce in a speculative or tentative way and if their packing proves to be unsatisfactory, they drop out after a few unsuccessful efforts. A number of informants have stated that the average American package sent to South America is inferior to the average package sent to Hamburg, which they attribute to the inexperience of many concerns who are beginning their export operations and have not had time to correct their methods."

In the Russian market before the war, the prevailing sentiment seemed to be that, with the exception of raw cotton, goods arrived in a satisfactory condition. It has been suggested that this favorable comment is due to the fact that the bulk of direct imports into Russia from the United States consists of agricultural implements and machinery. One large American company, with a highly efficient export department, practically controlled this market. The policy of this company has not only built up a strong reputation for the company's own products, but it has paved the way for the wider sale of all "made-in-America" goods. This kind of pioneer work has permanent results. It is the sort of thing which will put America in the commercial saddle.

The following quotation from *The Americas,* published by the National City Bank, indicates why big business is successful in its packing for foreign trade:

Petroleum companies' care in packing.—"Cost and excellence of packing is regarded as of so great importance in the export business of America's leading petroleum companies that in its great tidewater refineries there is included an integrated mechanical packing establishment, scientifically designed and constructed for the purpose. Rough lumber in standard sizes is fed into machinery at one side of this packing-shed. Ready-made tin containers are put upon mechanical conveyers at another place. Without a touch of a man's hands, except on controlling devices, the cans are carried to the machine that fills them with oil, the boards are cut to pieces at just the right size, the cans and the boards meet, and wholly by machinery the wooden crate is built around the can, then the filled package is mechanically conveyed along to the hold of a ship or to a storage dock. The tin container, the lumber, the nails, the packing machinery, all were the subject of careful engineering design, for the purpose of obtaining strength, stability and lightness, and at a minimum cost.

"The vogue of the sealed carton, as mechanically filled and wrapped by our leading sugar company, mechanically wrapped bread and other foods, and the wonderfully deft machinery by which small objects—candies. etc.—are wrapped with speed impossible to manual handling; these are applications of scientific packing for special purposes other than economy, though the skill of the engineer is called upon to make the packing as economical as possible under given conditions. The employment of scientifically designed packages, however, simply as good cheap packing, is increasing every day, and whether a manufacturing corporation has its own engineers keep a live lookout for new ideas that will cheapen production in this particular way, or whether some one of the many firms now devoting much enterprise to the specialty of producing wood, metal or paper containers, furnishes the engineer to design the receptacle, it amounts to the same thing,—an application of high technical skill in the packing stage of complete manufacture of American products."

Sources of information.—In view of the importance of proper packing as a trade asset, every shipper who has an ambition to develop a market abroad should obtain all available data which will give him practical help. First of all he should insist that the foreign customer, in placing his order, should indicate the conditions peculiar to his country which require special packing. Then, too, the steamship company by which the goods are to be shipped can often give definite advice along this line. From the Bureau of Foreign and Domestic Commerce, either at the head office at Washington or at the local offices established at important commercial centers, the shipper can get valuable information on this subject. This literature has been compiled from reports of American consuls in foreign countries or is the result of research carried on by the Bureau's own agents. In addition to these sources it is usually advisable to get as much information as possible from the local consular agent of the country to which shipment is to be made.

The problems of packing for foreign trade.—Why is the problem of packing for foreign trade so much more complex than packing for trade within our own borders? The answer to this question will be suggested by a glance at a few of the practical conditions which test the strength and efficiency of packing to a far greater degree in foreign than domestic trade. The foremost conditions which every exporter must study carefully before he can judge the quality of his packing are as follows:

1. The transhipment problem.
2. The mechanical methods used in handling the goods from the time they reach the wharf at New York till they reach their destination.
3. The basis of weight (gross, net or legal), on which the tariff is levied in the foreign port.
4. Protection made necessary by conditions of excessive heat and dampness.
5. Protection against theft.
6. The best methods of marking packages, boxes, etc., to meet the legal and practical requirements of foreign countries.

Although these are by no means all the problems of packing for foreign markets, they are enough to illustrate the difficulties which the exporter must meet. A brief discussion of these points will serve to emphasize the necessity of a thorough study of packing by every export department.

Transshipment.—The relation between transshipment and packing can be readily appreciated by an experienced shipper. When goods are loaded and unloaded often, even under ordinarily good circumstances, the element of wear and tear due to rough handling is the all important condition requiring very strong packing. What would happen to goods consigned to some interior town of Honduras, if the packing were not re-enforced to meet the local conditions? A statement from an American consul located at Honduras suggests the whole problem:

"Goods shipped to Tegucigalpa and the interior of Honduras come from San Francisco to Amapala or from New York via Panama to Amapala. Here they are reshipped to San Lorenzo, a small port near Amapala, and thence to the interior by oxcart. It requires 8 to 12 days for freight to reach the capital after leaving the coast. After the goods are landed comes the constant jolting on the oxcart for 8 to 12 days which will often do the final damage that may have been started on the earlier part of the journey."

In packing goods for foreign trade, the shipper must bear in mind that there may be few direct sailings from New York to the port of destination. On this account cargoes must be transshipped at some other port. Incidently this reference to direct sailings suggests the necessity of better direct shipping facilities for American goods, if they are to compete with English products which are not liable to damage from transhipment. At the same time, the shipper should always avail himself of direct sailings whenever packing might be damaged by transhipment.

In most of the ports of China, freight is unloaded from the vessel into small cargo boats, and then carried to a go-down or warehouse. Interior points off rail and water routes are reached by pack animals or by the use of coolie labor. Such transportation methods present similar problems to the American packer as was indicated in the case of Honduras.

Mechanical methods of handling goods.—More important than the mere fact of transhipment are the mechanical methods of handling goods. Assuming that a consignment reaches the New York port in good condition. the shipper must find out the mechanical means by which goods are loaded, unloaded and carried to his ultimate customer. He should know the equipment of wharfs in the line of trucks and cranes, etc. Packing which will survive unloading by means of a derrick may not be able to stand the strain of being unloaded by chutes. Then, too, the difficulties of handling a cargo from lighters, especially in unprotected harbors, cannot be over-exaggerated. This is a particular problem of the west coast of South America. A commercial agent of the Bureau of Foreign and Domestic Commerce describes this situation as follows:

"All classes of merchandise are discharged from steamers into open lighters or barges. These boats come out from shore on the arrival of a steamer, fasten to her with a bow and stern line, and swing clear, as the ocean swell keeps both barge and steamer moving and their up-and-down motion is by no means coincident. A sling full of merchandise consisting, say, of a box, a barrel, and a crate, weighing perhaps 1,500 pounds is swung over the ship's side and lowered to within 15 or 20 feet of the water, and when the barge and the swinging sling are exactly opposite down goes the merchandise with a rush to catch the barge. The packing on the bottom receives the full force of the impact."

When the goods are unloaded at the foreign port, the shipper's troubles are by no means at an end. The conditions of storage, with reference to sanitation, dampness, etc., are matters of importance, affecting the quality of packing. Then the journey inland must be carefully studied. Are the goods to be carried by railroads, or on the backs of animals? If transportation is by railroads, it is well to know if the cars are box or open cars. In England and on the Continent it is much more common than with us to have goods forwarded on open railroad cars, covered with tarpaulin. The necessity for special care in packing, with this situation in mind, is obvious. Three-fourths of the imports to the interior of South America are said to reach their consignees via small boats, mules, llama and other pack animals. Packing, particularly with reference to size, must be adjusted to this style of locomotion. If packages are not of convenient size for carriage, they must be left standing on the wharf indefinitely. Further, the goods must be unpacked, readjusted and recased, in order to fit methods of transportation to the interior. Such repacking is usually done by unskilled hands. Also packing material must be purchased. Obviously, under these conditions, unsatisfactory packing is bound to result. It is usually advisable to limit the weight of boxes, barrels, bales, etc., to 125-150 pounds, if they are to be carried by pack animals. It seems to be generally agreed that packages may be of considerable length, ten or twelve feet, with a width of not more than four feet.

Foreign tariffs.—In addition to knowing how goods are handled en route to their destination, it is equally as important that the American exporter should have exact information on the operation of foreign tariffs. Countries may be divided into three classes, according to the weights on which the specific customs duties are levied: gross, net and legal weight. A few illustrations will serve to show the importance of adjusting packing to foreign tariff regulations.

Gross weight.—With exceptions for specified classes of goods, gross weight was operative before the War in Austria-Hungary, Bulgaria, Colombia, Costa Rica, Ecuador, France, Germany, Honduras, Italy, Nicaragua, Portugal, Salvador, Servia, Switzerland and Venezuela. In these countries, the basis of the import duties is the combined weight of the goods plus the packing. This situation calls for packing which is as light as possible, without, of course, sacrificing strength. Bales with burlap covering, where this is practical, have advantage over boxes. Wood that is selected for boxes and barrels should be light and tough. One of the special agents of the United States Government gives the following statement to emphasize the importance of the facts just mentioned:

"Just a bit of bad judgment or a lack of information may turn a bargain in New York or New Orleans into a disastrous loss in one of the Central American Republics. For instance, a dealer some time ago in one of these countries received from the United States a shipment of leaf tobacco, packed in zinc lined wooden cases instead of the customary bales. The difference in freight and duty amounted to $300. This was a total and unnecessary loss. The firm shipping the tobacco acknowledged its fault in not ascertaining that the duty on tobacco was on the gross weight instead of ad valorem and that the packing cases had to be paid for at the same rate as the tobacco."

Net weight.—Where the tariff is based on net weight, the exterior crating is exempt from duty. The following countries employ the net weight system, with the exception of specified classes of goods: Austria-Hungary, Belgium, China, Denmark, Ecuador, Finland, France, Germany, Greece, Italy, Japan, the Netherlands, Norway, Persia, Portugal, Russia, Servia, Sweden, the United Kingdom and British possessions. Some countries, such as Austria-Hungary,[1] use both the gross and net weight systems, depending on the class and value of the goods. It is evident that where the net weight basis is used, heavy boxes or crates, re-enforced with iron straps, can be shipped without adding to the expense at the customs house.

Legal weight.—Where legal weight is the basis of import duties, the shipper should find out from the tariff acts of the country in question the exact meaning of that term. Although there is no uniformity, the Mexican definition is usually accepted: "By legal weight is meant the weight of the goods, together with that of their interior packing, such as wrappers, receptacles, cardboard and wooden boxes, tins, etc., inclosed in the outer packing case in which imported."

Protection against climate.—Special protection against heat and dampness is necessary when shipment is made to tropical countries. The climatic conditions of India are a good example of the need of special precaution. In central India the temperature ranges from 40 to 120 F. The rainfall takes place within a period of four or five months. This combination of excessive moisture and heat produces fungoid growth and decay which would not be expected in a temperate climate. An official report on the problem of climate which India presents to all shippers describes the situation there as follows:

"Mildew attacks textile goods, leather, books and stationery; arms, cutlery and metal works require constant

[1] The conditions refered to in this paragraph prevailed before the War.

supervision to preserve them. American wooden furniture is soon spoiled by swelling and shrinkage or by borer worms; and liquors, excepting the stronger alcoholic ones, rapidly deteriorate in the heat. Perishable goods soldered up in tin-lined cases are not safe, if they have been packed in the United States in wet weather. The heat of the ship's hold in the Red Sea, or that of the closed iron freight car on the Indian railways will start mildew in the case by the aid of the moisture within it. Straw and shaving packing hold a great deal of moisture in damp weather, and do much mischief when sent to the tropics. During the monsoon rains all wooden cases containing merchandise must be covered with pack sheeting and tarred unless they are tin-lined. Machinery, especially that for textile factories, must be imported only in dry weather."

The above description could be applied to conditions prevailing in many parts of Africa and South America. A case has been cited where a shoe manufacturer in Santiago, Chile, ordered patent leather from the United States. The leather was packed with sheets of tissue paper between the skins. On account of the heat and moisture the paper stuck to the leather and the enamel was spoiled.

Protection against dampness.—Even in shipments to ports with a temperate climate, the conditions of ocean transportation require, normally, great care in packing goods to safeguard them against dampness. The natural humidity of sea air, exposure to salt water, together with the possibility of the cargo being unloaded on uncovered lighters or on unprotected wharfs, warrant the use of oil and tar paper, with grease on all metal subject to rust. For protecting polished parts, greasing with vaseline, white lead, boiled oil and tallow are recommended because these substances are free from acid, spread evenly, and are easily removed.

Protection against theft.—While goods need to be protected against the elements of heat, moisture, etc., they also need to be protected against human nature, because theft or pilfering is a difficult problem encountered in foreign trade. In some countries, conditions are worse than in others. Professor Ross describes the situation in China: "The Peking-Hankow Railway complains of the nightly theft of ringbolts and plates; no fewer than 60,000 bolts a month and 10,000 plates per annum, to be made into razors and scissors, hoes and plowshares." (*The Changing Chinese.*)

Since the signing of the Armistice, the unusual amount of losses has directed the attention of shippers and insurance companies to the necessity of securing packing against pilfering and theft. The destitution of some of the European countries, the tendency to lawlessness which follows war, and the congestion at the wharfs, are conditions which make this problem especially acute. In the case of food and clothing, insurance companies charge very high rates to cover consignments against theft.

The situation requires special care in making packing as strong as possible, and so marking the boxes that the contents of the package are concealed. This applies especially in shipping articles of food and clothing.

Marking.—A very important detail which must not be overlooked by the American exporter is the proper marking of packages. In general it is a good rule to follow the principle that the least marking is the best marking. Marks which indicate the contents of the package, if the goods are liable to be stolen, should be eliminated. Also it is agreed that there is little value in the phrase, "handle with care." However, if it is used, it should be marked both in English and the language of the foreign port. It is particularly important, when the container has been used before, that all the old marks be removed. Otherwise delay and confusion are bound to result. In determining what marking shall be made, the shipper should first of all find out the requirements of the foreign law on this point. Here, as in other business matters, there is little harmony in the legislation of the commercial nations. In regulating the marking of imports, the policies of Japan and Chile present two extremes. Japan has no regulations, while Chile prescribes definite rules of marking. In Chile all marking must be in stencil. Each package must have a serial number, which must agree with the number stated in the consular invoice and all other shipping documents. The gross and net weight in kilograms must be marked on each package.

Packing material.—In view of the many items which must be taken into consideration in packing or boxing for foreign trade, the necessity of great care in the selection of packing material is coming to be recognized. The observation of one expert representing the National City Bank, who investigated packing of American goods which reached a certain port in South America, is interesting:

"In the course of our inspection, we came across one item which was particularly well packed. This was a talking machine shipped from New York. It was splendidly packed but the wood employed was poor. As a rule, the packing of American merchandise is good, but the wood used is usually of an inferior quality, easily broken into pieces when opened in the custom house, and the nails used are too large, so that when they open these cases, the wood is torn to pieces.

"We would suggest having the wood of better quality, employing shorter nails, and having the packages iron bound at the ends with ¾ inch to 1 inch iron bands."

Tests for boxes.—In this connection the work of the Forest Products Laboratory at Madison, Wisconsin, as stated in a bulletin, shows the attention which is given, in a scientific way, to the problem we are discussing:

"A machine for testing the strength of boxes has been devised by engineers of the Forest Service and is in use at the Forest Products Laboratory at Madison, Wisconsin. The machine is the result of experiments made to determine a fair test for all types of boxes. A series of tests in co-operation with the American Society for Testing Materials and the National Association of Box Manufacturers has been carried on during the past year to determine the strength of boxes of various woods and of different construction. More than 4½ billion feet of lumber are used for box making every year, and on this account the tests are considered important. Moreover, big losses are caused by the breakage of boxes in transit, and all parties concerned are said to be anxious to determine the best kind of box.

"The machine consists of a hexagonal drum with three and one-half foot sides, which is lined with thin steel sheets. Pieces of scantling bolted to the bottom form what are known as 'hazards.'

"In making the tests, boxes filled with cans containing water are placed in the drum, which is then rotated. For convenience in observing the results of the tests, the sides and ends of the box are numbered with large figures, and in addition, other numbers are placed at specified points on each side. The 'hazards' cause the boxes to be carried part way around and then dropped back to the lower level of the drum. Each fall of this sort is a pretty fair imitation of the probable treatment it would receive in shipment. The boxes are watched carefully, and notes are taken on the manner in which they give way and the number of falls required to break them in pieces. In this way, say the officials who have conducted the tests, it is possible to determine what kinds of wood are best suited for standard classification of box woods, and three groups have been made, based on the data which was obtained. The tests also show the best methods of box construction. The experts say that one of the most striking things brought out was the inadequacy of the ordinary methods of nailing up boxes. The number of nails used and the way they are put in are important. One nail more to the side of a box will give it a great deal more strength than might be thought. The nails should not be driven too deep into the wood. In many cases, it is said, proper nailing will allow a reduction of the amount of lumber used without any decrease in the value of the box. Boxes with cleated ends were found to be much stronger than those without cleats.

"As a result of the tests made at the Forest Products Laboratory, tentative specifications for boxes used in shipment of canned goods have been drawn up and submitted to the various parties interested, for discussion."

From this brief sketch of some of the outstanding problems of packing for foreign trade, it is evident that a thorough, detailed and practical study of this subject is required of every successful American exporter. In conclusion, three rules which should govern the packing policy of every export department are suggested:

1. Poor packing is false economy.
2. Responsibility for packing cannot be shifted to commission houses.
3. Each shipment, by its care in preparation, should invite a repeat order.

II

Weights and measures.—Closely connected with the problem of packing to suit the demands of the foreign market, is the use of standards of weights and measures adjusted to the demands of the foreign market.

Metric system.—In looking into this question, the first thing which confronts our attention is that outside of the United States, Great Britain and her colonies, the metric system of weights and measures is in general use throughout the world.

The metric system was sponsored by James Watt in 1773. It is organized on the decimal principle, like our currency system. The unit of length is the meter; of capacity, the liter; of weight, the gram. The Greek prefixes deka, hecto and kilo mean ten, one hundred and one thousand times the unit named. The Latin prefixes deci, centi and milli mean one tenth, one one-hundredth, and one one-thousandth of the unit named. Thus a kilometer is one thousand meters; a millimeter is one one-thousandth of a meter. (Hough, *Practical Exporting,* ch. 11.) The following table gives the usual metric units with the standard abbreviations:

LENGTH

10 millimeters (mm)=1 centimeter.
100 centimeters (cm)=- meter.
1,000 meters (m)=1 kilometer (km).

CAPACITY

1,000 milliliters (mils, cubic cm or cc)=1 liter

WEIGHT

1,000 grams (g)=1 kilogram (kg).
1,000 kilograms=1 metric ton.

Equivalents of metric system.—The approximate equivalents of the metric units are:

1 meter =38⅜ inches.
1 liter =little less than a quart.
1 kilogram=2 1/5 pounds.

American system awkward.—The first argument for the adoption of the metric system is a negative one: the system in use in this country is very awkward and clumsy. The mere statement of its features is sufficient evidence on this point:

Units of length

1 mile	=	8 furlongs
1 furlong	=	40 rods
1 rod	=	2¾ fathoms
1 fathom	=	2 yards
1 yard	=	3 feet
1 foot	=	12 inches
1 inch	=	3 barleycorns

Units of weight

1 ton	=	20 hundredweight
1 hundredweight	=	100 lbs (if a long ton, 112 lbs.).
1 pound	=	16 ounces
1 ounce	=	16 drams
1 dram	=	27 11/32 grains

When it comes to units of measure, we have the wet and dry quarts. There is lack of uniformity in the capacity of a bushel. A bushel of wheat is uniformly 60 pounds. But a bushel of rye varies from 50 pounds in some States, to 56 pounds in others. A bushel of barley varies from 46 pounds to 50 pounds, depending on the statute law of the State.

There is a variation in the use of the term hundredweight. It may mean either 100 or 112 pounds. It is therefore suggested that instead of quoting merely on "per ton" or per "hundredweight," the terms "ton of 2,000 pounds" or "ton of 2,240 pounds" or "ton of 2,204 pounds" be used. Especially indefinite is the term "carload," which differs according to commodities and localities. The load may vary from 12,000 pounds to 90,000 pounds. In quoting prices based on carload lots it is advisable to specify the minimum weight necessary to make a carload lot for the shipment in question. (*Exporters' Review,* January, 1920.)

Arguments for metric system.—Opposed to this unscientific system is the metric system. The former Secretary of Commerce, Mr. Redfield, sums up his conclusions regarding the relative merits of the two systems:

"I firmly believe, and have long believed, that the metric system offers a return to simplicity, offers effectiveness of thought, offers much even to the children in our schools that we are not justified in withholding from them. It is obnoxious to me to use an ounce of 480 grains when I deal in platinum and an ounce of 437½ grains when I deal in iron and steel. There is no reason that an absurdity should go on because it has gone thus far, and those who would oppose the change from vagueness and uncertainty of thought to clarity and directness of thought are standing in the way of progress. The burden of proof that they are right is on them. It is not the advocate of the metric system who must prove the negative, that it is not what the nations of the world think it to be and have declared it to be.

"So, having no doubt as to the principle involved, in putting that principle alongside of other forward steps, we can witness the fact that whether in things mechanical or things artistic or things spiritual, we are advancing toward the light and sweeping away the darkness that has surrounded mankind. The question therefore becomes one of adaptation."

Giving the buyer what he wants.—From the standpoint of foreign trade, the main argument in favor of the metric system is that it meets the requirements of our foreign markets. Whether we adopt the metric system for our own convenience in domestic trade is a matter not pressing for immediate decision. But on the basic principle that we must give our foreign customer what he wants in terms that he understands, there can be no question as to the advisability of adjusting our system of weights and measures to the standard most generally used.

The essence of foreign trade is that it is governed by the rules determined by world-wide, and not by local conditions. As applied to the problem of weights and measures, the necessity of adjusting ourselves to world, instead of local, units, is suggested by a statement made by Mr. McEacheron, editor of the *Valve World:*

"A typical transaction illustrating the practical ideal of this Association (American Metric Association) might be this: I buy a 25mm. bolt in Rio Janeiro; find a 25mm. nut to fit it in Tokio; bore a 25mm. hole for it in Cape Town with a 25mm. twist drill, turned in Brussels, on a machine manufactured in Bridgeport, Connecticut."

CHAPTER VIII

MAKING SHIPMENT-SHIPPING TERMS

The object of this chapter and the one following is to present, first, an analysis of shipping terms, and second, a condensed statement regarding the important features of the various papers and documents with which every shipper must be familiar.

Necessity for clear statement of terms.—In making shipment it is first of all necessary to have a clear idea of where the responsibility of the seller ends and that of the buyer begins. Quotations, have, in the past, been rather loosely defined. The result has been much confusion and misunderstanding. The important thing is not, necessarily, what the terms generally mean, but what each buyer and seller thinks they mean. If they understand each other, there are no difficulties, no matter what terms they use.

The following analysis of the correct use of shipping terms and of the obligations and responsibilities of both buyers and sellers in each case, presents the accepted meaning put on these terms by such responsible organizations as the Foreign Trade Council, the Merchants Association of New York, the New York Produce Exchange, the American Importers and Exporters Association and the National Association of Manufacturers.

Nine quotations are chosen as the most commonly used in foreign trade:

1. F.O.B. (free on board) shipping point.

1. Obligations and responsibilities of the seller.
   a) Load goods on or in carrier at the shipping point.
   b) Secure bill of lading.
   c) Assume all responsibility until goods have been placed on carrier at shipping point and until a clean bill of lading has been issued by the carrier.

2. Obligations and responsibilities of the buyer.
   a) Assume all responsibility after the goods are placed on the carrier at shipping point.
   b) Pay all freight charges thereafter and also taxes.
   c) Handle all subsequent movement of goods.

2. F.O.B. (named point) freight prepaid to seaport.
   1. Obligations and responsibilities of the seller.
      a) Place goods on carrier.
      b) Secure bill of lading.
      c) Pay freight to the seaboard port.
      d) Assume responsibility for all damage until the goods are loaded on the carrier at shipping point and a clean bill of lading has been issued by the carrier.

   2. Obligations and responsibilities of the buyer.
      a) Assume all responsibility for goods after they have been loaded on the carrier.
      b) Handle all subsequent movement of goods.
      c) Unload goods.
      d) Transport goods from the cars to the vessel.
      e) Pay all demurrage and storage charges.

f) Arrange for all storage in warehouse when necessary.

3. F.O.B. (named point) freight allowed to seaport.
   1. Obligations and responsibilities of the seller.
      a) Place goods on the carrier at shipping point.
      b) Secure bill of lading.
      c) Be responsible for damage to goods till they are placed on the carrier and a clean bill of lading is issued.
   2. Obligations and responsibilities of the buyer.
      a) Assume responsibility for goods after they are placed on the carrier.
      b) Pay all transportation charges to the seaport.
      c) Deduct these charges from the face of the invoice on paying the seller.
      d) Handle all subsequent movement of goods.
      e) Unload goods from the cars.
      f) Pay all demurrage charges or storage.
      g) Arrange for storage if necessary.

4. F.O.B. cars (named point on the seaboard).
   1. Obligations and responsibilities of the seller.
      a) Place goods on carrier at the shipping point.
      b) Secure bill of lading.
      c) Pay freight to the seaboard port.
      d) Assume responsibility for goods till they arrive at the seaport.
   2. Obligations and responsibilities of the buyer.
      a) Assume responsibility after goods have arrived on the cars at the seaport.
      b) Unload goods from the cars.
      c) Handle all subsequent movement of goods.

d) Transport goods to the vessel.
e) Pay all demurrage charges.
f) Arrange for storage if necessary.

5. F.O.B. cars (named port) lighterage free.
   1. Obligations and responsibilities of the seller.
      a) Place goods on carrier at the shipping point.
      b) Secure bill of lading.
      c) Pay all freight charges to the port named, including lighterage.
      d) Be responsible for goods until they arrive at the port on the cars.
   2. Obligations and responsibilities of the buyer.
      a) Assume responsibility for goods after they arrive on the cars at the port.
      b) Handle all subsequent movement of goods.
      c) Pay cost of hoisting goods on the vessel, if there is any extra charge.
      d) Pay all demurrage charges—in fact all charges except lighterage.

6. F.O.B. vessel (port named).
   1. Obligations and responsibilities of the seller.
      a) Seller must place goods on board the vessel.
      b) Be responsible for goods until they are placed on board the vessel.
   2. Obligations and responsibilities of the buyer.
      a) Be responsible for goods after they are placed on board the vessel.
      b) Handle all subsequent movement of the goods.

7. F.A.S. (free along side) (port named).
   1. Obligations and responsibilities of the seller.
      a) Transport goods to the seaport.

b) Store goods in warehouse if necessary.

c) Place goods on lighter or wharf alongside vessel.

d) Assume responsibility for goods until they have been placed along side vessel.

2. Obligations and responsibilities of the buyer.

a) The buyer must assume responsibility after goods have been placed alongside vessel.

b) Handle all subsequent movement of the goods.

c) Pay cost for hoisting goods on the vessel if the ship's tackles will not handle them.

8. C.I.F. (cost, insurance, freight) foreign port named.

1. Obligations and responsibilities of the seller.

a) Make freight contract and pay freight charges to the destination indicated in the quotation.

b) Take out necessary marine insurance for the buyer's account.

c) Be responsible for loss or damage to goods till they are delivered along side the vessel at point of shipment.

d) Seller is not responsible for delivery of goods to destination, nor for the payment of the insurance claims by underwriters.

2. Obligations and responsibilities of the buyer.

a) Assume responsibility for loss or damage (except where it is covered by insurance) after goods are delivered along side the vessel.

b) Make all claims for insurance to the underwriters.

c) Pay all costs of unloading.

d) Pay all foreign duties and wharfage charges.

The following quotation, from the first paragraph of the United States Steel Products Company's condition of sale, sets forth the status of responsibility of buyer and seller, in a C.I.F. sale:

"The seller accepts no responsibility for the arrival of goods at destination or for the loss or damage in transit. The purchaser assumes all risks of transportation, except such as are covered by the legal responsibility of the carrier, or insurance company, and accepts and agrees to all usual and customary clauses in the bills of lading, as well as such additional clauses and stipulations as may be lawfully imposed by the carriers as a condition of their accepting the goods for transportation. The tender to the purchaser or his authorized agent, of shipping documents, consisting of proper bills of lading, and negotiable insurance certificates, constitutes full and final delivery on the part of the seller, and entitles him to immediate payment in full for the goods shipped, without prejudice to the subsequent adjustment of just claims on the part of the purchaser.

"Unless otherwise agreed in writing, the purchaser will receive the goods at destination, as fast as the vessel can discharge, and it is further agreed that the seller can select the route, port of shipment, and vessel with the privilege of stopping in transit at port or ports. Unless otherwise agreed any changes at destination, including lighterage, wharfage, or landing charges, dues, duties, etc., are not included in the seller's price."

Under a C.I.F. quotation, the seller is not expected to insure the buyer's profit. He is expected to cover only the value of the goods. Additional insurance, if taken out, should be at the buyer's expense. Under this quotation, the seller is the agent of the buyer, and is presumed to take out that amount and character of insurance which a reasonable business man would be expected to take out, if he were the owner of the goods. If there is any custom regarding the form of insurance for certain classes of goods, this custom must be observed by the seller.

9. C. and F. (cost and freight) named foreign port.
   1. Obligations and responsibilities of the seller.
      a) Make contract to pay freight to destination.
      b) Deliver goods along side vessel.
      c) Is not responsible for goods reaching destination.
   2. Obligations and responsibilities of the buyer.
      a) Assume responsibility for the goods after they have been delivered along side the vessel.
      b) Take out necessary insurance.
      c) Pay all costs of discharge at the foreign port.

Advantage of C.I.F. quotation.—In the C.I.F. quotation, the seller agrees for the price named to sell the goods, insure them, and pay the freight to the point named. All risk is assumed by the buyer while the goods are in transit. Of the quotations named, the C.I.F. basis is regarded as the most efficient. From the standpoint of the seller, he cannot be held responsible for any loss or damage while the goods are in transit, providing negligence is not proven against him. There is, of course, a speculative element of profit and loss, in case freight rates or insurance rates fluctuate after he has made his quotation. From the point of view of the foreign buyer, the C.I.F. quotation is attractive, because he knows exactly the cost of his goods, as they are laid down at the port of destination. He is in a position to make a contract for resale of these goods long before they arrive, because he has definite cost data.

The confusion which exists in the minds of business men over the question of delivery and other technical features of the various quotations is very well illustrated by the questions which are being constantly submitted to the *Journal of Commerce* of New York. A few typical questions, with the reply to each are presented here to show how the use of these terms raises practical problems.

Question 1.—Meaning of F.O.B. New York.—"New York, Jan. 11, 1917—In looking over your to-day's paper I read under Replies and Decisions an article on F.O.B. sales. I find from the experience I have had on export shipments as manager of the export department of a large banking house that you are incorrect in your statements. I have handled thousands of shipments with terms f.o.b. New York, and have always treated them as follows:

" 'F.O.B. New York'—The seller is only responsible for all expenses and risks until the shipment is landed in New York by the railroad, and all subsequent charges, such as delivery to steamer, issuing of bill of lading and insurance certificates, etc., are borne by the purchaser. Your answer would more than likely come under the terms 'f.o.b. steamer,' whereby the seller is liable for all expenses until the goods are aboard a steamer."

Reply.—"Our correspondent correctly states the various meanings of 'f.o.b. New York' in different cases. If the goods are outside New York at the time of sale, then 'f.o.b. New York' means free on board the conveyance that brings them here. If they are in New York at the time of the sale, then 'f.o.b. New York' can mean only free on board a conveyance that is to carry them away from New York. Our correspondent suggests that our remarks would apply to an agreement to deliver 'f.o.b. steamer, whereby the seller is liable for all expenses until the goods are aboard a steamer.' That is precisely the case we were considering. A contract for delivery 'f.o.b.' is a contract for delivery 'f.o.b. steamer' if all the facts of the case show that such was the intention of the parties when the contract was made. Words are often meaningless or ambiguous except in consideration of the special condition under which they were used."

Question 2.—Effect of F.O.B. New York.—"Pittsburgh, Pa., Jan. 18, 1917.—We are interested in the import of various lines of perishable products from Europe and wish to inquire as to whether the seller or buyer is supposed to pay the duty on commodities which are dutiable, when such goods are bought on a delivered or f.o.b. New York basis and nothing is mentioned in the agreement as to who is to pay the duty."

Reply.—"1. Here the seller has agreed, for the amount named in the contract, to deliver the goods to the buyer free on board at New York. This compels him to make a tender, with all charges and duties paid, so that the buyer may take the goods without paying anything upon any account except what he has agreed to pay. If harbor dues or duties must be paid, in order that the buyer may take his goods, the seller is to pay them. The duty accrues when the goods first enter the harbor, and they are not ready for delivery at that time."

Question 3.—Delivery of goods sold F.O.B.—"New York, March 21, 1916.—An export order is placed for merchandise, the terms being f.o.b. New York. When does the liability of the seller cease? Does f.o.b. New York imply f.o.b. steamer?"

Reply.—F.O.B., in a case of this kind, means free on board steamer. The seller delivers the goods to the carrier named by the buyer, if any. If the buyer has not selected a carrier the seller is deputed to choose any line that is suitable for the purpose. The goods are then delivered to the carrier against such documents as will enable the buyer to claim and take possession of them. These documents are sent to the buyer and the seller's connection with the matter is at an end. Any questions that may arise thereafter are to be settled between the buyer and the carrier."

Question 4.—"New York, Oct. 27, 1916.—1. In your columns about a month ago was an opinion that in c.i.f. sales the seller can not be held responsible for non-delivery where the ordinary freight channels through which such shipments could be made are obstructed. May we ask you to kindly repeat that opinion, this time giving your authority in support of same?"

Reply.—"1. The opinion which our correspondent asks us to repeat was as follows: 'There is this difference between a sale of foreign goods f.o.b. New York, and a sale of the same goods c.i.f. New York. When goods are sold for delivery at his own risk and expense to bring the goods to this port and deliver them here in good condition, the buyer is not bound to pay for the goods until such delivery has been made or duly tendered. When goods are sold "c.i.f. New York," the seller does not agree to deliver them at this point. He can make a good delivery abroad. The first letter (c) represents the selling price of the goods. The other letters represent the amount which the seller undertakes to pay in order that the goods may be insured for the benefit of the buyer while they are upon the way, and that the buyer may take possession of them, upon arrival, without payment of any freight charges to the carrier. The seller does not agree to deliver the goods here, and he is not bound to do so. He agrees to deliver them abroad, under such conditions that, in case they do not reach this port, the buyer may look to the insurer of the carrier under his contract. If the seller were bound to make delivery here at his own risk and expense, he would not agree to insure and pay freight upon the goods, because those would be matters in which the buyer was not interested. The mere agreement to deliver at destination is an agreement to pay freight. If the seller insures the goods it is for his own benefit. He may do so or not, as he will. But he must deliver the goods at destination, in any and every event, or pay the resulting damages. It is for this reason that he insures the goods in his own behalf while they are in transit." This is the opinion held by all leading authorities upon the subject of sales, the best known of whom, perhaps, is Benjamin.

Question 5.—Meaning of F.O.B. and C.I.F.—"New York, Oct. 9, 1916.—Merchandise was bought in Halifax or other parts of Nova Scotia and forwarded by a steamship which was sunk by a German submarine. Part of these goods were purchased f.o.b. Halifax and part c.i.f. New York. They were covered with marine insurance only by the seller. Upon whom does the loss fall, the shipper or the buyer—those sold f.o.b. and those sold c.i.f.?"

Reply.—"Goods in Halifax sold f.o.b., that place, are at the risk of the buyer from the time of shipment. He should insure them himself or ask the seller to insure at the buyer's risk. The seller can make a good delivery at Halifax, by handing the goods over to a carrier, and from the time of such delivery the goods belong to the buyer and the carrier is his agent. The same is practically true of goods sold c.i.f. The seller does not agree to deliver these goods at destination. He is bound, however, to insure them for the buyer's benefit, and, having done so, he may leave the buyer to look to the insurer in case of loss. A sale c.i.f. New York is not a sale for delivery in New York. It is a sale for delivery at the shipping point, the carrier being agent of the buyer, and the seller being bound to pay the freight and to insure the goods for the buyer's benefit."

Question 6.—"Chicago, May 12, 1919.—We sold a lot of 100 kegs of merchandise to a firm in Switzerland, c.i.f. Marseilles. Goods were placed on board the steamer at New York, fully insured, and bills of lading and insurance certificates complete, covering the consignment, were forwarded to customer with our draft, through the bank. Upon presentation of documents our customer paid the draft but when requesting delivery of goods from the steamship company at Marseilles he was informed that two kegs were missing and a shortage of weight existed in other kegs. Please state whether our selling the goods c.i.f. Marseilles makes us responsible for the safe delivery, intact, of the entire shipment to that port, or whether our responsibility ceases when goods are placed on board steamer at New York and bill of lading issued to us by the steamship company. Is it up to us, as sellers, to present claim against carrier for loss or damage?"

Reply.—"Upon this point, Benjamin on Sales states this as the rule: 'The terms, at a price to cover cost, freight and insurance are very usual, and are perfectly well understood in practice. The invoice is made out debiting the consignee with the agreed price (or the actual cost and commission, with the premium of insurance and the freight, as the case may be), and giving him credit for the amount of the freight which he will have to pay the shipowners on actual delivery; and for the balance a draft is drawn on the consignee, which he is bound to accept, if the shipment be in conformity with his contract, on having handed to him the charter party, bill of lading and policy of insurance. Should the ship arrive with the goods on board he will have to pay the freight, which will make up the amount he has agreed to pay. Should the goods not be delivered, in consequence of the perils of the sea, he is not called upon to pay the freight, and he will recover the amount of his interest in the goods under the policy. If the non-delivery is in consequence of some misconduct on the part of the master or mariners not covered by the policy, he will recover it from the shipowners. In substance, therefore, the consignee pays, though in a different manner, the same price as if the goods had been bought and shipped to him in the ordinary way.' The claim against the carrier in this case would be presented by the consignee."

Question 7.—"New York, Jan. 22, 1919.—A purchase of a large shipment from Japan has been made on terms c.i.f. New York. The goods have been shipped in due time from Japan with a through bill of lading freight prepaid to New York. When the consignment arrived on the Pacific Coast it appears there was an embargo and that cars were not obtainable. The consignment in question went to the warehouse, and storage and wharfage expenses accrued. The freight rate had increased in the meantime, and therefore the consignee had been called upon to pay the additional freight charges, also the expenses as stated above. I want your opinion as to who is to pay the charges for the storage, wharfage and the additional rate of freight, the consignor or the consignee?"

Reply.—"The extra charges described by our correspondent are for account of the buyer. The seller agreed to pay freight upon the goods to New York, and he did so. He took out a through bill of lading and paid all the charges at that time demanded. Having delivered this bill of lading to the buyer, or tendered it to him, the seller has done his full duty under the contract. It is to be noted that the seller did not agree to deliver the goods in New York. If he had made such an agreement he could not demand payment until delivery had actually been made. The carrier in that case would have been an agent of the seller to deliver the goods at destination. As the case actually stands the carrier was an agent of the buyer. The seller did not agree to deliver at destination. His contract bound him simply to insure the goods, pay freight upon them and deliver them to the carrier. After he had done this the matter was one to be settled between carrier and consignee."

Question 8.—Meaning of insurance in C.I.F. sale.—"New York, Oct. 16, 1916.—Does the term 'c.i.f. New York' include war risk under present conditions? Our reason for asking this question is that in quoting goods abroad we are frequently requested to quote ci.f. foreign ports, including war risk, while we have been advised by representatives in this market of foreign houses that term 'c.i.f.' includes war risk under present conditions unless distinctly stated to the contrary."

Reply.—"We are of opinion that the insurance in a c.i.f. sale should include insurance against war risk under present conditions. The seller agrees that for the price named he will insure the goods during transportation. His obligation, thus assumed, is to take out such insurance as a reasonably prudent man would take out if the risk were his own. He is acting as agent of the buyer, and the question is as to the risks against which any agent would reasonably be expected to insure under the like conditions—and these are the risks against which a prudent owner, acting in his own behalf, would protect himself."

Question 9.—C.I.F. liability.—"Montreal, March 21, 1916—If our memory serves us correctly, in many decisions given by you as to the exact terms of a cost and freight, or cost, insurance and freight contract, you have stated that in your opinion (for which we think you also quoted the legal decisions bearing on same), the sellers' liability, as far as freight (and, or insurance), ceased as soon as he had booked the freight space and taken out proper insurance cover. If we are correct in this we should like you to extend your reply and let us know who, in your opinion, is liable for extra freight rate (and, or extra insurance premium) incurred to carry the goods to their destination, the original boat by which the freight space was booked and which was declared to the buyers, being unable to carry out the engagement by force majeure."

Reply.—"We are of the opinion that the buyer is liable for the extra freight in this case. The seller undertakes and agrees to furnish the goods, to pay such premium as the insurer may demand of him, and to prepay the freight. Having done this much, it is his right to turn the papers over to the buyer, leaving him to settle with the carrier and insurer. In short, the seller does not agree to deliver the goods at destination. If that was the agreement, he would, of course, be liable for all expenses up to that point. What he does agree to is to *deliver the goods at the shipping point,* properly insured. From the time that such delivery is made, the goods are in the hands of the buyer's agents, and the *seller is released* from all further liability in respect to them.

Question 10.—"New York, Dec. 19, 1916.—One of my buyers maintains that, in c.i.f. transactions which allow a transshipment to be made 'en cours de route,' the risks are the seller's when the transshipment must be made by care of the seller's shipping agents. As an exporter, I hold that goods travel for buyer's account and risk, since the very moment when they leave the initial port of shipment, no matter if the transshipment is made by care of the steamship company or if it has to be made by care of the seller's shipping agents, the seller is released from responsibility provided he has used ordinary business care. Do you think that my interpretation is right?"

Reply.—"The contention of our correspondent is clearly right in this case. A seller is not bound to deliver the goods at his own risk at destination unless he has expressly agreed to do so. In the absence of such express agreement he can always make a good delivery at the shipping point or at the place in which the goods are at the time of the sale. The letters c.i.f. do not change this rule. They mean simply, that for the price named, the seller will furnish the goods, (c); will insure them, (i); and will pay or allow freight upon them, (f). If the seller were bound by the contract to deliver at destination he would enter into no agreement as to freight and insurance. His agreement to deliver would, of course, bind him to pay freight; and the question of insurance would be a question of his own protection until he had fulfilled his contract. The goods would belong to him, and be at his risk, until he had delivered or tendered them at destination in accordance with his contract."

CHAPTER IX

MAKING SHIPMENT-SHIPPING PAPERS

In the previous chapter analysis has been made of the most important shipping terms used in making quotations. In this chapter the salient features of the shipping papers are to be discussed.

Shipping permit.—In shipping abroad, a primary consideration from the standpoint of the shipper is to make provision for getting his goods to the wharf where the overseas vessel docks. It will be necessary to get shipping permits either from the railroad company or from the steamship company. The railroad permit has come into prominence especially during the War, when on account of the congestion at all the important eastern ports, measures had to be taken to regulate the piling up of freight, not only at wharfs, but also in the zones surrounding the ports. When an embargo is placed on foreign shipping, on account of a strike of longshoremen, or for any other reason, the railroads can reduce the volume of freight which piles up in the congested districts by refusing to issue their permits unless the inland shipper can show an ocean shipping permit. The following clipping from the *Journal of Commerce,* October 9, 1919, shows the way railroad permits are used to prevent the congestion of freight for overseas consignment:

"All permits for the shipment of freight to New York for export and coastwise traffic were suspended yesterday until further notice, as a result of the strike of the longshoremen. Announcement to this effect was made at the offices of S. M. Stevenson, traffic control director of the port. The order affects the shipment of about 6,000 cars a day. Cars already at the port will be held temporarily at the piers or at the terminals. Deliveries of domestic freight have not been affected by the strike."

The ocean shipping permit is a notice to the shipping clerk of the steamship company that he is authorized to receive certain shipments. The typical permit states (1) the name of the ship by which the goods are to be sent, (2) the consignor, (3) the volume of consignment, (4) the date or dates within which the goods may be received, (5) the refusal of the shipping company to assume any responsibility for loss of or damage to goods.

Assured, by the shipping permit, that he can proceed to ship his goods, the inland shipper next takes up the matter of the bill of lading with the carrier.

The bill of lading which the shipper receives may be either through or local.

The terms of a through bill of lading should be carefully studied by the shipper to determine to what extent the initial carrier is liable for shortage or damage occurring on a connecting carrier. The Carmack amendment which allows a shipper to hold an initial carrier liable for loss or damage does not apply to foreign commerce. However this does not prevent a special agreement on the part of the initial carrier to assume such liability. (212 Federal 324; 159 Wis. 429; 104 S. C. 364.)

The local bill of lading is used in case the inland shipper is consigning the goods merely to the port of shipment. The through bill of lading is used to bill the goods through via railroad and steamship to the foreign port of destination. A clean bill of lading indicates that the carrier has received the goods in sound condition.

Through bill of lading.—In examining a typical through bill of lading issued by the New York Central Railroad, the following features are noticed:

1. There is a separate listing of inland and ocean freight rates.

2. There are two distinct parts to the bill: (a) conditions governing freight till goods are delivered to the ocean carrier; (b) conditions governing freight after the goods are delivered to the ocean carrier. The latter conditions are, of course, similar to the regular ocean bill of lading.

3. No guarantee is made by the railroad issuing the bill of lading regarding the matter of delivering the goods to a particular vessel, or at a particular time. It is on this account that foreign banks often hesitate to accept drafts attached to through bills of lading. There is no assurance that the goods have been received by the ocean carrier.

The "documentary bill."—The importance of the bill of lading consists in the fact that it is a receipt for goods, a contract for carriage and a title to property. In financing foreign shipments the bill of lading is one of the parts of the "documentary bill." This consists of the draft or bill of exchange drawn by the seller on the buyer, or buyer's bank, the invoice, the marine insurance certificate, and the bill of lading. The process by which this documentary bill is negotiated through the bank is taken up in the chapters on financing foreign trade.

Copies of bills of lading.—The number of copies of bills of lading varies from three, to ten, depending on the number of agents through whose hands the goods pass. Two or three of these bills of lading are negotiable. The others are non-negotiable. They are simply copies kept on file for reference by the shipper, bank, consular office which issues consular invoices, shipping company, and customer. The negotiable copies are all handed over to the bank, if a bank makes collection. The possession of any one of these copies, properly endorsed, gives the holder title, and automatically cancels the other two copies.

Harter and Pomerene Acts.—Two important pieces of legislation affect bills of lading entering into foreign commerce: The Harter Act of 1893 and the Pomerene Law of 1916. The Harter Act prevents a shipping company from inserting in a bill of lading any clause which absolves the carrier from responsibility for damage or loss due to its own negligence. It further provides that the ocean bill of lading must contain "the marks necessary for identification, number of packages, or quantity, stating whether it be the carrier's or shipper's weight, and apparent order or condition of such merchandise—and such document shall be prima facie evidence of the receipt of the merchandise therein described."

The Pomerene Law applies to bills of lading issued by common carriers in interstate commerce or commerce from a State to a foreign country. Bills of lading are made negotiable, and the conditions of their issue are clearly defined by the law.

Straight and order bills.—The Pomerene Bill provides for two types of bills of lading: the "straight" and the "order" bill. The straight bill is made out in favor of a specified person. In the order bill, "goods are consigned or destined to the order of any person named in such a bill." The law provides that a straight bill shall have the words "not negotiable" or non-negotiable" placed plainly on its face.

Order bills.—In most cases the ocean bill of lading is drawn "to order." In this case the bill of lading is drawn as follows: "Received from exporter, to be delivered at Port (of destination) unto order, or to his or their assigns." When the "order" bill of lading is used, there is often a "notify clause" marked on the margin. This indicates the consignee who should be notified on the arrival of the goods. A "notify clause" does not affect the negotiability of a bill of lading.

Straight bills.—In the straight bill of lading, the consignee is named. Only when presented by him or his agent can the bill of lading be honored. The straight bill is used when (1) goods have been paid for, (2) when goods are sold on open account, or (3) when the statute law of the foreign country requires this form.

Endorsements.—Endorsements are made on the back of the bill of lading. The endorsement is made by the party to whose order the bill is drawn. In case of the order bill, usually drawn "to ourselves," the shipper or exporter endorses the document by writing his name on the back.

The endorsement may be "special" or "in blank," as in the case of bills of exchange. In the first case delivery is to be made to the party named, as a bank, a merchant, or order. In the second case, it is assumed that delivery is to be made to the holder of the bill.

Carriers must make delivery only to the consignee named in a straight bill or to the holder of an order bill. In either case, however, delivery does not have to be made by the carrier, till (1) the carrier's lien is satisfied, (2) the bill of lading is surrendered, properly endorsed, (3) the consignee is willing to receipt for the goods. Failure to deliver under these conditions puts the burden of proof on the carrier. (Pomerene Law.)

Alterations in a bill of lading made without the authority of the carrier are void. The law further provides that in case of duplicate the carrier must declare it to be a true copy.

If a shipment containing several parcels is sent under one bill of lading, the consignment is to be treated as a whole. Thus, if freight is assessed on the measurement basis for part of the consignment, the whole of the freight bill must be estimated on this basis.

Pomerene Law on loading.—When goods are loaded by the carrier, the latter must count the packages, in case of package freight, and determine the kind and quantity when bulk freight. When loaded by the shipper, the carrier is not liable for careless loading, or for the wrong description of goods.

The carrier must assume full responsibility for bills of lading issued by agents having "actual or apparent authority."

So important is the bill of lading among the shipping papers that it seems necessary to examine in detail the contracts of a typical ocean bill of lading issued by the White Star Company. Bills of lading differ somewhat in form and content, but the following outline presents some outstanding features which to a large extent are common to all:

Details of a bill of lading issued by the White Star Company.—1. The bill of lading is a receipt for goods. ("Received in apparent good order and condition.")

2. The name of the ship is given.

3. The carrier reserves the right to change the route of the vessel. (With liberty to call at intermediate port or ports in or out of the customary route in any order.)

4. The marks and numbers of the packages are listed.

5. The port of delivery is named. (This constitutes contract for delivery.)

6. The consignee is named, unless it is an "order" bill. If it is an order bill, the name of the consignee may appear on the margin preceded by a "to notify" clause.

7. Freight, primage and charges are to be paid on the discharge of goods without any credit or discount.

8. The carrier reserves right to carry goods to or from vessel in lighters at the risk of the owner of the goods.

9. The carrier reserves the right to tranship cargo to another vessel if it is unable to proceed on its voyage.

10. [1] The carrier is not liable for loss or damage occurring from perils of the sea, fire, barratry, enemies, arrest or restraint of civil authorities, strikes, riots, explosions,

[1] Although most ocean bills of lading state that the carrier is not liable for loss "caused by theft or embezzlement of the master or crew," the responsible officers are not relieved of negligence. If, for instance, it can be shown that ordinary care was not exercised in the selection of employees, the carrier may be held liable for loss or damage arising from such negligence on the part of responsible officers.

bursting of boilers, defect of hull or machinery, unseaworthiness of the vessel (providing the owners take ordinary precautions to make the vessel seaworthy), heat, frost, decay, putrefaction, rust, sweat, change of character, drainage, leakage, breakage, vermin, explosion of the goods, land damage, obliteration of marks, errors, or inefficiency of marks, risk of transhipment or delay.

11. General average is to be paid according to the York-Antwerp rules. The ship owner and the cargo owner agree to contribute to the general average fund. (See discussion of Marine Insurance.)

12. Passengers' effects are not to contribute to general average.

13. Shippers will be held liable for any damage caused by hazardous or explosive material, if at the time of loading their nature is not disclosed.

14. All steamer charges constitute a lien on cargo carried.

15. Any delay to vessel caused by the lack of proper consular or other papers accompanying shipment must be borne by the shipper or consignee.

16. In case discharging goods makes a vessel liable to quarantine, the master of the vessel has the right to land the goods at any available safe port at the shipper's risk and expense.

17. If the master of the vessel decides that it is unsafe to unload goods at any port, he can use his judgment whether to deliver goods at some other convenient port or return them.

18. The carrier may commence discharging cargo immediately on arriving at port, and by so landing goods, may be deemed to have made good delivery.

19. If the goods are sold to satisfy the carrier's lien, and the proceeds of the sale do not cover the charges the carrier can collect the difference from the shipper.

20. The carrier reserves the right to reweigh goods, but no additional freight can be collected on account of increased weight due to absorption of water during the voyage.

21. If any bag or baled goods are landed slack and torn the consignee shall accept such portions of the sweepings as shall be allotted by the steamer's agent and the same shall be deemed a full settlement of any claim for loss of weight.

22. For metals in slabs, bars, etc., not properly packed, but shipped loose or in bundles, the steamer is liable for the number of bundles only, and not for their respective marks.

23. In case of claims for short delivery, the basis of claim must be the market price at the port of destination on the day of steamer's entry at the custom house.

24. Claims for damage must be made in writing within five days after the steamer finishes discharging and always before goods are taken by the consignee.

25. All freight is payable at the current rate of exchange for bank demand bills on London on the day of the steamer's arrival. (Practice varies on the matter of whether freight is prepaid or not.)

26. Freight prepaid will not be returned whether or not goods are lost.

27. Packages exceeding one ton are liable to extra freight charges for handling.

28. On the margin of the bill of lading are the following:

1. Forwarding clause (applying only if goods are to be forwarded by the carrier beyond delivery port.)
2. Code marking of packages (same as marks on packages and invoice.)
3. Number of packages.
4. Cubic feet or weight.
5. Amount of freight (based on cubic feet, pounds, barrels, etc.)
6. Amount of primage (based on 5 per cent of amount of freight.)
7. Total amount due in gold (pounds sterling.)
8. Section 235 of the Criminal Code of the United States regulating the transportation of explosives.

Marine insurance.—Equally as important as the bill of lading, in export trade, is the marine insurance certificate. Although in domestic shipments it may not be usual to place insurance on a consignment of goods, no prudent exporter would consider sending his goods overseas without taking out ample insurance.

Necessity for insurance.—The necessity for marine insurance in foreign trade is due both to the general liability features of the ocean bill of lading, and also to the operation of the principle of general average.

Under the ocean bill of lading as noted above, the shipping company is practically relieved of all responsibility for loss or damage to goods, providing the vessel is seaworthy at the time of sailing. The Harter Act, referred to previously, establishes the legal liability of the carrier as follows:

Harter Act.—"If a ship-owner exercises due diligence in making his vessel in all respects seaworthy and properly manned, equipped and supplied, neither he nor his charterers shall be held responsible for damage or loss resulting from faults of navigation or in the management of the vessel, nor shall they be held liable for losses arising from dangers of the sea, acts of God or public enemies, or the inherent defect, quality or vice of the thing carried, or from the insufficiency of package, or seizure under legal process, or for loss under any act of omission of the shipper or owner of the goods, or for saving or attempting to save life or property at sea, or from any deviation in rendering that service."

General average.—The principle of "general average" is one of the most important features of maritime insurance. According to this principle the shipowner and the cargo owners are to assume a certain percentage of loss and damage to goods which are lost and damaged in the interests of the vessel or cargo. The common illustration of the operation of the law of general average is: in case part of a cargo could be saved by destroying or throwing overboard another part, the shipowner and the cargo owners would be compelled to contribute a sum which would make good the loss of the goods which have been jettisoned, or thrown overboard.

The basis on which the distribution of loss is determined may be illustrated as follows:

		Amount of Loss.
Value of ship	$10,000	
Value of A's cargo	1,000	
Value of B's cargo............	1,000	
Value of C's cargo............	3,000	$3,000
Total Value	$15,000	$3,000

Vessel must contribute	$\frac{10{,}000}{15{,}000}$	or 2/3 of $3,000 or	$2,000
A. must contribute	$\frac{1{,}000}{15{,}000}$	or 1/15 of 3,000 or	200
B. must contribute	$\frac{1{,}000}{15{,}000}$	or 1/15 of 3,000 or	200
C. must contribute	$\frac{3{,}000}{15{,}000}$	or 1/5 of 3,000 or	600
			$3,000

Total contribution $3,000

It is noticed that although neither the vessel owner, nor A nor B lost any property, they contribute to the $3,000 because it is assumed that the loss of C's goods was necessary to save the vessel and the rest of the cargo. C will receive the $3,000 minus $600, or $2,400.

If all these parties are insured, the contribution of each will be paid by the insurance company. Otherwise each will be held liable for the amount assessed.

Essentials of general average.—The five essentials of general average are:

1. There must be a common danger.
2. There must be the necessity for the sacrifice.

3. The sacrifice must be voluntary.

4. There must be real sacrifice, and not the mere destruction or casting off of that which had become already lost, and consequently of no value.

5. There must be a saving of the imperilled property as a result of the sacrifice. (Pridie vs. Middle Dock Company, 1881, 4, Asp. 338).

The necessity of taking out marine insurance, in view of the negligible liability of ocean carriers, and the risk involved in shipping under the principle of general average is obvious to the experienced exporter.

Marine insurance terms.—Some of the phrases and words of the marine insurance policy call for special explanation:

1. The word "average" means damage.

2. **Particular average** is damage or partial loss which does not come under the principle described as general average.

3. "**Free of Particular Average** (per cent given)." This is the phrase used when less than 100 per cent of the loss is covered by the insurance company. The purpose is to avoid settling trifling losses. The terms F. P. A. 3 per cent would mean that if the loss, for example, were only 2 per cent, the insurance company would not be called on to make a settlement. The F. P. A. conditions are described in the "memorandum" of the policy.

F. P. A. E. C. stands for "Free of Particular Average, English Conditions." The English conditions are "free of particular average unless the vessel be stranded, sunk, burned or in a collision." The American conditions are, "Free of particular average unless the damage be caused by the vessel being stranded, sunk, burned or in a collision." Under the English interpretation, all that is necessary to prove is that the vessel was stranded, sunk or in a collision; under the American interpretation, it must be shown that the damage was caused by these conditions.

4. **"Franchise"** refers to the amount of exemption enjoyed by the insurance company under the F. P. A. agreement.

5. **"Sound value"** is the market value of goods if they had arrived in 100 per cent condition.

6. **"Damaged value"** is the amount realized by the sale of goods partially damaged.

7. **Insurable interest.**—No policy can be issued unless the insured can show that he has an insurable interest in the property. He must have such a relation to the property, as owner, for instance, that he would be "benefited by its preservation and injured by its destruction."

8. **Multiple insurance.**—If property is insured with several companies, the practice of insurance companies in England and United States differ. In England, the insured chooses one company, from which he collects his claim. The company which pays the indemnity then claims from the other companies their pro-rata contribution to the loss. In the United States, on the other hand, the date of the policy is the determining factor. The company which underwrites the first policy is responsible for the loss if it is sufficient to cover the loss. If not, the underwriter of the next policy is responsible for the remainder not covered by the first.

9. **"Lost or not lost."**—This phrase which occurs in practically every policy refers to the condition of the

property at the time the policy is taken out. The main point to be determined is the ignorance or knowledge of the contracting parties. "If the underwriter alone was aware that the possibility of the claimable damage no longer existed, or if the assured alone was aware that claimable damage had already occurred, the contract is not binding on the party to whom the position of affairs is not known." (Gow, *Marine Insurance,* Chapter II.)

10. **Series.**—When cargoes of great size or value are insured, free of particular average, it is customary to divide the cargo into series of units. Thus, sugar may be insured F. P. A. 3 per cent on any series of twenty packages, running landing numbers. The sugar is taken from the ship in sets of twenty, and each of the sets is the unit on which the insurance is measured. The series for cotton is usually ten bales, running landing numbers; silk, cigars and indigo, one package each; tea, ten packages; sugar, twenty baskets, ten hogsheads, twenty barrels, ten cases or fifty bags. (Gow, *Marine Insurance,* Chapter 12.)

Subrogation.—Subrogation is the transfer to the underwriter of all interest in the property of the insured, for which he has received indemnity in case of total loss.

Amount of insurance.—The amount for which goods are insured depends on the wishes of the shipper. In addition to the invoice value of the goods, it is often the practice to add the amount of freight, customs duty, and profit.

Basis of estimating insurance claims.—The basis of estimating the amount of claim which can be collected from the insurance company in case of partial loss or damage to property is as follows:

1. The amount of loss is found by subtracting the damaged value of the goods from the sound value.

2. The amount of loss divided by the sound value gives the fraction, or percentage of loss.

3. The percentage of loss multiplied by the amount of the insurance policy gives the basis of claim which the insurance company is expected to pay.

Kinds of policies.—There are many kinds of marine insurance policies, varying mainly according to the character of the risk which is covered. The simple marine insurance policy offers protection only in case the loss is the result of "perils of the sea." This is a term rather loosely defined. An English decision points out that the "term 'perils of the sea', does not cover every accident or casualty which may happen to the subject matter of the insurance, 'on' the sea. It must be a peril 'of' the sea. Again, it is well settled that it is not every loss or damage of which the sea is the immediate cause that is covered by these words. They do not protect, for example, against that natural and inevitable action which results in what may be described as wear and tear. There must be some casualty, something which could not be foreseen as one of the necessary incidents of the adventure. The purpose of the policy is to secure an indemnity against accidents which may happen, not against events which must happen." (Gow, *Marine Insurance,* Chapter VI.)

General policies.—It is evident that the simple policy does not offer sufficient protection against the hazards of ocean shipment. It is necessary, therefore, to have special clauses added which will insure goods against leakage, breakage, fire, theft, etc. Insurance for goods while in storage in the customs house, on the quay or wharf, should not be overlooked.

Open policies and certificates.—Marine insurance is, in most cases, effected by means of insurance certificates issued under open policies. An exporter who knows that he will make several shipments, arranges with an insurance company to take out enough insurance to cover all his shipments. This is contracted for by an open policy. The insurance company gives the shipper a pad of insurance certificates. As each shipment is made, the certificate is countersigned by the shipper, and the details of shipment given to the insurance company, which endorses the amount of insurance represented by each certificate on the open policy. The certificate states that it "represents and takes the place of the policy and conveys all the rights of the original policy holder as fully as if the property were covered by a special policy direct to the holder thereof."

Cover Note.—Although the insurance certificate is negotiable, the "cover note" is not. The cover note is a statement by the insurance company that a certain shipment has already been insured.

War risk insurance.—War Risk Insurance developed as a separate phase of insurance, because the ordinary policy does not offer protection against acts of a public enemy. The war risk rates varied according to the flag, the ownership of merchandise and consignment or destination of the merchandise, the route of the vessel and the activity of the submarines or other enemies.

Collection of claims.—In proceeding to collect claims from the insurance company, the owner of the goods should first of all determine whether the particular loss or damage is covered by his policy. The amount of loss will be certified to by the local agent of the insurance company who will ascertain by a "survey" the sound and damaged value of the goods. It will be necessary, further, for the owner of the goods to prove his title by producing the bill of lading. The certificate of insurance will prove his right of claim to the insurance. The commercial invoice may also be required to check up on the quantity and value of the shipment. The ship captain may relieve the shipowner of responsibility for loss or damage to cargo by filing a "protest." This is a document filed before the consular representative of the country of the shipowner showing those conditions of the voyage which are liable to cause damage.

A typical policy.—A statement of the main contents of a marine insurance policy issued by the Insurance Company of North America follows:

1. Funds current in the United States are to be paid by the insurer.

2. The assumption of risk is stated as being "from and immediately following the loading of goods on board vessel—until the said goods shall be safely landed from said vessel."

3. The vessel may change her course if obliged to do so by stress of weather or unavoidable accident, without prejudice to this insurance.

4. The perils which the company is content to assume are of the seas, fire, jettisons, barratry of the master of mariners (unless the assured is part owner of the vessel.)

5. In case of loss, such loss is to be paid thirty days after proof of loss, proof of interest and adjustment to be exhibited to the insurers.

6. The insured is authorized to make all efforts to protect the property, without prejudice to this insurance. Any effort on the part of the insured or insurer to protect property shall not be construed as a waiver or acceptance of abandonment. For such charges incurred for protecting property, the insurance company will contribute.

7. If the insured shall have made any other insurance on the property, before the date of this policy, the Insurance Company of North America shall be answerable only for so much of the amount as the prior insurance fails in covering the value of the property. In such case the Insurance Company will make return for excess premium charge which has been levied on the insured.

8. If the insured shall take out other insurance on the property after the date of this policy, the Insurance Company of North America shall be answerable for the full amount of this policy.

9. If the insured shall take out other insurance simultaneously with this policy, the Insurance Company of North America shall not be liable for more than a ratable contribution in the proportion of the sum by them insured to the aggregate of the simultaneous insurance.

10. The goods are warranted by the insured to be free of loss or damage from riots, capture, seizure, detention, hostilities or the act of any government.

11. The memorandum lists articles "that are perishable in their own nature" which are warranted by the

assured free from average, except general; others which are free from average under 20 per cent, 7 per cent, 10 percent, unless general average.

12. Profits are free from claim in case of general average.

13. The company is not liable for damage arising from moisture, breakage, leakage or exposure of goods on deck.

14. The goods are warranted by the insured to be free from dampness, etc., unless caused by contact of sea water with articles damaged, occasioned by sea perils.

15. In case of damage loss, as far as possible, the loss will be ascertained by the separation and sale only of the damaged contents of packages.

16. The assured states that he is acting in good faith, and that the carrier is not given the benefit of any insurance on the goods.

17. Assignment of policy or the subrogation of any right therein, without the consent of the company shall make the insurance of the property affected void.

18. No claim shall be made in general average for jettison of merchandise on deck.

19. In case of partial loss, the company must be notified within eight days after landing of the merchandise.

20. This policy is deemed as continuous, but either party is at liberty to cancel by giving 30 days notice, which is not to prejudice any risk then pending.

21. Proof of loss is to be authenticated either by an agent of the company, a correspondent of the National

Board of Marine Underwriters or some recognized insurance authority.

22. The sound value at the port of destination shall not be greater than the purchasing price at the port of shipment, plus 10 per cent, exclusive of freight and duty.

23. The company is entitled to premiums on all shipments covered by this policy whether reported or not; and if shipments are made but not reported, and premiums are not paid when due, then the policy for subsequent shipments may become null and void.

24. The signature of the president of the Insurance Company of North America is attached to the above insurance contract.

On the back of the contract we find the following items which must be noticed:

1. The insurance is made prior to any known or reported loss or damage.

2. It is intended to apply to all shipments except those which are covered by open policies in force at this date.

3. Conditions governing under deck shipments:
   a) Unless otherwise specified, under deck shipments are insured f. p. a. e. c. (Free particular average, English conditions).
   b) Listed articles of general merchandise are insured f. p. a. e. c. 3 per cent.

4. Conditions governing on deck shipments: goods are insured f. p. a. unless loss is caused by sinking, stranding, burning or collision but to cover risk of jettison or washing overboard. (Compare this with f. p. a. e. c.).

5. Shipments of shoes, boots and saddles at "with average" conditions, including theft, pilfering or robbery insurance.

6. Special regulations regarding insurance:
   a) Insurance covers from the time goods leave the warehouse, till they reach the consignee.
   b) Covers against total loss, general average, salvage charges and all damage to the goods themselves.
   c) Minimum claim $25, each automobile being separately insured.

7. Rates (f. p. a. e. c. and w. a.) under deck to Australia, Tasmania and New Zealand by three separate routes are listed.

8. Rates for on-deck shipments are three times the under-deck shipments.

9. Value is based on invoice cost, including prepaid freight plus 10 per cent.

10. Insurance includes risk in transshipment.

11. Insurance covers lighterage.

12. Insurance covers customs duties in case of partial damage; but not in case of total loss.

Invoices.—Besides the bill of lading and marine insurance certificate or policy, the paper of next importance in the documentary bill to accompany the goods to their destination, is the invoice. It would be better to use the plural in this connection, because there are two kinds of invoices: the commercial invoice and the consular invoice.

Details of invoice.—The purpose of the commercial invoice is to set forth the complete details of the whole transaction. The details which are enumerated are as follows.

1. Invoice number.
2. Code word applying to the whole shipment represented by the invoice.
3. The consignee's mark, which appears on the box or covering in which the goods are packed.
4. Name of shipper.
5. Name of ship.
6. Name and address of consignee.
7. Number and date of indent.
8. Case number in which goods are located.
9. Code word for each case.
10. Gross and net weight of each case.
11. Cubic measurement of each case.
12. Number of items in each case.
13. Size of each item.
14. General description of items.
15. Amount of discount allowed.
16. Net charge for each item.
17. Net charge for total.
18. List of repair parts, literature, etc., for which no charge is made.
19. Price of goods in American and foreign currency.
20. Signature of shipper.
21. "E. & O. E." Errors and omissions excepted. This is a phrase inherited from long continued practice, but is of no legal validity.

These details are listed because of the importance of the invoice. It is an evidence of the value of the goods entering into the transaction. As such it is a matter of interest and importance to the banks through which the papers pass and also to the customs house officials. Inaccuracy or defect in the invoice is a cause of serious embarrassment. A mistake in the invoice may lead to the wrong valuation at the foreign port. The results of this may react unfavorably on both buyer and seller.

Consular invoice.—The consular invoice is a certification on the part of the consul of the foreign country to which the goods are exported, declaring that the price, place of origin, quantity of packages, weights and description have been sworn and attested to by the exporter. The most important column in the consular invoice is that in which description of the goods is made. This description must be so accurate that the foreign customs officers will be able to classify the goods according to the tariff schedule of their country.

Certificate of origin.—Closely resembling consular invoices are certificates of origin, and non-dumping certificates. The certificate of origin is required by some countries which have granted tariff preferences to goods of certain origin. The anti-dumping certificate is required by those countries having laws which penalize or make it illegal to import goods sold at a price lower than that prevailing in the country of export.

Dock receipt.—When goods are taken to the wharf at the point of sailing, the shipper is given a dock receipt. This document is exchanged for a bill of lading when the latter is made out by the carrier. The dock receipt becomes an important paper in case of court action when the issue involved is in regard to the time of delivery of goods to the ocean carrier.

The bill of lading is the document which represents actual shipment of goods. The date of the bill of lading is therefore taken as the time when shipment is made. Most steamship companies refuse to issue bills of lading till the steamship is in port, so that prompt shipment is assured. The dock receipt differs from the bill of lading in this respect, namely, that it indicates only that goods have been received on the wharf, and not that goods have been legally shipped. The importance of this distinction is obvious, in case contracts call for shipment at a certain specified time.

The dock receipt makes the steamship company liable as a custodian, rather than as a carrier of goods, and it is assumed that it must exercise such care as is required of any other custodian.

Drawback.—A paper which is peculiar to export trade is the drawback. This entitles the exporter to a refund from the government of 99 per cent of the duty on raw material entering into a manufactured product, providing it is manufactured within the United States. The important points to be established are:

1. What was the amount of the duty on the raw material?

2. Were the raw materials imported into this country?

3. Were the raw materials fabricated into manufactured products within the United States?

In the case of by-products, there are two principles applied:

1. The refund is not to be greater than the duty on the by-product.

2. If there is no import duty on the by-product, no refund will be granted.

The drawback principle is applied to the exportation of medicines and toilet preparations manufactured from domestic alcohol on which a revenue tax has been paid. The refund is equal to the amount of the tax. Tobacco, and other products subject to tax may be shipped "in bond." This means that if these products are sold abroad they are exempt from local revenue taxes.

The provisions of the drawback law are made to include "materials used in the construction and equipment of vessels built for foreign account and ownership, or for the government of any foreign country."

Parcel receipt.—The parcel receipt is an accommodation offered by a shipping company to expedite the unloading of samples and small packages. Under this arrangement, samples of small size and value are carried separately, so that on arrival of the vessel at the foreign port, the shipper can be sure of prompt delivery. The contract features of a parcel receipt are the same as those of the bill of lading.

Shipper's manifest.—Before a shipment can leave the American port, it must be "cleared." This consists in filling out the detailed statement known as the "shipper's export declaration." This document is sworn and subscribed to by the shipper, and filed with the collector of customs. Since our export statistics are based on data contained in these manifests, the need for accuracy of statement is apparent. The most important items included in the shipper's manifest are: marks and numbers, number and kind of packages, description of commodity, quantity, value at time and place of shipment, destination, and origin of the consignment.

Besides the papers mentioned above, two other documents with which the exporter is familiar are the packing list and statement of charges.

Packing list.—The packing list is of interest to the foreign importer, supplementing the data of the commercial invoice. It lists the weight and cubic feet of each item in each case. This information is valuable to the importer because he can estimate whether he needs machinery for handling the shipment; also the storage space required can be determined by the packing list.

Statement of charges.—The statement of charges, like the packing list, supplements the invoice. This is not always necessary, however, if all the items of expenses are included in the invoice. The statement of charges gives a detailed account of costs, as follows:

1. Invoice value of goods.
2. Cartage, transfer and lighterage expense.
3. Freight bill.
4. Insurance.

Parcel post.—In concluding this chapter on making shipment, mention should be made of the parcel post, The method of shipping directly to foreign customers by way of parcel post is as yet relatively undeveloped in this country. However, in the fiscal year ending June 30, 1917, 1,595, 975 packages weighing 8,579, 485 pounds were sent abroad in this way.

Why foreign parcel post is not developed.—There are several reasons why the use of the parcel post method has not been extensively developed in foreign trade. The first reason that suggests itself is that the parcel post arrangements which have been effected by the United States Government have been until recently, much more limited than is the case with Great Britain.

According to the British Postal Guide, Great Britain has parcel post agreements with 195 nations, while the United States has agreements with less than 145.

How this situation has reacted against American trade expansion is vividly presented by M. D. Howell, export manager of Montgomery Ward & Company, Chicago, in a statement published in *American Industries;*

Advantages of British Parcel Post.—"To my mind, the most inconsistent and indefensible inequality in the arrangements provided by our Post Office Department, is the situation by which those British colonies which have no parcel post with this country, and to which our Government has provided no way for sending parcels through the mails from America, may yet on the other hand, send their parcels to the United States through the English Post. Thus a merchant in Nigeria can send his produce, if he so wishes, to New York, by parcel post. We have a parcel post between this country and England, and England has a parcel post with Nigeria. She, therefore, takes the common-sense view that so far as the conveyance of parcels from Nigeria to the United States is concerned she will bring them in her own mails without any special treaty, but we, because we have no special treaty with Nigeria, have not even provided a reciprocal arrangement whereby the British mails in London will accept our parcels from our own mails. We must employ an agent in London, pay the postage from America to London and British postage from London to Nigeria.

"In the whole continent of Africa there is not a single place to which, at the present moment, United States exporters may send by parcel post.

"A British merchant can send a package weighing eleven pounds to Durban, the leading port in South Africa, for $1.98; we can send it for either $5.40 by first class mail, or $8.54 by express. To Singapore, where there is an immense demand for American wares, for which we are getting orders by every mail, to bring out eleven pounds of our merchandise will cost the buyer $4.88 by express, and $5.40 by first class mail. From London the parcel postage would be 7s. The same rates apply to Calcutta, and to Suva, Fiji Islands, from Great Britain. Our express friends, however, ask $14.38 to carry eleven pounds from Chicago to Suva, and yet the haul from Chicago to Suva, which is the first stop out of Vancouver, is much less than the haul from London to that port in the Fiji Islands." Mr. Howell's statement describes a condition which is being rapidly improved by the post office department at Washington.

In January, 1920, by a new parcel post agreement between the United States, England and France, it is provided that when a transit charge is paid the postal services of those countries, in addition to the charge required by our Government, the parcel will go to its destination over the combined services. The import regulations of the country of destination must, of course, be observed. Under this arrangement, shipments may be sent by way of England to British possessions, at the regular 12 cents rate plus transit charge, which varies according to range of weight, from 1 to 11 pounds. As an example, the additional transit charge to British East Africa varies from $.36 to $1.08; to Persia, from $.48 to $.96. (*Journal of Commerce,* January 19, 1920.)

At best, the parcel post is limited to trade in small packages. As such, it serves its greatest usefulness in the sending of samples and small orders. Although there are exceptions listed in the postal guide, the following are the general limitations regarding weight and bulk:

Greatest length	3.5 feet
Combined length and girth	6 feet
Maximum weight	11 pounds

Advantages of parcel post.—The advantage in using the parcel post is that it is the easiest method of shipping small articles, samples, etc. The customs regulations are usually less rigid. A certificate of mailing can be secured from the post office, giving proof that the goods have been sent. A return receipt from the customer can be secured, giving proof that the goods have been received. There is the advantage that, being shipped under the postal regulations of the government, the goods may be sent under conditions of greater safety and speed than would otherwise obtain.

The following are the general regulations which govern the shipment of articles for foreign consignment by parcel post:

1. Any article admissible to the domestic mails of the United States may be sent.

2. The package must not contain a letter of a personal nature.

3. No parcel may contain packages addressed to persons other than the person named on the outside of the parcel itself.

4. The package must be mailed from the post office, and not posted in a letter or package box.

5. Packages must be substantially wrapped, but unsealed, so that the contents can be easily examined.

6. The shipper must attach to the cover of the package a "Customs Declaration," stating the nature of the contents and the value.

7. Parcels can be registered, to all countries, with few exceptions, for 10 cents.

8. Customs duties levied by foreign countries cannot be prepaid by the sender.

9. Rate: 12 cents per pound.[1]

Samples.—In the sending of samples, presumed to be of no commercial value, and not exceeding 12 ounces, a special rate of 2 cents for the first four ounces, and one cent added for every additional two ounces is made.

A special rate can be secured for mailing "commercial papers," in unsealed packages. This regulation is designed to facilitate the sending of duplicates or copies of documents which have no personal nature. Although originals might be sent in this manner it would be better to send them sealed, as first class mail.

[1] The postal requirements stated here are the general conditions which apply. There are many exceptions to them. For instance, the length of parcels sent to Colombia must not exceed two feet. The limit of weight for Argentina is twenty pounds; for Peru, twenty-two pounds.

CHAPTER X

FINANCING FOREIGN TRADE—RISKS

An understanding of the broad general problems of financing foreign shipments is impossible without a clear knowledge of the details and technique of the relations between the shipper, banker and foreign customer, who are the principal characters in foreign trade financing. It is, therefore, our purpose to examine the steps which must be taken in financing our exports, and conclude with a summary of our Federal Reserve banking policy as it affects foreign trade.

Analysis of subject.—The subject of foreign trade financing, then, divides itself as follows: (1) the risk element; (2) the methods of financing foreign shipments; (3) the effect of the Federal Reserve Act on our machinery for financing foreign trade.

Risk element.—There is ordinarily a greater element of risk in foreign than in domestic selling. The first difficulty which confronts the American seller is the inadequate credit information regarding foreign customers. The information which the American shipper wishes to secure regarding his foreign customer are his financial standing, business policy, standing in his community, and the firms and clientele with whom he has business dealings. To determine whether a customer has overexpanded his credit requires a system of credit exchange which is only beginning to be organized in this country. In transacting business within the United States, the seller can call on such agencies as Duns and

Bradstreets for the credit data which is needed. Such facilities for credit information are not always available in foreign trade.

Credit information.—In England reliable foreign credit information is furnished by Seyd's commercial agency in returns known as Seyd's Reports. The credit information to be found in these reports is perhaps the most extensive to be found in any country.

Credit information from banks.—At the present time the chief source of credit information is the banks which are interested in pushing our foreign trade. A prominent bank in New York offers the following service to its clients, who wish to trade with Brazil:

1. Names of all the leading business houses in Argentina and in Rio de Janeiro and Santos in Brazil.

2. Systematized information descriptive of the business of the above list: size of establishments, apparent enterprise, connections, etc.

3. Credit information (in co-operation with the Credit Department of the Bank) on upwards of 7,000 leading South American concerns.

4. Detailed reports about lines of merchandise, local prices in foreign markets, peculiarities of demand, sources of supply, stocks, tariff particulars, imports, etc.

5. Current information about movement of lines of merchandise, requests for business connections, and varying terms of credit.

6. General advice about foreign business.

These points of information are offered to customers interested in foreign business. As a matter of courtesy, and as a contribution to the national campaign for foreign trade, advice and special information are given to any manufacturer or exporter who asks for it, and investigations for groups of manufacturers have been conducted through the branches.

Foreign Credit Interchange Bureau.—The object of the Foreign Credit Interchange Bureau of the National Association of Credit Men is to compile ledger experience of its members who have foreign connections, and make this information available to all member firms. The Bureau aims to be a co-operative enterprise of American exporters for mutual protection. This is accomplished by putting the ledger experience of each member in a position to be of service to all. (*New York Sun,* October 15, 1919.)

The mechanics of the Bureau's operations are in general as follows:

1. Each member is given a book of inquiry forms, to be filled out and sent in to the Bureau whenever information is desired on a foreign buyer, or prospective buyer.

2. When this inquiry is received by the Bureau, it is given a number, so that in later correspondence with members of the Bureau the name of the inquirer is concealed. All members are sent the name of the foreign house on whom the information is desired, with the request for all data on "experience with and indebtedness" of the party named.

3. The reply sent by any member who has any information will cover some or all of the following points:

   1. Length of business acquaintance.
   2. Terms of sale.
   3. Highest recent credit.
   4. Date of last dealing.

5. Amount now owing.
6. Amount past due.
7. Number of days past due.
8. Rating: high, good, satisfactory, unsatisfactory, undesirable.
9. Names of other houses which would be interested in this account.

4. Individual replies containing the above information on the foreign house are brought together, and the results tabulated on a sheet which is sent to the exporter who first submitted the inquiry. In addition to the tabulated opinions which it sets down on this sheet, the Bureau gives its general estimate, as a result of its own investigation. An example of the kind of estimates rendered by the Bureau is shown in the following verdict given by the Bureau on a certain buyer:

"Information from an authoritative source seems to conflict somewhat as to the date of establishment of this concern, varying from 1857, to 1874. They are dealers in hardware, agricultural implements and automobile accessories, enjoying a very excellent reputation. They are a client of the Valparaiso Branch of one of the largest banks in the United States and are looked upon very favorably and as a desirable account. Their capital is between eight hundred and nine hundred thousand pesos. It is thought their resources are about one million three hundred thousand pesos. They are deserving of credit in proportion to their capital. The business was originally established by the father as an iron business and is now carried on by his two sons in their present line. They are believed to be interested in a general grocery business also."

The following conditions and regulations are understood to be a part of the contract subscribed to by any one who wishes to become a member of the Bureau:

(a) All information furnished by the Bureau shall be treated by the subscriber as strictly confidential and shall not be imparted to any other person.

(b) The subscriber agrees to give a prompt, full and true statement of his business experience, manner of settlement, payment terms, whether account is secured, etc., with all parties whose names appear on the inquiry lists of the Bureau, and to substantiate, if requested, any information contributed by him.

(c) Under no circumstances will the name of the subscriber who has contributed information be divulged without his permission.

(d) To entitle a subscriber to make an inquiry he must have an open account with or an order or inquiry from the party.

(e) In case any member fails to make a prompt and truthful disclosure of his business experience with the party inquired about, or wrongfully divulges information received from the Bureau, he may, at the discretion of the Foreign Credit Interchange Committee, be denied the privileges of the Bureau.

(f) The accuracy of reports is not guaranteed by the Bureau. The information is gathered in good faith and sent to members by the Bureau as their agent, without liability for negligence in procuring, collecting, communicating or failing to communicate the information so gathered.

Other sources of credit information.—The Bureau of Foreign and Domestic Commerce has been repeatedly asked to furnish credit information on foreign customers. But the diplomatic embarrassment which would follow such a policy on the part of a responsible government agency makes it inadvisable for the Bureau officially to supply this data. There have developed many private agencies, such as the National Association of Manufacturers, New York City, which furnish their clients with special credit information. It is believed that the establishment of Chambers of Commerce abroad in the interests of American trade will accomplish much in the way of securing reliable credit data. The Philadelphia Commercial Museum is in a position to offer specialized credit information to its clients. There is every evidence to show that as our permanent trade interests develop in foreign markets, our credit information will become more extensive and accurate.

The commercial risk.—Besides the element of risk involved in the matter of securing credit information, there is the additional hazard that the foreign customer may refuse to accept the goods after they are shipped to the foreign market and tendered for delivery. This is usually described as the commercial risk. That the problem of refusal to accept reaches serious proportions at times, is indicated by the bulletin issued by the Philadelphia Commercial Museum on the situation investigated by the State Department at Buenos Aires, Argentina. The bulletin is as follows:

"The Consul-General states that in addition to making a personal investigation, he communicated with branch houses of three leading American banks on the situation. In answer to his letter one of the banks sent a list of drafts that had been drawn against shipments of merchandise which had been refused by the drawees. The list contained 461 items, aggregating a sum of $1,418,-407.89, American gold, of which $1,337,961.22 represented cancellation of orders for cotton goods. The report states that various reasons were given by the drawees for their refusal to accept the merchandise, the principal among which have been that the goods were shipped too late, and that the quality of merchandise had not been up to sample. Cancellation of orders have not been confined in this market to American merchandise alone, but have affected British, Spanish, Italian and French as well." (*Annalist,* July 7, 1919.)

Necessary information.—When there is a failure to accept goods on the part of the foreign buyer, the American seller must have determined beforehand the course of action he will follow. He should have in mind the following:

1. The cost of bringing back the goods to the home market.

2. The prices the goods would probably command if sold at auction in the market of consignment.

3. Cost of storage.

4. Advisability of reconsignment to some other market.

Failure to pay.—Aside from the risk of making foreign sales under conditions of uncertain credit information, and the possibility that the goods may be refused when tendered, there is the most serious of all possibilities: the buyer may fail to pay for the goods. This financial risk is of course often serious, and as disturbing in foreign as in domestic trade. But in foreign trade the element of distance and the strangeness of the foreign legal code make the position of the creditor unusually difficult.

Cause of failure to pay.—The first thing that the American shipper should determine is the cause of the failure to pay: whether it is due to temporary conditions, such as unfavorable exchange rates; or whether the failure is due to fundamental causes which will make recovery on the part of the debtor improbable. In the latter case, vigorous steps should be taken without delay, care being taken to observe every detail of the commercial law of the country where suit is brought, so that the American shipper will at least share with the other creditors in the distribution of the assets of the bankrupt estate. To protect his interests the American shipper should either have his own local agent to see that proper counsel is selected, or he should be in direct touch with responsible attorneys who will represent his case. Too much emphasis cannot be laid on the necessity of knowing when claims must be filed, and the formal steps required in "noting" and "protesting" a dishonored draft.

Arbitration.—It is very obvious that every effort should be made by the American exporter to keep out of the courts. Aside from ordinary considerations, this is especially advisable because, action is brought under the jurisdiction of a foreign commercial code.[1] There is an old Spanish proverb: "A poor settlement is better than a good law suit." Arbitration, wherever possible, should be resorted to. The United States Chamber of Commerce in its

[1] In the treaty ports of China foreigners may reside for business purposes under the jurisdiction of the law courts of their respective nationalities. (*Theory and Practice of International Commerce* by A. J. Wolfe, p. 465.)

foreign branches is aiming to provide channels of arbitration which will take the place of court action.

Honest difference of opinion.—Disputes which arise out of commercial transactions may be due to honest difference of opinion on the part of the buyer or seller. The shipper may think that he is complying with the specification of the order. On the other hand the buyer may be just as honest in thinking that the goods do not conform to the contract conditions. It is easy to see how this variance of opinion can develop especially in handling quality goods which have no general standard specifications.

Arbitration agencies.—If arbitration agencies are established, with branches in the countries of both buyer and seller, equipped to deal with legal, financial and technical questions at issue, much friction in international commerce may be avoided. These agencies may be created as independent organizations, but ordinarily they will function as part of the work of chambers of commerce, banking houses or other established commercial institutions. The important thing is that when once the principle of arbitration is developed and has the endorsement of the general business community, an unwillingness to arbitrate or to abide by the decision rendered would come to be regarded as a reflection on the business standing of those who adopt this attitude.

Arbitration clauses in contracts.—To bring about a complete acceptance of the principle of arbitration will require a vigorous campaign of education. In this connection it is worth noticing that the Chamber of Commerce of New York has urged its members to adopt and insert in their contracts the following clause:

"All disputed questions of fact that may arise and occasion controversy relating to this contract shall be submitted to arbitration, under the rules for the time being of the Committee on Arbitration of the Chamber of Commerce of the State of New York. In the event of the failure of the parties to agree upon arbitrators, the Committee on Arbitration of the Chamber of Commerce is hereby authorized to select three impartial persons from the 'Official List' of arbitrators, with the same force and effect as if their names were herein inserted. No litigation of any kind or character shall be instituted until such arbitration shall have taken place and the arbitrators made their award thereon." Chamber of Commerce of New York—61 annual report, Part 1, p. 12).

Agreement revocable.—It is generally felt that the status of American law on the matter of arbitration is unsatisfactory, in view of the decisions of both our State and Federal courts to the effect that an agreement to arbitrate a controversy is revocable. (Proceedings of the New York Chamber of Commerce, May 2, 1918.)[1]

Credit insurance.—In view of the hazards involved in the ordinary methods of financing foreign trade, the question of credit insurance as a solution of the risk problem is being investigated by American exporters and credit men. However credit insurance may operate in domestic trade, it is agreed that we do not have the or-

[1] New York State Legislature has recently passed an Arbitration Law providing that where written contracts are made to settle controversies by arbitration, such contracts are enforcible. Section 2, Article II, is as follows:

"A provision in a written contract to settle by arbitration a controversy thereafter arising between the parties to the contract * * * shall be valid, enforcible and irrevocable, save upon such grounds as exist at law or in equity for the revocation of any contract."

ganization at the present time to apply it on a large scale to foreign trade. It is obvious that where drafts are drawn under letters of credit against foreign banks the risk is negligible. However, when the open account method is used or the draft is drawn against a customer of unknown standing, the case is very different.

The theory of insuring credit is as sound as the theory of insuring any risks, whether they be marine, fire, accident or life. It is just another step in the division of labor, by which the manufacturer can devote his energy to producing goods, without diverting his attention to the complex elements of credit risks.

Credit insurance in this country usually takes the form of insuring all credit against loss, over and above average losses, determined by ledger experience over a period of years. In England, especially, this question has been agitated, not only by exporters but by the government. England has been the pioneer of all insurance schemes. Her special interest in credit insurance for foreign trade is because she realizes the vital necessity of rebuilding her export trade to balance the abnormal volume of imports since 1914.

CHAPTER XI

FINANCING FOREIGN TRADE—METHODS

Methods.—There are various methods of financing foreign shipments of which the three most important are (1) the open account; (2) cash; (3) sight or time draft drawn by the exporter against the buyer or his bank. These methods will be taken up in the order named.

The open account.—The open account method is used in trade between the various European countries, and also in trade between the United States and some of our customers in Mexico and Cuba. It has developed where trade relations have been long established. Where there is a foreign resident agent who knows the customers personally and is in a position to take care of the collection end of the business, the open account may be used with good results. This explains why export commission houses have been able to use this method of financing successfully.

Arguments against the open account.—From the standpoint of the buyer, the open account method of settling an obligation has apparently many things in its favor. It is virtually an extension of credit with no definite time set. However, from the angle of conservative business policy, the open account tends to an over-extension of credit, and by the very fact that the time element is indefinite, it puts a temptation of delaying payment in the buyer's way which in the long run may be anything but an advantage.

From the standpoint of the American exporter, the open account method is not regarded favorably. He has tied up his capital for an indefinite period. The open account is not easily negotiated at the bank. In case of court action, an itemized statement of each article is necessary if a dispute regarding the amount is raised. In comparison with methods presently to be discussed, the open account is in general an unsatisfactory way of financing foreign shipments.

Cash payment.—The second method of financing foreign shipments is demanding cash payment from the foreign customer, either (1) at the time the order is placed; (2) while the goods are in process of manufacture; (3) when goods are ready for shipment. This latter method, which is the most common form of cash payment is known as "cash against documents."

Cash with order.—"Cash with order" sounds very much like a mail order business. In foreign trade it is used in case of small orders, or unknown credit status of the buyer. Further, it may be insisted on by the American exporter in case the filling of the order requires special machinery or equipment.

At first thought it would seem that "cash with order" terms would be looked upon very favorably by American sellers. However, they must remember that under such terms permanent trade relations are not usually built up. The buyer has been put to no obligations to the seller. By insisting on such terms the latter has practically closed the door to a repeat order in any competitive market.

Objections to cash with order.—The buyer sees many objections to "cash with order" terms. These objections may be condensed as follows:

1. Goods are paid for before delivery.

2. Delay may be caused by defective goods or the wrong consignment being sent.

3. Capital is tied up for an indefinite time.

4. In case of bankruptcy of the seller, the funds which have been remitted have been absorbed in the bankrupt estate. The buyer would then have to wait and take his chance with the other creditors in the disposition of the property.

5. The usual trade discount of 2 per cent is not very much of an inducement in countries where the interest rate is higher than in the United States.

6. The remittance may occur at a time when exchange rates are unfavorable.

Progress payment.—The second type of cash payment is the sending of remittances while the goods ordered are in process of manufacture. This is often termed "progress payment." The minimum amount of such payments usually includes freight both ways, taxes, tariff rates and insurance. In this way the shipper is protected in case the foreign buyer refuses to accept the goods when tendered to him.

Cash against documents.—The most common form of cash payment, as suggested above, is known as "cash against documents." The steps in this transaction are as follows:

1. The foreign buyer "opens," or establishes a credit in a New York bank. How this credit is opened in

New York, is not a matter of direct concern to the American exporter. The buyer himself may have a deposit in the New York bank. It is more likely however, that the buyer has arranged with his own local bank in Brazil, for instance, to establish the credit for him at the New York bank. The important thing is that there is now, in New York, cash for the American exporter just as soon as the goods are ready for shipment to Brazil.

2. The seller is notified to "draw" on the New York bank, where the cash is waiting for payment. This notification may be given to the seller in several ways:

(a) The buyer in Brazil may send the American exporter a letter, stating that the credit has been established in the New York bank, and instructing him to draw on that bank. If the exporter has any doubt about the matter he will reassure himself by confirming the information at the bank where the credit has been established.

(b) **Letters of credit.**—The American bank where the credit has been established may advise the American exporter by a letter of credit that he is to draw on that bank for payment. The letter of credit may take the form of (1) "banker's permission to draw," (2) the revocable letter of credit, (3) the irrevocable or confirmed letter of credit.

Permission to draw.—The "bankers permission to draw" reads: "We are informed that you will draw on us for the account of the Brazilian buyer to the extent, not to exceed $10,000. This letter is for your guidance in preparing documents and conveys no engagement on the part of the bank, as we have no instructions to confirm the credit."

Confirmed letter of credit.—The "irrevocable" or "confirmed" letter of credit is a much stronger document in the hands of the exporter. Instead of being a letter of advice or information, as in the case of the "banker's permission to draw," this letter of credit is an authorization. It reads: "You are authorized to draw on us for the account of the Brazilian buyer, to the extent not to exceed $10,000." The "revocable" credit, as its name implies, may be cancelled, while the "irrevocable" credit cannot be cancelled.

3. Supplied with the letter of credit, the exporter is now in a position to draw on the New York bank, as soon as the goods are ready for shipment. The general form of the draft will be as indicated below:

Pay to the order of ourselves ....
Ten Thousand Dollars $10,000
Drawn under L/C No. 2675
Charge to account of Brazilian buyer
To New York Bank (Signed) Exporter.

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4. Documents.—Attached to the draft thus drawn are the documents—bill of lading, invoice and insurance certificate. By attaching the documents, properly endorsed, title passes from the exporter to the banker. The exporter now gets his cash from the bank and is out of the transaction.

The attractiveness of this "cash against documents" method to the American shipper is clear. He is paid on delivery of goods at New York. He has no problem of foreign credit to worry him. He can now forget the financial end of the transaction. Although such favorable arrangements have been a common occurrence during the War, it would not be reasonable to expect the continuation of this practice when normal competitive conditions are restored.

Time draft against customer.—The most usual, and for our purposes, the most important method of financing foreign shipments is for the American exporter to draw a draft for 30, 60 or 90 days against (a) the foreign customer or (b) against the customer's bank. In this case the element of credit must be considered by the exporter and the bank which negotiates the documents.

Form of time draft.—When the goods are ready for shipment, the American exporter draws a draft on the customer, as follows:

August 10, 1919.

30 days after sight of this first of exchange (second unpaid) pay to the order of ourselves $10,000
Value received, payable at bank's drawing rate on day of payment of sight drafts on New York.
To Brazilian Customer, Rio Janeiro.

(Signed) Exporter.

Before following the steps in the process of collecting the face amount of this draft and settling the account, it is necessary for us to examine some of the features of the draft itself. The following should be clearly understood:

1. The time element.
2. Amount of the draft.
3. Currency in which draft is drawn.
4. Duplicate or "second of exchange."

Time element.—In deciding on a credit policy, the exporter should know the commercial situation which confronts the buyer. The following are some of the outstanding things he should keep in mind:

1. The credit arrangements made by competing houses in the buyer's locality.

2. The general conditions of local credit.

3. Rate of turnover. This means the ability of the customer to realize cash on his purchase from the American exporter. The rate of "turnover" is ordinarily slower in an agricultural than in an industrial country. This is, of course, the explanation of the demand for long credits in South America.

4. Closely connected with the rate of turnover, is the method of distribution. It is necessary to know whether the sale is made for retail or wholesale distribution.

Amount of the draft.—Having settled the question of the time element in credit extension, the next thing of importance in making out the draft is to see that interest and all charges are included in the face of the draft, if drawn in dollars. "The advantage often found in drawing in foreign currencies is that interest, like other bank charges, is covered up in the rate of exchange that is named." (Hough, *Practical Exporting.*)

In our example, the draft is drawn for $10,000. This means that the American exporter is to receive this amount in United States currency. It will be necessary for the buyer in Brazil to purchase this exchange at the current rate. Whether this exchange is at a premium or discount is a matter of direct interest to the buyer, not the seller. Indirectly, and broadly speaking, however the American exporter is very much interested in the exchange rates the buyer will have to pay, because, if these rates are unfavorable to him, further purchases in this country will be checked.

Items to be included.—The total amount of the draft should include all items of expense for which the seller is to be reimbursed.[1] These are the following:

1. **Price.**—Selling price of the goods.

2. **Transportation.**—All transportation charges for which the seller is responsible. In an F. O. B. quotation it is necessary to determine the place of delivery. Up to this point all transportation costs are on the seller. In a C. I. F. quotation, the price must include not only the invoice cost of the goods, but also the cost of insurance plus all transportation costs to the port named in the quotation. The importance of our previous study of C. I. F., F. O. B., etc., basis of quotation in this connection is obvious.

3. **Interest.**—Interest charges. The fundamental principle regarding interest charges is that this item must be based on the time elapsing from the date when the goods are shipped to the date when the remittance is received by the seller. Anything less than this must be regarded as a concession or discount in favor of the foreign buyer.

In our illustration, to the "30 days after sight" must be added probably 60 days more, in computing the amount of interest to be included in the face of the draft. This is assuming that it will take about 60 days for the voyage from New York to Brazil, and back. Figuring a 6 per cent annual rate, the interest on the time while

[1] The buyer and seller should have a clear understanding how these charges should be assessed.

the goods are in transit would amount to 1 per cent. A "30-day sight" draft is theoretically payable 30 days after the draft is presented for acceptance. In practice, however, it is in many places the custom not to present the draft for acceptance until the goods have arrived. This may mean a difference of an indefinite time, depending on the mail and shipping conditions to the foreign port.

4. Bank charge for collecting.
5. Stamp tax.
6. Miscellaneous items.

Special arrangements.—In cases where special arrangements are made, as is usual in the case of drafts drawn on the Far East, if draft is payable in exchange and not local currency, it may be understood that some of the above items are omitted from the face of the draft, but are to be paid by the foreign buyer. The following clause is stamped on such a draft: "Payable with exchange all bill stamps and all collection charges plus interest at 6 per cent per annum from date of issue to approximate due date of arrival to cover in New York."

Added to the interest is also the charge for collecting the draft, which must be paid by the purchaser of the goods.

In case of a colonial clause, the draft reads, "payable with exchange at the current rate in London for negotiating bills on colonies." This clause is used only in bills drawn on British colonies in which pounds sterling is the local currency, as Australia and South Africa. The "current rate in London for negotiating bills on colonies," is usually less fluctuating than other rates. On the date of payment, the current rate in London for negotiating will be added to the bill when it is paid.

Currency.—Another item regarding the form of the draft is the matter of the currency in which the draft is drawn. In our example, the draft is drawn in dollars. It might be drawn in terms of the foreign currency of the buyer's country or in the currency of a third country. The exporter would have to determine from current rates of exchange the amount in the foreign currency for which the draft should be drawn.

Sets of drafts.—Drafts are made out in duplicate or triplicate, the complete set called the first, second, or third of exchange. The "seconds" are sent by a later mail on a different ship so that in case of shipwreck or unusual delay, the customer could accept the "second" and thereby cancel the "first." It is quite usual for the bank purchasing the draft to send only the first and second of exchange abroad,and retain the third for its own records.

Having discussed the manner in which the draft should be drawn, from the standpoint of the element of credit extended to the customer, the amount for which the draft should be made out, the currency in which it is drawn and the duplicates made, we are now in a position to analyze the steps which must be taken before the transaction is closed.

Bill of lading.—When the goods are ready for shipment, the consignment will be delivered to the carrier, which may be a railroad or steamship company. As a receipt, a contract for carriage, and a title to the property, the carrier will give the shipper a bill of lading.

Endorsements.—The shipper or exporter will then attach this bill of lading and the marine insurance certificate to the draft. These three documents which are usually made out "to order of ourselves" are endorsed in blank on the back, the exporter writing his name. This makes each one of the three documents a bearer instrument, a fact which makes them easily negotiated. When the commercial invoice is added to the draft, the bill of lading (all the negotiable copies) and insurance certificate, the exporter has in his possession one of the most important commercial instruments—a documentary bill.[1]

Documentary bill.—The documentary bill is taken to the foreign exchange banker, who gives the exporter cash or credit for the face of the draft minus the interest rate, collection charge or bank commission. If there is any doubt in the banker's mind as to the security behind the documentary bill, he will advance only from 65 per cent to 95 per cent of the face of the draft.

Bank protection—recourse to exporter.—In purchasing this draft from the exporter, the American bank has reduced the risk element to a minimum. In the first place the maker of the draft—the exporter—is held responsible by the purchasing bank for any default unless the draft is endorsed by the exporter "without recourse." If the credit rating of the exporter is below par, the draft may be accepted for collection only.

Collateral security—hypothecation.—In the second place, the collateral security in the hands of the bank is a substantial guarantee. Since the bank holds the title to the goods in the form of the bill of lading which is attached to the draft, it can control this property till it is satisfied that no loss will result. This title may be strengthened by a letter of hypothecation to the bank,

[1] The consular invoice may be included. (Filsinger, *Exporting to Latin America*, p. 196.)

signed by the exporter. The letter of hypothecation is essentially a statement to the effect that the holder of the draft is also the holder of the documents attached to it. By holding the documents, the bank knows that the buyer cannot get possession of the goods till he gives evidence that he will honor the draft when it is due.

Letter of guaranty.—Sometimes, when the draft is to be drawn directly on the customer, the foreign buyer may secure the bank by a "letter of guarantee." In the case of our illustration, the Brazilian buyer would write a letter to his local bank requesting it to advise its correspondent bank in New York to purchase the draft drawn up by the American exporter. In making this request, the Brazilian buyer guarantees to accept the draft when it is presented to him, and to pay it when it falls due. The advantage of this letter of guarantee, from the standpoint of the bank is, that it is assured payment unconditionally in spite of the condition of the goods when they arrive.

Collection.—The American bank which has bought the documentary bill from the exporter sends the papers to its correspondent or representative in Brazil which will take care of the details of making the collection.

Since the draft is not due for "30 days after sight," and the goods have probably arrived, the question is: Shall the goods be held in storage, to await payment, or handed over to the customer, who may be able to sell them in the meantime? The answer to this question depends on the instructions forwarded by the American bank.

Instructions.—These instructions may be of two kinds. In case the goods are to be held until payment is made by the customer, the term "documents against payment" is used. When the customer's credit is regarded as satisfactory by the bank, the bill of lading is handed over to the customer as soon as he "accepts" the draft presented to him. Accepting a draft means that the customer writes across the face of the draft the word, "accepted," with the date and signature. By honoring the draft in this way, thereby agreeing to pay the bank at its maturity, it is virtually the promissory note of the customer. When the bill of lading is to be surrendered by the bank on the acceptance of the customer, the instructions are known as "documents for acceptance." When a draft is drawn against the customer's bank, the understanding is that the instructions are "documents for acceptance."

When collection of the draft is finally made, the funds may be held in the Brazilian bank, to the credit of the American bank which originally discounted the draft, or the funds may be forwarded to the American bank. There is a third possibility: the draft which has been accepted by the Brazilian buyer might be sold before maturity and the proceeds credited or forwarded to the American bank. This third method is only customary where there is an active discount market, as in London.

In the preceding discussion, the assumption has been made that the American exporter has drawn his draft on his customer directly.

Bank acceptance.—Although this method is a correct one, it would probably be a more satisfactory arrangement to have the draft drawn on the foreign customer's bank. The draft, when presented to and accepted by the customer's bank would become a "bank acceptance."

Draft drawn on London.—The location of the bank on which the draft is drawn depends largely on where the American bank wishes to establish a credit balance. The draft might, theoretically, be drawn on some local bank in Brazil. More likely, however, the draft would be drawn on London, because exchange on London can be more readily sold than exchange on Brazil. Exchange on London is in demand to settle what is known as "the invisible balance of trade." The items of this invisible balance are such as tourist checks, remittances of immigrants to the home country, interest on American securities held abroad, investment of American capital abroad, marine insurance taken, mostly, with British companies, and freight to foreign shipping companies. In view of this demand and also because of the London discount facilities it is altogether probable that, if the draft is drawn on any foreign bank, it will be drawn on London.

As soon as it is determined on what bank the draft is to be drawn, the foreign customer makes arrangements with that bank to have it accept drafts drawn by the American exporter. When the Brazilian buyer, by the aid of his local bank, arranges with the London bank to accept the draft, the London bank may issue a letter of credit to the American shipper authorizing the American shipper to draw on it, rather than on the Brazilian buyer. This letter of credit will then be mailed to the American shipper, who will draw up the draft as ordered.

Drawing on London.—In practice, the usual procedure would be for the Brazilian bank itself to issue a sterling credit, authorizing the American shipper to draw on the London bank. In this case the Brazilian bank has an agreement with the London bank, under what is known as "acceptance account," by which it has the right to issue sterling credits. The draft will then be drawn up by the exporter, attached to the shipping documents and discounted at the American bank. The American bank will send the documentary bill to its London correspondent, with instructions to have it accepted and discounted. When the draft is discounted, the American bank has established a credit in London against which it can sell its own drafts. When the London bank against which the draft was drawn accepted it, the documents were surrendered. These would be sent by the accepting bank to its Brazilian correspondent, who will notify the Brazilian buyer when the draft is due. A few days before the draft is due, the Brazilian buyer will be expected to remit to London the amount of the draft, so that the accepting bank can pay the holder who purchased it in the discount market when the draft matures.

Trust receipt.—When a bank has accepted a draft for the buyer of the goods, it has unconditionally promised to pay the draft at its maturity. When the bill of lading is surrendered to the buyer, the bank may ask him to sign a "trust receipt." A trust receipt is, as its name indicates, a receipt on the part of the customer for the goods. It is further, on the part of the customer, an agreement to hold the goods, and the proceeds from their sale "in trust" for the bank. In this capacity the customer is acting as the agent of the bank. In case of the insolvency of the customer, the bank may recover the goods covered by the trust receipt, providing they can be identified.

Draw on American bank.—It has been pointed out that the draft might be drawn against the Brazilian bank or against a London bank. There is another possibility: it might be drawn against an American bank. Since American banks have now the power to accept drafts, this procedure is becoming a common practice. In this case, the principle of the transaction will be just the same as that described in case of the credit arranged with the London bank. The Brazilian buyer through his local bank will open the credit in New York with some American bank. The latter will send the American exporter a letter of credit authorizing him to draw his draft against it, on the basis of 30, 60 or 90 days credit. The draft so drawn will be accepted by the American bank, and sold by the holder in the open market. On accepting the draft, the American bank gets possession of the documents, and will probably send them to the Brazilian bank which has arranged the credit for the buyer. Before the maturity of the draft the American bank will be put in funds by the Brazilian bank, which will, in turn collect from the local buyer.

Advantage of bank acceptance.—The chief advantage in the use of the bank acceptance from the standpoint of the American bank which purchases the draft from the exporter is that the credit of the accepting bank is substituted for that of the customer. Although differing in form from the bank's promissory note, its legal effect is the same. As such, this document has a ready market, in case the holder should care to sell it before maturity. As regards security, the bank acceptance of reliable houses rates as probably the highest type of commercial paper.

Routine process.—If the draft is drawn on a London bank under a letter of credit, it would take, then, the following course: it would be (1) discounted or purchased by the American bank, (2) sent to the London correspondent of the American bank, which would (3) present it to the London bank on which it is drawn for acceptance.[1] The draft would then (4) be sold in the London discount market and (5) the funds credited to the American bank which (6) is in a position to sell drafts against this balance which has been created. The holder of the draft who purchased it in the London discount market would (7) present it for payment on the due date. (8) Before this date the bank which has accepted the draft will have been put in funds by the buyer of the goods.

[1] The three types of letters of credit which make possible the bank acceptance are those which are (1) irrevocable by the issuer, and confirmed by the adviser; (2) irrevocable by the issuer, and unconfirmed by the adviser; (3) revocable by the issuer and unconfirmed by the adviser.

Regarding the rights of parties under a letter of credit, the following decision given in a Canadian case may be cited: "A person who may induce a bank to give him a letter of credit may by his subsequent conduct give the bank cause for canceling it, but not if the customer secured the letter of credit from the bank in favor of another person. In that event the customer cannot oblige the bank to cancel it, for the contract is between the bank and some other person, not between the bank and its customer. A bank cannot cancel a letter of credit if it has been transferred to a third party." (*Fed. Res. Bulletin,* Feb., 1921, cited in American Steel Co. *vs.* Irving National Bank; Sovereign Bank *vs.* Bellhouse.)

CHAPTER XII

FINANCING FOREIGN TRADE—FEDERAL RESERVE SYSTEM

Federal Reserve Act.—The Federal Reserve Act of 1913, together with subsequent amendments, has improved the machinery of financing foreign trade in three important ways. First, it has provided for direct banking connections with foreign countries. In the second place, it has legalized bank acceptances. In the third place, it has provided for the discount or rediscount of commercial paper and bank acceptances. These three technical features of the Federal Reserve Act tend to facilitate the financing of our imports and exports, and also to increase the importance of New York as an international banking center.

I

Direct banking connections.—Direct banking connections with foreign countries will help in promoting our foreign commerce in several ways. American banks with foreign branches will be definitely interested in developing markets. They will be in a position to furnish specific trade information, especially regarding new market opportunities. Credit information will be more available. The shipping documents can be handled by banks interested in the development of American commerce and do not need to pass into the control of banks interested in the trade development of Europe. Dollar, or direct exchange, will be more easily developed through our own branches abroad than by depending entirely on foreign banking houses. Probably the most important function of the American banks abroad will be their service in arranging for the investment of American funds in foreign enterprises. There may be a disposition to over-emphasize the importance of branch banks, but the net tendency of their creation will be to increase the commercial importance of the United States throughout the world.

Typical attitude regarding branches.—On the subject of the importance of direct banking connections with foreign countries there has been much discussion since 1914, when the new Federal Reserve banking system was put into operation. A typical point of view is the following comment on the developing of international banking facilities: (*Journal of Commerce,* October 21, 1919).

"New York and Boston banks, as well as institutions in other parts of the country, are taking active measures to secure satisfactory foreign connections. The movement has been in progress for several months past, but with the approach of the time when the Treaty of Peace is expected to be ratified the activity in this direction has become much larger. Not only the banks which have heretofore handled foreign business, but also those which in the past have been largely confined to direct loans to manufacturers and general customers are taking an interest in the situation.

"The reason for the new movement is found in the desire of American manufacturers to get better control of foreign markets. American banks are also feeling the competition of the branches of foreign banks, which have been numerously established here during the past three years. The two factors combined have led various institutions which formerly operated abroad only through others and which kept their business down to a minimum because of the belief that it was hazardous or contained very little promise of profit to recognize that they would lose a good deal of desirable domestic business if they do not provide for the requirements of their customers. In consequence, the banks are now in many cases sending men abroad to map out fields of operation, and also to make positive connections in the principal markets. In a number of cases this is developing into actual arrangements to establish branches abroad. Before the war there were only about seventy-five American institutions which had actual connections abroad. Others dealt through them and gave them all of their foreign business. Experience during the war and since the close of the struggle have shown that this is a very unsatisfactory policy and that it often results in loss of business, the exporter or importer determining to transfer his connection entirely to the bank through which representation is secured. As for the branch question itself, a good many American banks have been of the opinion that it was not wise for them to attempt to compete abroad with locally organized foreign institutions. Some have advertised that they preferred to 'work with foreign banks in the friendly countries.' The scramble for trade since the armistice has tended to convince a good many bankers that this idea was erroneous and that the foreign bankers were usually not willing to give up trade to them, but merely regarded their correspondent relationships as an incident in their business. They found out from the bills passing through their hands where the trade was going and they then endeavored to take it over, in many cases succeeding. As this idea becomes more widely recognized, it is now predicted by some foreign exchange bankers, the necessity of more actual branches abroad will be seen. Some forecast that during the coming twelve months there will be a very substantial increase in banks. The number has been increased considerably during the past year, but it is believed that a decidedly larger development is on the eve of taking place."

European banking policy.—Europe has long recognized the advantage of being represented by a chain of banks throughout the world.

In a memorandum dated July, 1869, regarding the purpose of the founding of the Deutsche Bank, this statement is significant: "Notwithstanding the importance of the great overseas markets to German industry, the very extensive traffic of merchandise between Germany and other parts of the world passes almost exclusively through British hands, because Germany lacks an institution which might be able to procure access to overseas markets."

Germany.—The six great banking groups of Germany are part of the "cartel" system of her business organization. This system is the integration and combination of all the factors of production, financing, selling, shipping, etc. In this system, the foreign branch bank is only one, but a very important, factor not only in financing, but especially in expanding the market for "made in Germany" products. On this point the distinction between German and British banking policy is suggested by a government report, as follows:

Banks promote trade.—"In considering the services of banks to foreign trade, one finds the German over-sea banks organized for the purpose of winning the markets; British over-sea banks were created to accommodate existing trade. Of course, the British banks have largely stimulated exports from the United Kingdom; but they grew up, so to speak, with the necessities of British foreign commerce yet to be won. The essence of the German trade policy has been thus summarized: The marshalling of financial forces must correspond to that of military forces, and just as military mobilization is made possible by careful plans in time of peace, so, too, the marshalling of financial forces should be facilitated by schemes likewise devised in times of peace." (*Special Agents Series* No. 90.)

British banks develop trade.—That British trade has benefited by her international banking organization, through her ability to make attractive London exchange, which implies the handling of the shipping documents, is reflected by a Government investigation into banking and credit conditions of South America (*Special Agents Series* No. 90):

"Bankers' commissions, however, are the least vital feature of the handicap to which reliance on foreign banking subjects American trade. Once an American obligation is converted into a bill on London and slips into foreign financial channels, it passes out of the hands of those who might be interested in obtaining return purchases by the selling country. If the United States pays for large purchases of Brazilian rubber by bills on London, the obligation which ought to stimulate demand for products of the United States is really transferred to London, and such influence as is exerted is beneficial to purchases from the United Kingdom. The fundamental factor is to be sought, of course, in any and all other influences that may cause the movement of goods between

South America and the United States, since exchanges are based on trade."

Three types of direct foreign banking.—The Federal Reserve Law recognizes three methods by which member banks of the system may engage in direct foreign financing. The first method is for an American bank to establish branches in foreign countries. A second method is for an American bank to become affiliated with another bank which is primarily engaged in foreign financial operations. Finally, under the Edge Bill, which became a law in December, 1919, foreign banking corporations can be organized and operated under the general supervision of the Federal Reserve Board.

Law.—The statement of the law regarding the establishment of American branch banks and also the affiliation with state banks engaged in foreign financing is as follows:

Branch banks.—"Any national banking association, possessing a capital and surplus of $1,000,000 or more, may file application with the Federal Reserve Board for permission to exercise, upon such conditions and under such regulations as may be prescribed by said board, either or both of the following powers:

"First. To establish branches in foreign countries or dependencies or insular possessions of the United States, for the furtherance of the foreign commerce of the United States, and to act, if required to do so, as fiscal agents of the United States.

Affiliation with international banks.—"Second. To invest an amount not exceeding in the aggregate ten per centum of the paid-in capital stock and surplus in the stock of one or more banks or corporations chartered or incorporated under the laws of the United States or of any State thereof, and principally engaged in international or foreign banking either directly or through the agency, ownership or control of local institutions in foreign countries." (Section 25.)

McLean Act.—By the terms of the McLean Act of September, 1919, national banks without regard to size are permitted to subscribe to the capital of corporations such as were contemplated by the Edge Bill.

Edge Act of 1919.—Under the Edge Bill, which became an amendment to the Federal Reserve Act, in December, 1919, foreign banking and financial corporations can be organized and operated under the supervision of the Federal Reserve Board. The framers of the Edge Law evidently had in mind two types of international banks: one a commercial bank and the other an investment bank. The one will deal in short term credits; the other in long term credits. It is particularly in the field of investment in securities of foreign concerns, or in making loans to foreign purchasers on the collateral of these securities that these new international banks will perform their most important function. The important features of the Edge Bill are as follows:

I. Important features of Edge Law.—Banks are authorized to be incorporated for the purpose of engaging in international or foreign banking business.

II. Over such corporations the Federal Reserve Board has general powers of control and supervision.

III. The Federal Government, however, assumes no responsibility and offers no guarantees regarding bonds and debentures of these corporations. The last paragraph of the act provides that "whoever, being connected in any capacity with any corporation organized under this section (of the Federal Reserve Act) represents in any way that the United States is liable for the payment of any bond or other obligation, or the interest thereon, issued or incurred by any corporation organized hereunder, or that the United States incurs any liability in respect to any act or omission of the corporation, shall be punished by a fine of not more than $10,000 and by imprisonment for not more than five years."

IV. Powers of banks.—The powers of a bank organized under this law are:

1. To purchase, sell, discount and negotiate, with or without its indorsement or guarantee, notes, drafts, bills of exchange, acceptances, including banker's acceptances, cable transfers and other evidences of indebtedness.
2. To purchase and sell, with or without its indorsement or guarantee, the obligations of the United States or any State thereof.
3. To accept drafts drawn on it, subject to restrictions imposed by the Federal Reserve Board.
4. To issue letters of credit.
5. To purchase and sell coin, bullion and exchange.
6. To borrow and lend money.
7. To issue debentures, bonds and promissory notes, subject to restrictions of the Federal Reserve Board, but not to exceed ten times its own capital and surplus.
8. To receive deposits outside the United States.

9. To receive deposits within the United States, providing such deposits are incidental to carrying out foreign transactions. Such deposits must be secured by a reserve of at least 10 per cent.

10. To purchase stock or other certificates of ownership of the following corporations:

a) Corporations organized under this law.

b) Corporations organized under the laws of any foreign country or colony.

c) Corporations organized under the laws of any State or possession of the United States, providing (1) such corporation is not engaged in the business of buying and selling commodities within the United States, (2) is not transacting any business within the United States, except such as is incidental to foreign transactions.

d) No stock shall be held in corporations organized under this law, or under the laws of any State which (1) is a competitor, or (2) holds stock in corporations which are competitors with the purchasing company.

e) The maximum amount of stock of one corporation which may be held is 10 per cent of the capital and surplus of the purchasing corporation; and 15 per cent of the capital and surplus of the purchasing corporation, if the investment is in a bank.

f) Stock of any corporation may be purchased and held for a period of six months, if such purchase is necessary to prevent loss on account of any investment.

V. Capital.—The minimum capital is $2,000,000.

VI. Bank subscriptions.—National banks are allowed to subscribe to the capital stock of such foreign trade banks to an amount equal to 10 per cent of the subscribing bank's capital and surplus.[1]

VII. American control.—The majority of stock must be owned by American citizens, or by corporations or firms which are controlled by citizens of the United States.

VIII. Surplus.—Ten per cent of the net annual profits must go to create a surplus, till the latter is equal to 20 per cent of the capital.

IX. The charter is granted for 20 years. Application for renewal is to be made to the Federal Reserve Board.

X. Banks now organized may be converted into banks doing business under this act.

XI. The sanction of the Federal Reserve Board is necessary before starting business.

XII. Liability feature.—Shareholders shall be held liable for the liabilities of the corporation to an amount equal to their unpaid subscription to capital stock.

XIII. Five persons, all citizens of the United States may organize a company under this law.

XIV. Directors of each company must be citizens of the United States.

XV. The Federal Reserve Board has power to limit the liabilities of each corporation.

XVI. No company organized under this law is allowed to deal in commodities or to control or fix the prices of commodities.

XVII. No business can be carried on within the United

[1] This limit applies to total subscriptions to foreign trade banks, whether organized under the Edge Law or State laws.

States, except such as is incidental to foreign transactions.

II

Bank acceptances legalized.—Besides providing for direct banking relations with our foreign markets, the Federal Reserve Act has legalized bank acceptances. Before 1913, a National bank could not accept a draft drawn on it for account of its customers.

Advantages of bank acceptances.—There are three reasons why the power to accept drafts drawn on them will make American banks more efficient in financing our imports. In the first place, if we use financing imports as an illustration, a foreign exporter would prefer to draw against a bank under a letter of credit, than against an unknown buyer in this country.

Stronger credit.—The foreign exporter prefers to draw against an American bank, because his own local bank will ordinarily not hesitate to negotiate this paper, whereas, if it were drawn against the customer, the local bank might be inclined to look on it with some doubt.

Better discount rate.—Aside from the greater security attached to the draft drawn on, and accepted by the buyer's bank, is the fact that such a document when sold in the discount market, will yield a higher price in most cases than a draft drawn on the customer directly.

Compete with London.—The third reason why granting the power to American banks to accept drafts has increased their efficiency is because in this respect they can compete with English banks. This is one reason why London was the international financial center of the world. American importers were forced to arrange for credits in London, because foreign sellers in that way could draw against an English bank and be sure that the draft would be accepted and easily sold in the London market. A good comparison of the relative position of New York and London in international financial circles before the War can be made by noting the exchange rates on these two centers. On March 10, 1914, in Buenos Aires, London exchange would yield 97.04, while New York exchange yielded only 96.01. Evidently the exporter would gain more by drawing his draft against London than against New York. While it would not be safe to say that London is displaced as the center of international finance, it is certain that the commercial and financial tendencies produced by the War and the technical improvements in our banking system since 1914 have resulted in increasing the importance of New York in world finance.

The acceptance business of banks is so important in the financing of foreign trade, that a fuller statement of the laws and regulations governing them, is desirable.

Kinds of bank acceptances.—Any member bank of the Federal Reserve System may accept:

1. Drafts or bills of exchange drawn upon it which grow out of the importation or exportation of goods. (Section 13).

2. Drafts or bills of exchange drawn upon it which are secured at time of acceptance by a warehouse receipt, or other such document conveying or securing title covering readily marketable staples. (Amendment Sept. 7, 1916).

3. Drafts growing out of domestic transactions, providing the shipping documents are attached.

4. Drafts drawn by foreign bankers to furnish dollar

exchange. (This is known as the finance bill, which is discussed in our chapter on Foreign Exchange Rates.)

Time element—The time element in the case of such acceptance is:

1. Six months for drafts growing out of ordinary business transactions.

2. Not more than three months sight in the case of drafts drawn for the purpose of furnishing dollar exchange.

The amount of acceptances.—The amount of acceptances which a bank may make is limited.

1. Unsecured drafts of one individual or corporation must not be accepted in excess of 10 per cent of the bank's capital and surplus, unless the drafts are secured either by attached documents or by some other security growing out of the same transaction as the acceptance.

2. The total amount of drafts which a bank may accept must not exceed 50 per cent of the bank's paid-up and unimpaired capital and surplus. The Federal Reserve Board is permitted to raise this limit to 100 per cent, if the total amount of domestic acceptances does not exceed 50 per cent of such capital and surplus.

3. The total amount of drafts which a bank may accept for the purpose of creating dollar exchange must not exceed 50 per cent of the paid-up and unimpaired capital and surplus of the accepting bank. This 50 per cent limit is separate and distinct and not included in the limits imposed in paragraph 2, above.

III.

Importance of the rediscount market.—We have discussed the facilities for financing foreign trade secured by the Federal Reserve Act in providing for direct banking connections abroad, and by legalizing bank acceptances. The third feature of the Act which deserves mention, is the rediscount facilities which have been created.

Rediscount market.—When a foreign bank buys a draft drawn on New York, it does not wish to hold the draft for sixty or ninety days, but usually will expect it to be sold or discounted in New York, and the proceeds credited to its account. This assumes that there is a market for bills in New York. But this market is of recent origin and is developing slowly. Here again London has had the advantage over New York. Not only did London banks accept drafts, but she has had the largest market for commercial bills in the world.

Before 1913, it was against the traditions of American banking to rediscount commercial paper. Now, however, the stamp of approval is set on this practice by the provisions of the Federal Reserve Act which states that eligible commercial paper may be discounted by member banks at the Federal Reserve Bank.

Eligible paper for rediscounting.—Commercial paper which is defined by the law as eligible for rediscounting are "notes, drafts, and bills of exchange issued or drawn for agricultural, industrial or commercial purposes or the proceeds of which have been used, or are to be used for such purposes; the Federal Reserve Board to have the right to determine or define the character of the paper thus eligible for discount within the meaning of this Act. Nothing in this Act contained shall be construed to prohibit such notes, drafts or bills of exchange, secured by staple agricultural products or other goods, wares or merchandise from being eligible for such discount; or notes, drafts or bills issued or drawn for the purpose of carrying or trading in bonds and notes of the Government of the United States."

Eligible commercial paper must have a maturity at the time of discount of not more than ninety days, exclusive of days of grace. In the case of agricultural paper or bills based on live stock, the time limit is six months, exclusive of days of grace.[1]

From this sketch of the outstanding features of financing foreign trade, it is evident that an understanding of this subject involves much more than merely a knowledge of the technique of the handling and negotiating documents, etc. It involves a grasp of those world forces which sway rates of exchange and banking technique, in its broadest scope. Such a study challenges the thought of all who wish to understand the part the United States is bound to play in international commerce, and especially in the present reconstruction of Europe.

[1] Federal Reserve Banks may discount acceptances of the kind described on page 167 which have a maturity of three months, and bear the endorsement of one member bank. Also these banks may go into the open market to buy or sell cable transfers, bills of exchange or bankers' acceptances of the type eligible for rediscount, with or without the endorsement of a member bank.

CHAPTER XIII

FOREIGN EXCHANGE RATES

Foreign exchange.—Foreign exchange is probably the most complex subject in the whole field of banking. Since it is a banking problem, therefore, a discussion of foreign exchange may be regarded as out of place in a work of this kind, which looks on the problems of foreign trade more from the standpoint of the trader than that of the banker. So much prominence, however, has been given to the foreign exchange situation, and so important is it for the American importer and exporter to understand foreign currency fluctuations, that it seems advisable to supplement the analysis of our chapters on "Financing Foreign Shipments" by at least a brief statement of the more outstanding features of the exchange problem.

The forces we are here studying are very complex, and involve, as suggested, the highest technique in banking. The rate of exchange is a price, and as such we are dealing with an equation which has in it many variables. It is our purpose to analyze the larger aspects of the problem and to examine its basic principles.

Phases of Problem.—The phases of this problem which we shall emphasize are:

1. The basis of quoting foreign exchange.
2. Arbitrage.
3. Par of exchange.
4. The meaning of "the gold points."
5. The general forces of supply and demand which cause exchange rates on London to fluctuate.

Par of exchange.—The basis of quoting exchange first of all involves a knowledge of the meaning of "par" of exchange. The par of exchange expresses the gold equivalents of the various currencies.

Sterling exchange.—Thus the amount of gold in a dollar is theoretically 23.22 grains fine gold; in a pound sterling 113.001 grains. A pound sterling is, therefore, equivalent to $4.8665, which is the par exchange basis of these two currencies. (This is obtained by dividing 113.001 by 23.22).

Arbitrage.—The exchange level of all currencies constantly tends to par by the action of arbitrage. If exchange between London and New York is high, and exchange between New York and Paris is low, and the Paris rate on London is lower than New York on London, it may be more profitable to remit to a London creditor by the following roundabout process:

1. Buy Paris exchange.
2. Forward this exchange to Paris correspondent.
3. Instruct the Paris correspondent with this exchange to buy sterling.
4. Instruct the Paris correspondent to remit to the London creditor with this sterling draft.

The tendency created by this arbitrage transaction is evident:

1. London rates, quoted in New York tend to fall.
2. Paris rates, quoted in New York tend to rise.
3. London rates, quoted in Paris tend to rise.

A good illustration of the basis of arbitrage is given by Professor A. C. Whitaker (*Foreign Exchange,* Page 402):

1. In Amsterdam telegraphic transfers on London are at—12.10 florins per pound sterling.

2. In New York the cable rate on Amsterdam is—40.2 cents per florin.

3. Therefore, the value of pound sterling bought through Amsterdam is—4.8642 dollars per pound.

4. New York cable rate on London—4.8645 dollars.

This gives the possibility of profit by buying pounds sterling in Amsterdam and selling sterling in New York.

Quoting marks.—The basis of quoting the German mark before the War was the price of four marks in dollars. Since the value of a mark in American gold is 23.8 cents, the par of exchange was 95.2. However, since the signing of the armistice the quoting of German exchange has been the price of one mark instead of four.

Quoting francs.—The French franc is worth 19.3 cents in gold. The method of quoting the franc, is the number of francs to the dollar. The par of French exchange is, therefore, approximately 5.18[1]. It is important to notice that, in comparison with sterling or Berlin exchange, when the rates of French exchange are nominally rising, it indicates a decline in the value of the franc. When, for instance, exchange moves from 5.18⅛ to 5.18¾, it means that it takes more francs to equal a dollar—the measure and evidence of declining value of the franc. Gradations in francs are on the basis of ⅝ of a centime. Thus, after 5.18⅛, the next quotation is 5.18¾.

We shall confine our study entirely to the analysis of British exchange, both because in this way we can present a clearer statement of principles, and also because sterling is more generally the international currency of commerce.

[1] According to recent practice the unit of quotation is the price of one franc in American money.

Gradations of sterling exchange.—Gradations in sterling exchange are listed in terms of 1/8 of one cent. Therefore, we have sterling quoted at 4.86¼, 4.86⅜, 4.86½, etc. Another method of quoting is to list variations of 1/20 of one cent. We have then 4.8605, 4.8610, etc. This indicates a rise of "five points."

Security, saleability.—Exchange rates vary according to the time element of the paper, the credit standing of the drawer, the drawee and the kind of security represented by the documents. Thus we find different quotations for bills drawn under letters of credit against banks, as against bills drawn against some obscure foreign buyer. Also cotton and grain bills, because the collateral behind them is so saleable, command a more favorable rate than bills against goods, the market for which is not active.

Normal limits for demand sterling.—We are presently to discuss the causes why exchange rates are constantly fluctuating. Before we enter on this discussion it is advisable for us to notice the normal limits beyond which exchange will not rise or fall. It is necessary to emphasize the word "normal" in the preceding sentence. The War has made the whole world abnormal, but surely in nothing more so than the exchange situation. The natural limits of exchange rates depend on the free movement of gold between commercial nations. This condition practically disappeared with the declaration of the War in 1914.

Gold points.—In normal times, the maximum rate of sterling exchange is about 4.8665 plus 2 cents or 4.88+; the minimum is 4.8665 minus 2 cents or 4.84. The 2 cents which determines the upper and lower levels, known as the "gold points," is the cost of shipping a pound sterling from New York to London. The cost of shipping varies according to rates of interest, insurance and freight.

If the price of a draft on London were more than 4.88, it would pay to ship the actual gold bullion rather than buy the draft. On the other hand, if the price of exchange fell below 4.84, gold would be imported because the holder of London exchange would prefer to import the gold rather than sell the draft at a rate lower than 4.84. Between these two gold points, in normal times, exchange is constantly fluctuating. And although, temporarily, the rates may be higher or lower, the tendencies are strong to bring exchange within these limits. The shipment of gold is handled by a few of our larger banks.

The abnormal exchange problem produced by the War is not only the result of the unusual volume of exports from the United States to Europe, but also because of the depreciation of European currencies, in terms of gold. A similar situation prevailed in the United States after the Civil War.

Paper currency.—In exchange between two countries, one on a gold, and the other on an inconvertible paper standard, "in the paper money country the upper limit of exchange on the other cannot much exceed the cost of purchasing gold with paper plus the cost of shipping the gold." (Brown, H. G. *International Trade and Exchange,* page 143.)

In the event that there is an embargo, or prohibition on the export of gold, it is impossible to regulate exchange by the process of shipping bullion. In this case the only check on rising rates, from the standpoint of the paper money country is (1) the check to imports which will result from unfavorable rates, (2) the development of exports, and (3) the floating of a loan abroad. (Goshen, *Foreign Exchange.*)

Silver currency.—In quoting between the United States and silver currency countries the basis of exchange is the price of silver bullion in terms of gold. When the price of silver is high, exchange in the silver using country is said to be low, because a gold dollar purchases a smaller amount of silver, or, to state it in another way, the silver purchases more gold.

Supply of London exchange.—The heart of the study of foreign exchange is to understand the forces of the supply of and demand for London exchange which cause a constant change of rates. Listing these items we find on the supply side the following:

1. Export of merchandise.
2. Short time loans made in New York by London.
3. Sale of American securities in the London market.
4. Money due Americans for services, such as shipping, insurance, etc.
5. Interest on European securities held in America.

Demand for London exchange.—The most important items which constitute demand for London exchange are:

1. Merchandise imported from abroad into the United States.
2. Paying back short loans made by London in the United States.
3. Sale of European securities in the United States.

4. Money due British firms for services, such as banking, insurance, shipping, etc.

5. Interest on American securities held in Europe.

6. Remittances of immigrants to Europe.

It is the interplay of these very complex forces of supply and demand which is constantly forcing exchange rates up or down.

Exports create credits abroad.—The way in which the export of merchandise creates a supply of London exchange in New York has already been touched upon in a previous chapter. However, so important is the understanding of the method by which exports affect exchange that some duplication of statement seems justifiable.

In the following statement it is assumed that when goods are sold to England, the American creditor draws on the English customer, or his bank. This is usually the case in dealings between these markets. When this usual routine is followed, exports create credits abroad and tend to depress rates. It is possible, however, for the transaction to be settled by the English buyer going to his bank, and purchasing a draft on New York. This draft he can mail to his American creditor. In this case it is evident that exports do not create balances in London, as is true in the illustration which follows.

The following steps indicate the process by which a shipment of cotton to England ordinarily creates a credit balance in London, against which the American bank can sell its own drafts:

1. The New York exporter of cotton discounts at his own bank his documentary draft drawn against the English bank which has supplied the letter of credit. The draft, to which is attached the bill of lading, the invoice

and the insurance certificate, is drawn in principle as follows:

Pay to the order of . .ourselves. . 10,000 pounds sterling
30 days sight—drawn under L/C 241
(To English Bank) (Signed) Shipper.

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2. This draft, which has been bought or discounted by the American bank is now sent to its London correspondent.

3. The correspondent bank will present it to the English bank on which it is drawn for acceptance.

4. When the draft is accepted by the English bank, in most cases it will be immediately sold or discounted in the London open market, or it may possibly be held by the correspondent bank until payment is made. At all events, whether discounted in the open market or held till maturity, the American bank at some time creates a credit balance for itself in London. This is the significant thing regarding exports: they create credit balances and because of them the price of credit, or the rate of exchange, naturally falls.

This explains why, in the Fall of the year, the rate of exchange on London is usually low. The exports of our crops are then under way, creating a supply of credit in London, thereby depressing the rate.

Importance of the London discount market.—At this point, attention should again be called to the importance of the London discount market. By this means the draft, as soon as it reaches the other side and is accepted, can be immediately sold and the American bank put in possession of funds in London. If it were not for this active open market constantly absorbing the bills, the American bank would have to wait till the draft matured, before it could be credited on the books of its London correspondent. And it is because the Federal Reserve Act of 1913 makes it possible for National Banks to accept drafts drawn on them, and discount these at the Federal Reserve Banks, that more drafts will be drawn on New York banks than in the past, just as the American shipper drew his draft on the English bank. The discount market turns a frozen investment into a liquid investment. Bills, therefore, which are drawn on an active discount market, are attractive investments for banks. The development of a discount market in New York will help very much to increase its prestige as a financial center and popularize dollar exchange.

The case of a "payment" draft should be referred to, as it is ordinarily not discounted. The payment draft is drawn on the English buyer who can get possession of the merchandise only when it is paid for, whereas, in the acceptance draft, the bill of lading is handed over to the buyer when he accepts the draft. If the buyer, in the case of the payment draft, cares to pay for it before it matures he is granted a rebate which is lower than the prevailing discount rate. The American bank which buys a "payment" is not sure that it will get cash before the due date. In case of the acceptance draft, however, the American bank knows that as soon as the draft is accepted, it can be immediately discounted, and the proceeds credited to its account.

Loans made by London to New York.—The second item which we have listed under the supply side of London exchange is the making of short loans on the part of London either to New York banks or in the New York money market.

The Finance Bill.—When a New York bank borrows from London, it is usually done through the medium of a finance bill. We have already seen that when the rate of exchange rises above 4.88, the tendency is for gold to leave this country. But gold would not leave if the rate of exchange were lower. Very often the rate of exchange is lowered by an American bank drawing on an English bank, and creating a balance of credit in London, by exactly the same process as if exports were being shipped to England. Although this is only a temporary credit which must be paid back by the American bank, yet for the time being, the additional credit, being added to the supply tends to bring down the rate of exchange. And if the rate of exchange is brought below the 4.88, the gold which ordinarily would have been exported, will stay in this country.

The finance bill is thus especially useful, if it is realized that the high rate of exchange is only temporary, and that in a short time rates will normally fall. The finance bill bridges over the interval between high and low rates, conserving the movement of gold.

Routing process of finance bill.—We shall trace the way in which finance bills affect the rate of exchange, in the same manner as we analyzed the relation of exports to exchange.

1. The American bank gets permission from the English bank to draw on it for a certain amount.

2. When this permission is cabled, the American bank draws on the English bank, in principle, as follows:

Pay to the order of —ourselves— 10,000 pounds sterling
30 days sight
To English Bank (Signed) American Bank

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3. This draft will be sent to the correspondent American bank in London.

4. The correspondent American bank will present the draft to the English bank on which it is drawn for acceptance.

5. **Sold in the discount market.**—Immediately upon acceptance, the draft will be sold in the London discount market, and the proceeds credited to the American bank. This is the important phase of the transaction, from the standpoint of the study of exchange rates.

Credit has been created in London, and this addition to the supply of credit tends to bring down the price of London exchange.

6. **Remit to London.**—Some days before the maturity of the draft, the American bank will go into the New York market, buy a draft on London, and remit it to the English bank which accepted the discounted draft. In this way the accepting bank is provided with funds to pay the holder of the draft, who will present it at the end of the 30 days.

Paying back the loan makes exchange rates rise.—By drawing on the English bank, a supply of London exchange is created; by remitting to the English bank at the expiration of the 30 days, a demand for London exchange is created. In the first case, the tendency is to depress exchange; in the second, the tendency is to raise exchange rates.

Short loans made by London in the New York money market.—Besides finance bills creating a supply of London exchange, short time loans made by London in the New York money market have the same effect. In the case of the finance bill the New York bank asks permission to draw on the English bank; in the case of the loans of which we are speaking, the English bank instructs the New York bank to draw. The underlying principle of the short time loan and the finance bill are the same, but the details of the transaction are somewhat different.

Currency and sterling loans.—There are two kinds of loans made by London bankers in the New York money market: the currency loan, and the sterling loan. In both, London is investing in New York. In both, the effect is to increase the supply of London exchange, temporarily, and to lower London exchange rates. The only difference is that one is paid in dollar currency; the other is paid in pounds sterling. In the first, the risk of exchange is on the London bank; in the second, the risk is on the American borrower.

The short term loans are resorted to by London banks, when rates of interest are more attractive in the New York money market than in London.

Whether the loan is a currency loan or a sterling loan, the English bank instructs the American bank to draw on it for the amount, let us say, of 10,000 pounds sterling. The American bank draws a draft exactly the same in form as the finance bill we have just described.

Currency loan.—If the loan is to be a currency loan, the American bank will sell this draft to some foreign exchange broker, who is in the market for London drafts. The American bank, having sold the draft to a foreign exchange broker, now has funds, belonging to the London bank which it immediately proceeds to lend to some one in the New York market, whom we shall call Jones, who wishes to borrow money. The money which Jones is borrowing, is, as we shall see, funds supplied by the London discount market, made available by the credit extension of the English bank.

Currency loan creates credit in London.—We have seen that the draft drawn against the English bank was sold to a foreign exchange broker in New York. He sends the draft to his correspondent in London, who presents it to the English bank, against which it is drawn, for acceptance. As in the case of the finance bill, it is immediately sold in the London discount market, and the proceeds credited to the New York foreign exchange broker, who can now sell drafts against this credit which has been established. As in the case of the export of merchandise, and the finance bill, the net result of the currency loan is to increase the supply of American credit in London, and thus tend to reduce the rate of sterling exchange.

A few days before the 30 days are up, Jones pays back to the American bank, the amount of dollars he borrowed, plus the interest on the loan, which is the profit the London bank makes on the transaction. When Jones has paid the American bank, the latter goes into the exchange market in New York, buys a sterling draft for the amount due the English bank, and remits to the

English bank. Thus, before the draft which has been discounted in the London market is due, and must be paid, the English bank has received funds from New York with which to meet the draft when it is presented by the holder.

Sterling loans.—The sterling loan works much the same way, with this exception: instead of the American bank selling the draft to a foreign exchange broker and then lending the proceeds to Jones, the American bank hands over to Jones the very draft itself. This draft, it is noticed, is drawn in pounds sterling. Jones must, therefore, pay back the loan in pounds sterling. In the currency loan, he borrowed dollars, and paid back dollars, taking no risk on any fluctuation in the currency. In the sterling loan, Jones borrowed sterling, and he must pay back sterling But because sterling is constantly fluctuating, he is here assuming the risk of paying back the loan when exchange rates on London are high.

When Jones has bought the sterling draft from the American bank, he will probably sell it to a foreign exchange broker, who will send the draft through the same channels which were described in the case of the currency loan.

The export of merchandise, the finance bill, the currency loan and the sterling loan are prime factors in creating a supply of London exchange, and a clear understanding of the process such as we have described is essential to an explanation of exchange rates.

Other items creating supply of London exchange.—Besides these factors of supply of London exchange which we have analyzed, the other supply items which we listed are important: sale of American securities in London, money due Americans for services rendered abroad, and interest on European securities held in this country.

Demand.—Regarding the demand for London exchange, this consists of the items listed: (1) paying for imports; (2) paying back loans to London; (3) payment for European securities sold in the United States; (4) payments to British insurance and shipping companies; (5) payment of interest on American securities held abroad; (6) remittances of foreigners in the United States to their home country.

In case of each item listed there will be a demand for drafts on London. The American banks wil be able to sell these drafts because the forces of supply which we have analyzed have created American bank balances or credits, against which drafts or checks on the English banks can be sold.

Although the statement regarding the forces of supply of and demand for London exchange is not complete in its details, the general conditions determining rates are here presented in their larger aspects.[1]

[1] Excellent discussions of foreign exchange are found in the works of Escher, Whitaker, Spaulding, Margraff, H. G. Brown, and Chapter XV of Holdsworth's "Money and Banking."

CHAPTER XIV

REACHING MARKETS: RAILWAYS, PORTS AND ROUTES

Analysis of subjects.—Our discussion on foreign markets divides itself as follows:

1. How markets are reached.
2. How markets are developed.

Reaching Markets.—Under the first heading, "how markets are reached," our study resolves itself into an analysis of the relation of railroads, ports, international trade routes, and shipping to foreign trade development.

I

Railroads.—The two important factors in importing and exporting are, first, the cost of the goods at the point of production; second, transportation costs. The importance of rail rates in this connection is very evident. A quotation taken from the Senate Hearings of 1905 vividly illustrates this point:

"I am interested in the erection of a mill that has just been completed, and sometime since I was figuring on the question of a smokestack. I wanted to have that stack built out of brick that is burned in New Jersey, and that is several hundred miles away. It is a long way to ship freight from New Jersey to North Carolina. A quotation was made to me by the stack builder whose office is in New York, and I remarked, 'That price is prohibitive; I cannot pay that price for the stack.' 'That is the best I can do,' he said 'but if you will tell me what you can afford to pay for the stack, in competition with home-burned brick, I will see what I can do with the railroad people.' Within a week he had his price revised, and gave me a satisfactory quotation and took my contract for the stack."

In this case, the railroad, by adjusting its rates to what the traffic would bear, created new business. This same principle is the accepted policy of the roads in developing foreign business. The importance of the railroads to our export trade was first noticed in the decade from 1870-80, when the United States began to develop its enormous grain trade with Europe. At this time the important fact was realized that a big foreign demand existed. Its growth depended on cheap transportation.

Railroad rate policy.—In fixing rates on imports and exports, the railroads' chief concern is to have traffic move. Traffic can only move if goods can be laid down in home or foreign markets and be sold, in the face of the forces of competition which exist there. Wheat from the western states sells in the Liverpool market in competition with wheat from Argentina, Russia and other parts of the world. Obviously, it is to the carrier's as well as the seller's interests for the railroads to fix rates in such a way that the Liverpool market will not be closed to American wheat. The element of distance, therefore, is not the controlling factor in rate making. On this account there is no relation necessarily between domestic and foreign rates.

In the first case, in which the right of the railroads to discriminate against domestic shippers, by charging lower rates for commodities entering foreign as compared with domestic trade, was challenged, the Interstate Commerce Commission in the "New York Board of Trade and Transportation against the Pennsylvania and

other Railroad Companies," held that this practice constituted local discrimination, and was therefore illegal. When the case came before the Supreme Court, however, the commission was reversed, the court taking the position that the different conditions of competition entering into foreign trade, warranted the roads in making different rate schedules for foreign shipments.
(Ripley, *Railroads,* page 409.)

Low rates on foreign shipments.—Professor Ripley cites many cases similar to the following which illustrate the policy of railroads in stimulating foreign trade by means of low rates:

(a). Rate on books, buttons, carpets
New Orleans to San Francisco.......$2.88 per 100 lbs.
Liverpool, Eng., to San Francisco.... 1.07 per 100 lbs.
(b). Rate on Wheat
Kansas City to Galveston............ .27 per 100 lbs.
Kansas City to Galveston (for export). .10 per 100 lbs.
(c). Rate on wheat
Mississippi River to New York ...... .21 per 100 lbs.
Mississippi River to N. Y. (for export) .13 per 100 lbs.
(*See Annual Report* of I. C. C. 1899, p. 22.)

German railroad policy.—The extent to which German railroad rates before the war were adjusted in such a way that exports to foreign markets were stimulated can be illustrated by the following comparison of carload export rates and domestic rates on certain articles from inland points to German ports in 1913:

Cities	Class of Goods	Export Rate	Domestic Rate
Cologne to Hamburg...	Copper goods, lead in blocks, tubes	$3.14	$6.38
" " "	Zinc, in sheets, etc.	3.17	4.86
" " "	Cotton goods	3.64	6.38

Cologne to Hamburg...	Machinery, and machine parts, ironware	2.52	4.86
" " "	Iron plates, locomotives, etc.	1.33	3.83
Frankfort to Hamburg.	Machines, and ironware..	3.07	6.00
Frankfort to Bremen...	" " " ..	2.69	5.21
Frankfort to Lubeck ...	" " " ..	3.31	6.47
Frankfort to Hamburg.	Iron products, such as beams, etc.	1.67	4.71
Frankfort to Bremen...	" "	1.45	4.12
Frankfort to Lubeck ...	" "	1.79	5.09

"In addition to the regular export rates, through rates, joint rail and ocean were granted for shipments from German cities to certain foreign markets which were even lower than the rates quoted above. For such shipments through bills of lading were issued and every effort was made to facilitate the business." (Federal Trade Commission: *Report on Co-operation in American Export Trade,* 1916.)

Port differentials.—Another phase of the relation of railroads to the development of overseas commerce is the question of port differentials. The port which can advertise that goods shipped through it can reach the foreign market at a lower rate than through a rival port, will naturally command a larger volume of tonnage. This has been the basis of keen competition between the Gulf ports on the one hand, and the Atlantic ports, primarily Boston, Baltimore, New York and Philadelphia on the other. This point, however, can be treated more completely under the discussion of ports, which follows.

It is of course important that the exporter should make a careful study of comparative rail and water rates by different routes. B. C. Daily of Overseas Shipping Company cites the following example of the difference in total freight charges in shipping a certain quantity of 4-inch pipe from Pittsburgh to Kobe, Japan, via New York, New Orleans and San Francisco: (*Journal of Commerce*, February 2, 1919.)

Pittsburgh to New York @ 27½c. per 100 lbs. . . .	$ 6.05
New York to Kobe	25.00
Total freight	$31.05
Pittsburgh to New Orleans @ 38½c. per 100 lbs. .	$ 8.62
New Orleans to Kobe	25.00
Total freight	$33.62
Pittsburgh to Pacific Ports @ 60c. per 100 lbs. . . .	$13.44
Pacific Ports to Kobe	13.44
Total freight	$26.88

II.

Ports.—There is much attention being given at the present time to the question of port efficiency. The war, with its enormous expansion of tonnage, showed the necessity for increased shipping facilities, and also the need of improvement in our port equipment and administration.

Location.—The location of ports is the first thing of strategic importance. In a general way nearness to markets creates an element of advantage to a port. However, the mileage factor is a small consideration, in comparison with such other matters as transportation facilities to the interior; the volume of tonnage which is tributary to the port, creating the element of what is called the "load factor"; the depth of the channel; space accommodations for warehouses, transit sheds, etc. In point of distance, Montreal is nearer to Liverpool than New York, Philadelphia or Baltimore. But Montreal lacks the other factors of importance which give these ports the advantage.

Load factor.—The term, "load factor," applies to the volume of tonnage waiting shipment at a port, which will assure a vessel, stopping at that port, a full cargo on leaving. It is not a profitable business for a ship to come into port laden with cargo, and leave without a full return cargo secured with a minimum delay. There is a close relation between this principle of the "load factor" and the success of British shipping. Ships coming to England laden with raw material, clear for other ports with a cargo of manufactured goods, or with coal in ballast. This explains why Europe has had in the past more direct shipping connections with South America than the United States. The balance of imports and exports is not so well adjusted in the trade between the United States and South America as to make direct shipping profitable. Applied to ports, the load factor is of prime importance in determining their position in the shipping world. Montreal, with all the advantages which it might offer, imports about 50 per cent of the volume she exports. This one sided trade situation puts a natural check on Montreal's development. (McElwee, *Ports and Terminal Facilities.*)

Reaching the interior.—Closely connected with the "load factor" is the problem of transportation to the interior. The position of New York is obviously strategic, from this point of view, because of railroad connections and transportation facilities offered by the Hudson River and the Erie Canal. Philadelphia is served by the Pennsylvania, Baltimore and Ohio, and Reading Railroads. Baltimore has the Pennsylvania, B. & O. and

Western Maryland. Norfolk is reached by the Norfolk and Western, and Newport News by the Chesapeake and Ohio. Besides the tonnage which comes down the Mississippi, New Orleans is reached by the Illinois Central, Yazoo and Mississippi Valley, Gulf Coast Lines, Louisiana Railway and Navigation Company, Texas and Pacific Company, Louisville and Nashville Railroad, Louisiana Southern Railway Co., New Orleans and Lower Coast System and the New Orleans and Great Northern Railroad. Apparently New Orleans has the right to claim herself the southern gateway of the United States.

Channel depth.—The depth of channel has come to have a new significance in view of the increasing size of ocean liners. The largest of our ocean going steamers require a channel of 40 feet. There are possibly no harbors in this country outside of New York, San Francisco, Seattle and Tacoma which can accommodate such vessels. Norfolk, which has been progressing very rapidly in developing port efficiency, is an example of where lack of depth of channel is a serious drawback. Until further dredging is done, our larger ocean going vessels cannot be accommodated. Besides the conditions mentioned above, a good harbor location requires enough space to allow for the proper development of warehouses, transit sheds, belt lines, etc. The question of space has been uppermost in the minds of those who are interested in the development of the port of New York.

Belt lines.—Belt lines, connecting railroads with wharfs, are regarded as an essential to modern port equipment. New York and Seattle are conspicuous examples of important ports without belt line facilities. In these cases the harbor lighterage system performs the work which ordinarily is done by a belt line.

There are two types of belt lines; outer and inner. The outer belt line is outside the city limits, and serves to connect all railroads entering the port. The inner belt line connects the wharfs with each other. In either case the distribution of freight is handled by the switching of cars to their proper terminals.

The control of these belt lines is of utmost importance, from the standpoint of cost and service. In Montreal, the belt line is publicly owned and operated. "Under the present system, the different companies at points designated in the harbor hand over their cars properly marshalled to the commission, who place them where desired, at the freight sheds, grain elevators, and other places for loading and unloading. With the redistribution of the railroad tracks, the cost of moving freight to and from the cars has been reduced by the commission from 45 cents to 22 cents per ton, practically eliminating the expensive use of the tracks with their attendant congestion. The length of the harbor shore line at present served by the Harbor Railway is seven miles, but the total mileage of track is 50 miles." (McElwee, *Ports and Terminal Facilities,* p. 61.) It is noticed that this belt line not only connects the railroads with the wharfs, but also connects the industries along the water front.

The belt line situation of New Orleans is especially interesting, because of its unusually successful administration. Regarding the Port of New Orleans, the Harbor Facilities Commission of the Shipping Board refers to it as presenting "a very successful example of public ownership and operation. It is one of the best equipped and co-ordinated ports of the country." (*Report of the Port and Harbor Facilities Commission of the United States*

Shipping Board, April, 1919.)

The administration of the New Orleans belt line, which totals 61 miles, is vested in "The Public Belt Railroad Commission," which was created by ordinance of the Council of New Orleans in 1904. The Commission is composed of 16 citizen taxpayers, appointed by the Mayor, who is president of the Commission. The purpose of the belt line, which acts as a common carrier, is summarized by a statement issued by the Board of Commissioners of the Port: "to supply comprehensive, economical and non-discriminatory switching service to all who require and can use the same. It transfers cars from railroad to railroad; from railroad to wharfs; from wharfs to railroads; from railroads to industries and public delivery docks; from industries to all transportation outlets of the city, and makes available to railroads which desire an entrance into the city all of the necessary wharf and individual switch connections at a low and uniform charge. It is the policy of the Board of Commissioners of the Port of New Orleans, which has jurisdiction of the public wharfs, that all public wharfs be served exclusively by the Public Belt Railroads." (See *report of Board of Commissioners,* Port of New Orleans, May 1, 1919.)

Belt lines elsewhere.—The belt line of San Francisco is owned and operated by the State of California; that of Philadelphia (in process of construction), has the element of public control through the provision that 51 per cent of the stock is to be held by public commercial organizations of the city.

Lighterage.—The lighterage situation at a port is a telling factor in the cost of shipment. Lighterage means the taking of goods to shore from a vessel, or vice versa if the ship is not docked; or it may mean the boat connection between terminals, as is the case in New York, which has no belt line. The boats which do this hauling within the harbor limits, called "lighters," are either owned by a railroad company, chartered from a firm which leases lighters, or are common carriers subject to public usage. The term found in business contracts, covering shipments, "lighterage free" means that the cost of the lighterage is absorbed by the freight charge. Free lighterage developed in New York as a result of the competition of the Erie Canal. Cargo coming into New York Harbor via the Canal, was delivered to any point in the harbor. To meet this competition the railroads were forced to offer free lighterage. Under the government operation during the War free lighterage was abolished. The cost of lighterage between terminals is high, as compared with the cost of shunting freight via belt line connections. It has been estimated that the cost of delivery of one carload by belt line in New Orleans averages $5.00, while in New York delivery by lighters amounts to $36.00. (McElwee, *Ports and Terminal Facilities*, p. 85)

Railroad rates.—The level of railroad rates from the interior determines partially the port which can attract the greatest volume of tonnage. The competition between ports, therefore, is very keen in their attempt to get favorable differentials from the railroads. In Europe, Amsterdam, Rotterdam and Antwerp have been made secondary to Hamburg and Bremen by the manipulation of German rail rates, giving these two latter cities the advantage. In this country, port competition has been especially marked between Boston, New York, Philadelphia, and Baltimore. The first agreement arrived at as a result of the rate wars of the '70s was based on the principle that the total rail-ocean rate from the West to Europe should be equalized, irrespective of the port through which the traffic moved. The New York-Chicago route was taken as the base for measuring the differentials. By this scheme, Philadelphia was given a reduction of two cents and Baltimore three cents over the rate to New York. Naturally New York business interests have opposed the rate structure, but the validity of the differential rates has been upheld by the Interstate Commerce Commission. (Case instituted by the Produce Exchange of New York, also 11 Int. Com. Rep. 13. Ripley, *Railroads,* p. 405.)

Competition of gulf ports against Atlantic ports.—The competition between the Gulf ports and the Atlantic ports for traffic from the Middle West is reflected in the rail rates of the trunk line roads, compared with the rates of the north-south roads reaching the Gulf. As an example, the Board of Commissioners of the Port of New Orleans has drawn up a chart of comparative rates showing the advantage of shipping through the port of New Orleans rather than through New York. The following are the conclusions to be drawn:

Origin of Shipment	Commodity Shipped	Difference in Costs Per 100 Lbs. in Favor of N. O.
Chicago	Jute	(Rates equal)
St. Paul	Coffee	10
St. Louis	Toys	81
Oklahoma City	Burlap	24
Kansas City	Crockery	30
Duluth	Toys	132

Port equipment.—The question of equipment at a port is a matter of importance in determining its ability to handle tonnage efficiently. The following quotation from *"The Nation's Business"* presents this point of view: "Location and natural advantages, in the opinion of this commission (the Shipping Board) do not create a port. The secret of success is in facilities. As for facilities, the Commission wants bulk heads and quay walls that will make accommodation at piers and ships flexible and suitable for vessels of increasing length. The transit sheds it would have in two stories, in order that cargo may flow to the vessels on one level, and from the vessels by another. The warehouse can be superimposed upon transit sheds, story on story, as high as the business may require. With these arrangements for space go cranes and other devices for actually handling cargo, and means to care for the needs of vessels themselves in the way of fuel and other supplies."

Besides the transit sheds mentioned, which furnish protection to the cargo enroute to its destination, and also allow for the sorting of the cargo, the wharf should be equipped with cranes, cargo masts, derricks, conveyors and miscellaneous apparatus, such as electric trucks used with trailers, gasoline trucks, timber jacks, tiering machines, etc. Ordinarily the structure of the wharf should be built on piles so that the flow of the tide will not be checked, and also because such a foundation, being elastic, is able more easily to withstand the impact of ships which are docking.

The harbor facilities should also include dry dock and machine shop equipment, together with storage space for bunker coal and oil. Automatic bunkering machinery, together with automatic devices for storing inside the ship are also regarded as essentials to port efficiency. American methods of handling bulk shipments such as coal, oil, ore, grain and cotton are regarded as being the most efficient in the world. This is especially true in the handling of ore on the Great Lakes.

There are automatic loading machines which will almost instantly transfer ten to twenty tons of ore from the ship's hold to the storage pile in one operation. (Z. W. Carter in *American Exporter.*)

It is in the handling of mixed cargo that the greatest inefficiency occurs. The most marked improvement in this line has been the continuous conveyor. Where the best methods of feeding and taking parcels and packages away from the conveyor are used, as many as 1,500 boxes, etc., are handled per hour. But speed in unloading may result in congestion at the wharf. This has, in many cases, been overcome by stacking machines, and overhead adjustable loop systems which can move the freight easily.

The internal handling systems in the pier sheds are "duplicates of the handling equipment used in the industrial plants throughout the United States, and include bulk handling cranes, machines, hoists, winches; both overhead, loop, rail and hoist conveyors; telephone systems; tiering or stacking machines; gravity, belt and apron conveyors; portable conveyors of various styles; operatorless, automatic and manual elevators for vertical handling; industrial tractors and trailers, etc. When the overhead trolley system is used, a man rides in a cage suspended from the trolley. He has complete control, and the machine will rapidly carry sling loads to any part of the piershed or warehouse. The use of these trolley systems will permit high stacking of goods for temporary storage—thus economizing piershed or warehouse space." (Z. W. Carter, in *American Exporter.*)

Port administration.—The administration of American ports varies, in regard to the matter of control. An example of the variety of control existing in this country is illustrated in the administration of the ports of New York, New Orleans and San Francisco.

New York.—In New York the control is municipal. Administration is vested in the Department of Docks and Ferries, at the head of which is the Commissioner of Docks, appointed by the Mayor. The powers of the Commissioner are (Grosvenor Jones, *Miscellaneous Series No.* 33, Bureau of Foreign and Domestic Commerce):

"A. Subject to the approval of the Board of Estimate and Apportionment—To prepare plans for terminal facilities and equipment thereof and to build or cause to be built the whole or any part thereof.

"B. Subject to the approval of the Commissioners of the Sinking Fund—

"1. To prepare plans for terminal facilities and equipment thereof and to build or cause to be built the whole or any part thereof, subject to the Board of Estimate and Apportionment.

"2. To take title of wharf property in the name of the city after agreement with the owners, or, in case of failure to agree, to institute, with the Consent of the Board of Estimate, condemnation proceedings for the acquisition of the same.

"3. To adopt and execute general plans or change previously adopted plans for waterfront improvement.

"4. To establish bulkhead and pierhead lines.

"5. To regulate the use of marginal streets.

"6. To establish new ferries and the leasing of franchises for ferry operation.

"C. Subject to control—

"1. To grant permits for the use of wharf property for periods not exceeding one year.

"2. To make contracts for construction work, and for furnishing material and supplies to the value of not more than $1,000.

"3. To direct private owners to dredge or deepen slips along side of and adjoining their wharfs, slips, or bulkheads, and in default thereof to cause the same to be done and the cost to be assessed on the property.

"4. To set aside piers for recreation purposes.

"5. To build sheds for the protection of property belonging to the city and to grant permits for lessees or private owners to erect sheds on their property subject to the regulations of the Commissioner of Docks.

"6. To make rules and regulations and give such directions as will secure dispatch in loading and unloading vessels and the prompt removal of the vessels from the wharf property as soon as the loading or unloading is completed; also such rules and regulations as shall be needed to prevent any unnecessary accumulation of freight or merchandise while any vessel is receiving or discharging cargo.

"7. To order the removal of any ship or vessel from any portion of the water front which it is not entitled to occupy.

"8. To regulate wharfage and dockage rates on property improved under the new plan.

"9. To designate berths for public baths, upon request of the Borough President.

"10. To set aside water front for other city departments."

New Orleans.—In New Orleans, control is divided between the State and the City. The City controls the Belt Line Railroad, while the State appoints the Board of Commissioners of the New Orleans Levee District and the Board of Commissioners of the Port of New Orleans. The powers of this latter body, generally known as the Dock Board, are defined by the law as follows:

"(1) To regulate the commerce and traffic of the port and harbor of New Orleans in such manner as may, in their judgment, be best for its maintenance and development.

"(2) To enjoy all the rights, powers, and immunities incident to corporation.

"(3) To take charge of and administer the public wharfs and lands of the port of New Orleans.

"(4) To construct new wharfs where necessary and to erect sheds on the wharfs and landings to protect merchandise in transit.

"(5) To maintain sufficient depth of water.

"(6) To collect dockage charges and harbor fees at specified rates and such charges for the use of wharf sheds as will not exceed cost.

"(7) To acquire by purchase or by appropriation any property, wharfs, or landings necessary for the benefit of the commerce of the port; the Common Council of the city of New Orleans to provide for the payment out of funds under its control, provided the price to be paid is satisfactory to the said council.

"(8) To erect and operate warehouses and other structures necessary to the port of New Orleans."

(*Miscellaneous Series No.* 33, Bureau of Foreign and Domestic Commerce.)

San Francisco.—At San Francisco, control is vested in the State of California. The Board of State Harbor Commissioners, appointed by the Governor has jurisdiction of the harbor front, in addition to the following powers (Ibid):

"1. To use for loading and landing merchandise, with a right to collect dockage, wharfage, and tolls thereon, such portion of the streets of the city and county of San Francisco ending or fronting upon the waters of said bay as may be used for such purposes without obstructing the same as thoroughfares.

"2. To fix and regulate, from time to time, the rates of dockage, wharfage, cartage, tolls and rents.

"3. To construct such number of wharfs as the wants of commerce shall require, and to locate such wharfs at such points and upon such lines as they may deem most suitable for the best interests of commerce.

"4. To repair and maintain all the wharfs, piers, quays, landings, and thoroughfares as the wants of commerce may require.

"5. To order all such improvements as may be necessary for the landings, loading and unloading, and protection of all classes of merchandise.

"6. To construct such harbor embankment or sea wall as shall be necessary to protect the harbor of San Francisco.

"7. To dredge such number of slips and docks as the commerce of the Port of San Francisco may require to a depth that will admit of the easy and free ingress and egress of all classes of water craft."

Enterprise of business leaders.—Besides the matter of equipment and administration, ports depend on the enterprise of their business leaders for trade development. In its circular for May 25, 1919, the Shipping Board emphasized the personal equation:

"There is the personal equation to be considered in attracting shipping to different ports. Efficient ship brokers and freight solicitors must go after business and have it properly handled after it is obtained. Manchester, England, an inland city, made itself one of the great ports of the world by digging a canal to the ocean that would float seagoing ships, and then sending solicitors all over the world to get business. The business that ports get and hold does not come to them by accident. Nobody continues to send them business simply for the love they bear them. Location and natural reasons alone will never build up a port."

Free ports.—Our discussion on ports would be incomplete if we were to omit a brief statement regarding the question of a free port. A free port has been described as "an area separated from the customs area by a stockade." The purpose of this separated area is to allow goods to be imported into this part of the port, free from all the customs duties levied on ordinary imports, providing these goods are in turn re-exported out of the country. Goods might be brought to the free port for purposes of storage, repacking or manufacture. This policy in no way affects the existing tariff laws, because if the goods should be carried into the interior, instead of being re-exported, they would then be subject to the tariff laws which apply to all imports. Copenhagen, Hamburg, Bremen, Barcelona and Cadiz are among the important free ports of Europe. It is obvious that if New York, or any other city, should become a free port, it would develop into a much more important distributing center for the Western Continent.

Free ports would help to solve the question of the "load factor." A ship laden with fruit from Spain to New York might carry a small supplementary cargo of goods for some South American buyer. Under present conditions, the supplementary cargo might not be carried, unless the ship itself were going to proceed to South America. If New York, however, were a free port, the supplementary cargo could be stored and repacked at New York, and await shipping space to South America. The free port, then, would tend to lower rates between New York and Spain, and also between New York and South America, because a full cargo would be more easily assured.

Comparison between free ports and drawbacks.—At the present time under the system of drawbacks provided by our laws, 99 per cent of the tariff on imported raw materials, fabricated into manufactured goods, and then exported, may be refunded. In a sense, this drawback idea is similar to the free port system. However, the amount of red tape necessary to collect the drawback is a serious obstacle against its use by American manufacturers. As an illustration of the practical obstacles of making use of the drawback, the United States Tariff Commission cites the case of the re-exportation of rice. The rice-milling industry cannot operate more than six months of the year if it uses the domestic crop of rice alone. To keep the mills running profitably, therefore, rice must be imported from abroad. Rice cargoes amount to about 6,000 tons each and pay a duty of about $60,000. If this rice were exported, the shippers could claim a drawback of approximately $60,000. So great is the delay, difficulty and expense in securing the drawback that rarely is it demanded.

There is another feature of the drawback which operates to the disadvantage of the exporter, namely, the provision of the law which requires that evidence of the actual arrival of the goods at some port in a foreign country must be furnished to the Government of the United States before the drawback can be secured. This situation may result in long delays, and is especially objectionable if the goods are lost at sea.

Regarding importing goods under the present system, the same routine must be gone through at the port of entry whether goods are placed in a bonded warehouse, destined for re-export or whether they are to be entered for sale within the United States. This means that goods for re-export must be valued, weighed, sampled and tested before they are taken from the dock en route for the bonded warehouse. This, of course, results in unnecessary expense and delay, besides adding to the congestion at our ports of entry.

Under our bonded warehouse system the bond which is given by the importer is double the amount of duty. This bond is forfeited if the goods are stolen, lost or fraudulently removed.

The present bonded warehouse system denies the right of the owner of the goods, unless in unusual cases, to handle, sort, assemble, mix or repack the imported goods. It is this advantage, in particular, which is claimed for the free zones.

Constitutionality of free zones.—The constitutionality of the free port scheme has been raised. The constitution provides that "no preference shall be given by any regulation of commerce or revenue to the ports of one state over those of another." The Merchants Association of New York argues in favor of the constitutionality of the law in its appeal to Congress:

"It cannot be maintained that legislation permitting manufacturing within the zone is discriminatory against manufacturers of similar articles for export located in customs territory. This is true because any manufacturer in any section of the United States will be free to locate a factory or a branch of a factory within one of the zones if he will comply with the conditions with which other manufacturers are uniformly compelled to comply. Certainly an inland factory is not improperly discriminated against because it is located a greater number of miles from a foreign trading zone than some other manufacturer of a similar line. Variation in distance is not discrimination by the Government.

"Bonded warehouses to-day are not and cannot be, uniformly available and within the same number of miles of every manufacturer, large and small, in the United States, but the system of bonded warehouses is not, therefore, held to be discriminatory. Its facilities are available to all. The same may be said with respect to the facilities afforded by a customs house which is open to all, but not equally available to all in the matter of distance. The same would be true of a foreign trading zone."

Re-exports.—It is interesting, in view of the free port discussion, to notice the increase in the value of our re-exports since 1914:

	Calendar Year	Fiscal year.
1914	$42,566,306	$34,895,123
1915	61,440,315	52,410,875
1916	59,998,596	61,305,306
1917	63,895,372	62,884,314
1918	101,214,108	81,059,314
1919	121,314,449*	151,336,805

* Eight months only.

In explanation of these statistics the Bureau of Foreign and Domestic Commerce states:

"The unprecedented volume of this foreign merchandise trade during 1919 may be ascribed in part to the enormous stocks of rice, coffee, tea, cocoa, gums, dried eggs, vegetable oils and wax, matches, hides and skins, spices, leaf tobacco, beans, dried peas, etc., which accumulated in distant countries, particularly Latin America and the Orient, awaiting transportation at the end of the war. With the increased production abroad which may be expected to follow the war, and with the continued expansion of the American merchant marine, it is probable that the high standard set in 1919 in this branch of the foreign trade of the United States may be surpassed in 1920."

Relative importance of American ports.—The following statistics present the facts in regard to the ranking of our ports, both in export and import trade. (The statistics are summarized by the *Journal of Commerce* for February 9, 1920.

1916	Value	Place	1919	Value
New York	$3,395,430	1	New York	$4,627,049
Philadelphia	358,157	2	New Orleans	602,710
Boston	314,812	3	Philadelphia	550,373
Seattle	304,845	4	Boston	518,836
New Orleans	290,040	5	Seattle	427,883
Baltimore	261,087	6	San Francisco	381,340
San Francisco....	200,022	7	Galveston	318,990
Galveston	178,838	8	Baltimore	316,772
Norfolk	115,665	9	Savannah	195,886
Savannah	55,458	10	Norfolk	135,886

"The above table shows that New Orleans has made greater progress during the period under consideration than any other port, while Galveston and Savannah, two other southern ports, have also gone ahead rapidly. Philadelphia, Boston and Seattle retain the same relative positions, except that they are placed one step further down in the ranking, being hurdled by New Orleans.

"In the export trade, the southern ports make a better showing than in the import trade. New Orleans, for example, is second in exports, but lags behind New York, Boston, San Francisco, and Seattle in the value of imports received. Galveston, fourth in export trade, is tenth in import standing. This seems to indicate that while export business may be diverted by favorable freight rates, import trade is of slower growth and tends to go direct to the point of consumption or the port most accessible.

The following table shows the ranking of the principal ports in export trade during January-October, 1916, and 1919.

EXPORT RANKING

1916	Per Cent	Place	1919	Per Cent
New York	57.2	1	New York	52.0
Philadelphia	6.6	2	New Orleans	7.9
Baltimore	5.9	3	Philadelphia	7.2
New Orleans	5.5	4	Galveston	5.3
Galveston	4.4	5	Baltimore	4.9
Seattle	4.3	6	Boston	4.7
Boston	3.6	7	Seattle	4.4
Norfolk	2.6	8	San Francisco	3.2
San Francisco	2.5	9	Savannah	3.1
Savannah	1.5	10	Norfolk	2.3

The following table shows the ranking of the principal ports in import trade during January-October, 1916, and 1919:

IMPORT RANKING

1916	Per Cent	Place	1919	Per Cent
New York	60.9	1	New York	61.2
Boston	9.9	2	Boston	9.15
Seattle	7.8	3	San Francisco	7.4
San Francisco	5.8	4	Seattle	6.4
Philadelphia	5.6	5	New Orleans	5.5
New Orleans	4.4	6	Philadelphia	4.9
Baltimore	1.8	7	Baltimore	1.06
Norfolk	0.8	8	Portland (Me.)	0.68
Portland (Me.)	0.6	9	Galveston	0.6
Galveston	0.4	10	Savannah	0.5

III

Shipping routes.—The question of shipping routes presents many phases of interest. We speak of the ocean as if it were a free road bed on which a ship is free to go in any direction it cares. This is true, but a ship does not care to go in every direction. There are certain marked channels of our ocean carriers, and these marked channels, in a general way, are almost as rigid as our trunk line routes of railroad traffic.

Arc of great circle route.—The forces which mark our great lanes of the sea are both geographic and economic. An understanding of these forces gives the cue to the location of the highways of commerce.

The forces of which we are speaking are:

1. **The curved, spherical surface of the earth.** The shortest distance between two points on a sphere is the arc of a great circle, which passes between the two points and the center of the sphere. This factor, which does not ordinarily enter into our calculation in land transportation, is of great importance in determining ocean routes. The great circle route from the Carribean Sea to Liverpool is a line which follows the coast line of Eastern United States and is 325 miles from New York —a fact which should increase the importance of this eastern section with the development of traffic through the Panama Canal. The great circle route between Japan and Panama takes vessels within 114 miles of San Francisco. The influence of measuring by great circles is the first thing of interest in the determination of trade routes. (J. Russell Smith, *Commerce and Industry.*)

2. **Fogs—Icebergs—Islands.**—The impediments to traffic. Under this head should be mentioned excessive fogs or the presence of icebergs which make the mariner steer toward the south. Also sand bars, dangerous capes or treacherous islands such as the Aleutian Islands in the Pacific have their influence on ocean routes.

3. **Fuel—Coal in ballast.**—Coal is one of the most important factors in determining the channels of trade. A vessel which cannot coal easily on a voyage must carry large supplies of fuel. In this case the coal is occupying space which ought to be earning revenue. Again, coal is important, not only for fuel, but also for cargo when it can be carried in ballast and sold at a market which will supply a ship with return cargo. This is the key fact

in the trade between England and South America. South America apparently never gets enough coal, and England apparently never gets enough grain. This is an ideal condition to establish direct trade routes between Western Europe and South America. If the United States develops her coal exports and becomes a heavy importer of raw material and grain, we may expect direct shipping connection to develop speedily between the United States and South America.

Coal resources of the United States.—The importance of the coal situation in determining trade routes calls for a statement regarding the position of the United States and England as coal producers.

The coal resources of the United States are approximately 50 per cent of the total resources of the rest of the world. This is brought out by the following statistics for 1913:

Country	Resources Millions of Metric Tons
United States	3,838,675
United Kingdom	189,533
Germany	423,356
Austria-Hungary	55,593
France	17,583
Russia	233,985
Belgium	11,000
Japan	7,970
India	79,001
China	995,587
Canada	1,234,269
Australia	165,572
Other Countries	145,447
Total	7,397,553

(*Statistics compiled by National Bank of Commerce, New York, Commerce Monthly,* November, 1919).

Coal resources of England.—The position of England, as far as resources are concerned, is comparatively unimportant, as she contains only about 3 per cent of the coal resurces of the world. However, in production of coal, England ranks second only to the United States.

Of particular significance is the effect of the War on British coal production and export. Her production fell from 287,000,000 tons in 1913 to 228,000,000 tons in 1918. Exports of coal declined from 73,000,000 tons in 1913, to 20,000,000 in 1918. The position of England as a coal exporting nation is significant in view of the growing volume of coal exports from the United States. English coal exports totalled only 9,000,000 tons for the first half of 1920.

Oil.—The possibilities of the use of oil for fuel on ships may be said to have passed the experimental stage. The statement of the Secretary of the Navy, Mr. Daniels, in 1914, to the effect that our fighting ships are to be propelled by oil fuel marks the transitional stage through which we are passing. If sea power, as that term refers to commercial or military supremacy, is to depend on oil, what is to be the future position of the United States? Here again, as in the case of coal, we find the United States occupying a premier position. The importance of oil to the development of our merchant shipping, not only in supplying fuel, but in furnishing cargo which will have a market in many parts of the world, is a thing which has attracted attention of students of commerce, because of its effect on ocean routes. The following table shows the most important sources of petroleum in 1917. The United States supplied about two-thirds of the world's total: (United States Geological Survey: *Mineral Resources of the United States,* 1917, page 867):

	1917
United States	66.17%
Russia	13.62%
British India	1.59%
Dutch East Indies	2.59%
Mexico	10.91%

4. Load factor.—This discussion on coal as ballast suggests what is probably the most significant element in trade route making—the load factor. Ships go where they can get cargo to keep them actively employed. This point, stressed under our discussion of shipping rates, is certainly a factor of vital importance in determining ocean routes. The following illustration is presented by the Foreign Trade Council:

"The carriage of grain from the Black Sea, Argentina, North America, or India; of ore and fruit from Spain; of timber and cotton from Gulf ports; of nitrate from Chile; and, lately, of soya beans from Manchuria, are some of the trades which bring the "tramp" back home. But in order to secure these freights it is often necessary for her to undertake long voyages in ballast, as for instance, from Brazil to the Gulf ports to load timber across to Europe or back to South America, where she may find a cargo of grain.

"The absence of regular return cargoes in many trades forces even cargo liners to go off their own beaten tracks in search of employment. Thus a cargo liner going out to Australia with general cargo may arrive out too late in the wool season or too early for the grain season. She may lie up there till next season, or she may load a cargo of coal for some port in the Far East or for the Pacific Coast of America. But she may even have to steam across the Pacific in ballast to Chile for a cargo of nitrate in order to make her way home again by way of the Straits of Magellan or the Panama Canal.

"It may be calculated that the proportion of shipping employed in the carrying of wheat on the various trade routes is 12½ per cent in the Mediterranean; one-third of 1 per cent in Europe otherwise; 15 per cent in the North Atlantic; and 9½ per cent in the South Atlantic. About 20 per cent of the British merchant marine is entirely employed abroad, and can scarcely be classified. The chief trade routes of the world on which cargo steamers are employed as well as cargo and passenger steamers are the North Atlantic trade, the North Sea trade and Baltic trade, the Mediterranean and South Europe and Black Sea trade, India, China, Japan, Australasia, South Africa, and the Far East, River Plata, West Indies, Brazil, Chile, and Peru (classed as South American trade), and the Pacific trade. These are the main routes, but with overlapping." (*House Doc. No.* 2112, 62 Cong. 2nd session.)

5. **Canal rates.**—Whether a ship will round the end of South America or Africa may depend on the prevailing tonnage rates at the Panama or Suez Canal. In the case of debating whether to pass through the Suez or go by way of the Cape of Good Hope, the shipper must think of his cargo revenues by either route, the canal tolls, and the better coaling facilities by touching South Africa.

A large percentage of the commerce between the Far East and Europe chooses the South African route for the last reason mentioned.

As an illustration of this point, Mr. Lincoln Hutchinson has made the comparison of two vessels: one going from Liverpool to Wellington by way of Suez; the other via Cape of Good Hope. (Figuring on the basis of a 3,000 net ton vessel with a carrying capacity of 6,000 tons; speed 10 knots; coal consumption 30 tons per day, days at sea 230; days in port 135; miscellaneous expenses $160 per day; price of fuel based on 1912 level.) The conclusions reached by Mr. Hutchinson are:

Total expenses via Suez	$114,133
Total expenses via Cape	89,546

Rates necessary to earn 25 per cent on investment of $300,000:

Via Suez	$8.19 per ton
Via Cape	7.58 per ton

It is evident that the Cape of Good Hope Route is the more favorable, on the basis of the assumptions made. (*Panama Canal and International Trade Competition,* by Lincoln Hutchinson, p. 27.)

6. **Distance.**—The effect of distance as a factor in determining routes has been vividly illustrated by the opening of the Panama Canal. The saving is indicated as follows:

	Saved in Nautical Miles
Liverpool to San Francisco	5,666
New York to San Francisco	7,873
Liverpool to Valparaiso	1,540
New York to Valparaiso	3,747
New York to Yokohama	3,768

The distance from New York to Hong Kong and Manilla are practically the same, whether the Suez or Panama routes are used.

In choosing the short route in preference to the long route, the shipper must take into consideration the following:

1. Charter rate per day for vessel.
2. Amount of tolls.
3. Amount of revenues from freight.
4. Number of days saved by the shorter route.

Railroad Development.—Future international trade routes will undoubtedly be very much affected by the development of railroads of international importance. Among the more important projects which should be mentioned are the following:

1. The proposed tunnel under the English Channel.
2. The proposed tunnel under the Bosphorus connecting Europe and Asia.
3. The proposed tunnel at Gibraltar connecting Europe and Africa.
4. The proposed rail route via Gibraltar tunnel from Paris to Dekar, the nearest point on the coast of Africa to South America.
5. The reorganization of the Trans-Siberian Railroad.
6. The completion of the Cape-to-Cairo Railroad.
7. The completion of the Hudson Bay Line.
8. The extension of railway systems of India, China, Mexico and South America. (*The Americas.*)

CHAPTER XV

REACHING MARKETS—OCEAN SHIPPING

Phases of the problem.—The World War has probably emphasized no one phase of overseas commerce so much as the whole problem of shipping. For our purposes the discussion of shipping must be limited to a brief analysis of: (1) basis of weight; (2) basis of ocean rates; (3) mercantile marine history and policy of the United States and England.

Weight.—In ocean shipping there are five bases of weight. The displacement ton means the weight of the water displaced when the vessel is floating. The gross ton is the number of cubic feet of total vessel capacity, including all space occupied by the boilers, etc., divided by 100. The net ton is the number of cubic feet of vessel capacity, available for cargo, divided by 100. Deadweight tonnage is the maximum weight of the cargo, passengers and crew. The measurement ton used in determining freight charges is 40 cubic feet.

The United States Shipping Board uses the deadweight ton in its statements; the United States Department of Commerce and also the British Admiralty use the gross ton as the basis of their statistics.

For practical purposes, in making approximate estimates, the net ton is two-thirds the gross ton; the gross is two-thirds the deadweight.

Competition.—Regarding shipping rates, the outstanding feature is that they are highly competitive. Unlike the road bed of the railroad, which by nature, becomes a monopoly, the maritime highway is free to all who can afford to charter or construct ships. Here the forces of supply and demand have free play.

Supply and demand.—The supply of shipping depends on the available ship tonnage at any given time or place which can meet the demand. This supply depends on the relation between costs and profits, which in turn depend on rates. Demand depends on cargo volume awaiting shipment. Fundamental costs which affect tonnage supply are:

1. Interest on original investment.
2. Operating costs, such as fuel, labor, etc.
3. Port charges.
4. Depreciation.
5. Insurance.

When rates are such that there is a wide margin between income and costs, ship building is stimulated. With the increased number of ships, rates become lower, and investors turn from ship building to other more profitable channels. This constant fluctuation in rates makes the whole business of shipping highly speculative.

Supply and demand 1900-14.—"During the South African War (1900-1902) the British Government chartered some 2,000,000 tons of shipping, with the result that freight rates soared all over the world. The end of the war brought about a period of depression in shipping during which the value of tonnage suffered a considerable fall.

"This had the effect of forcing many uneconomical vessels to the scrap heap. The process of natural selection did not, however, keep pace with the increase in tonnage, and the supply continued to exceed the demand until, when the trade of the world suffered general disorganization in the period of 1907-08, it was found impossible to provide employment at anything like paying rates for the tonnage afloat, and a very large number of ships were laid up in their home ports. When conditions had begun to adjust themselves, shipping again found employment at paying rates, and by 1912 freight rates had steadily climbed up to a level overtopping that of the boom period of 1900. However, as in the interval much money had been lost by small investors in cargo boats, the financing of shipping propositions became more difficult, and this had the effect of restricting the output of new tonnage. Therefore, while the total world trade made considerable advance during the period from 1908 to 1912, the net addition to the tonnage supply did not progress in the same proportion. By 1913 the usual reaction followed and freight again went on the downward slide, trade having been slackened and the production of new tonnage practically overtaking the demand At the beginning of the year 1914 the outlook for shipping was anything but rosy and the decline was so steady that a British ship owner proposed that an international scheme be worked out for the purpose of laying up ships by means of a general contribution from the tonnage employed, so as to restrict the supply to the actual demand." (See *House Document* 2112, 64th Congress, 2nd Session.) This section has been quoted at length, both because it shows the action of the complex forces of supply of and demand for tonnage and also because it indicates the general situation of world shipping at the beginning of the World War in 1914.

From the standpoint of the ship owner, the main problem of operation is to keep his vessel constantly employed. Every day the ship lies idle means loss of money. Rather than stay idle in a port, it will pay the ship master to offer to carry cargo at a low rate, or to move to a point where cargo is more plentiful and rates are higher. The search for cargo on the part of ship owners, and the search for ships on the part of cargo owners, determines, to a large extent, the ocean shipping routes. This principle is very well illustrated by a statement of the United States District Court of New Jersey in a decision handed down acquitting the United States Steel Corporation of violating the Sherman Law:

Supply of tonnage determined by load factor.—"To reach Vancouver, the Steel Corporation was confronted by a railroad rate from Pittsburgh to Vancouver of $18.00 per ton, while the English steel manufacturer could reach Vancouver on already established lines of steamers from Liverpool to Vancouver at $7.00 per ton. When his steel reached Vancouver, the English manufacturer paid one-third less of the preferential Canadian tariff than the American manufacturer.

"The result of these adverse conditions was that after the Steel Company opened its warehouse at Vancouver it found that it was impossible for it to do much business unless the Steel Company itself established a line of its own steamers from New York to Vancouver through the Straits of Magellan. The Products Company itself accordingly started such a line, which is the only one from New York to Vancouver. It has four steamers of its own service and two chartered vessels.

"These vessels call en route at many ports on the west coast of South America and Mexico, at some ports which have no regular steamship line. In addition to carrying the products of the Steel Corporation they have been carrying considerable quantities of material for other manufacturers in this country who had been unable to develop a business because of the lack of facilities.

"In order to obtain return freight for their steamers, the Products Company have to load them at Vancouver with lumber or coal for the Gulf of California; there they reload with copper for Dunkirk, France, and in France they take on chalk for New York. The whole triangular trip occupies from seven to eight months and shows the hitherto unused method and the continuous sustained effort that must be made to get and hold foreign trade. By like effort, trade suited to the varied needs of various countries is built up." (*House Document* 2112, 64th Congress, 2nd Session, p. 12.)

Liners and tramps.—The types of vessels which figure in determining ocean rates are "liners" and "tramps." Liners supply fast freight service at regular scheduled periods. The tramp steamers, which can be chartered by the voyage, or for a period of time, are by far the more important as ocean carriers. It has been estimated that two-thirds of the world's tonnage consists of tramps. Most of the bulk shipments, such as grain, coal, etc., are handled by these vessels.

Weight and measurement ton.—Carriers reserve the right to base their rates on the weight ton or the measurement ton. The measurement ton is 40 cubic feet. Packages which are light and bulky, therefore, are rated by the measurement ton, and those which are compact and small, but heavy, are assessed according to their weight.

Primage.—After the tonnage freight rate is determined by either method there may be added, in some cases, to the total an additional item called primage. Primage usually amounts to 5 per cent or 10 per cent of the freight. It is a term which originally referred to a gift of money, or tip, to the captain or crew to secure special attention from them in loading, unloading and handling cargoes. The practice of collecting primage is declining, the rate quoted being the net rate.

History.—The development of the American merchant marine is an interesting chapter in commercial history. The ship building industry was early developed in the New England States, where in Colonial days the cost of construction was from $25 to $35 per ton cheaper than in England. In fact, the rapid development of American shipping must be largely attributed to our unlimited supply of good timber. When ship construction changed from wood to steel, we lost our natural advantage over England. (Day: *History of Commerce.*)

War of 1812.—At the time of the organization of the national government, the amount of American tonnage engaged in foreign trade totalled 100,000. The first ship registry law, passed in 1789, confined American registry to ships built in the United States. During the Napoleonic struggle in Europe the United States enjoyed the bulk of the neutral carrying trade. By 1810, American tonnage had grown to 900,000. But the war of 1812 worked havoc with our commerce, over 1500 of our clippers being destroyed. In 1817, Congress passed a law reserving all coastwise shipping for vessels of American registry. About this period American "clipper" ships were known on all the trade routes of the world. They were sailing ships of great speed and could make "five voyages while a British ship was making four of equal length."

Subsidies.—In 1845, a new policy for the encouragement of American shipping was adopted by Congress. This consisted in granting liberal subventions for carrying mail to certain vessels constructed in the United States. "The most important contract entered into at this period was with E. K. Collins and provided for semimonthly service between New York and Liverpool, during eight months of the year and a monthly service during the four winter months. Five steamers were to be used in this service, and the compensation was to be $19,250 for 20 round trip voyages, or $385,000 per year." At a time when the British government was granting a subsidy of $843,000 to the Cunard Line, for 52 voyages, the Collins Line was receiving $853,000 from the United States for 26 voyages. (*Department of Commerce, Special Agents Series* 119, p. 39.) At one time in the decade 1850-60, which may be regarded as the heyday of the American merchant marine, the total tonnage under the American flag was 3.7 million tons as compared with 4.3 millions owned in the British Empire.

Decline of American shipping.—But toward the close of the '50s, there began a series of events which marked the beginning of the end of American power on the high seas during the 19th Century. And it was not until the coming of the Great War in 1914 that the merchant marine of the United States again assumed an important position among the commercial navies of the world.

The early development of the iron and steel industry in England as compared with the United States put this country at a disadvantage in ship construction, when iron and steel vessels came into use in international commerce. A falling off in wooden ship construction in this country, began before 1860.

Effect of the Civil War.—The Civil War did much to reduce the maritime prestige of the United States. Southern cruisers preyed successfully on the commerce of the North, capturing altogether 261 vessels. In addition to this loss of tonnage, many vessels transferred to foreign registry, because of the greater safety in sailing under a neutral flag. It is estimated that 750,000 tons were transferred for this reason. (*Annual Report of Commissioner of Navigation,* 1915, pp. 214-215.) At the end of the war, the amount of tons (net register) under the American flag was 1,000,000 less than when the struggle commenced.

After the Civil War.—Conditions following the Civil War were not more favorable to American shipping. In 1866 Congress passed a law forbidding the return to American registry of all ships which had transferred to foreign registry during the war. The adoption of high protective tariff and a system of heavy taxation made the cost of building and the operation of ships more expensive in the U. S. than in England. More especially, the opportunities for investment and the free play of enterprise in the West absorbed the energies of the nation almost to the point of precluding an interest in foreign trade or ocean shipping.

Mail subsidy of 1891.—The policy of granting mail subsidies, inaugurated in 1845, was withdrawn in 1858. After the Civil War, special contracts were granted, but the most important was secured by the law of 1891. This subsidy, which varies according to the construction, speed and tonnage of vessels, is to be granted to certain American shipping companies with which the Postmaster General may enter into contract. All ships, to come under the terms of this contract, must be owned and officered by Americans and built in American yards. Of the crew, one fourth must be Americans during the first two years of the contract, one third during the next three years and one half during the remaining five years. Although the subvention granted in 1891 is considered liberal, the results in stimulating American shipping are regarded as negligible.

Imports of material to be used for the purpose of shipbuilding are permitted to enter the United States free of duty, but before 1909, vessels receiving these benefits were not allowed to engage in our coastwise trade more than two months out of the year. Since 1912, all restrictions have been removed.

The disposition of Congress in 1913 in its attitude toward encouraging a merchant marine is indicated by a clause in the tariff act of that year, providing that a discount of 5 per cent of all duties shall be allowed on goods imported in vessels of American registry. This provision was soon declared to be inoperative because of the conflict which would occur on account of our commercial treaties. (*House Document* 2112, 64*th Congress,* 2nd Session).

Panama Canal Act.—A further attempt to encourage the development of a merchant marine under the American flag was made by the passage of Section 5 of the Panama Canal Act, in 1912. This section provided that any foreign built vessel not more than 5 years old, owned by a citizen of the United States, could be transferred to American registry. In this registration, the only limitation is that such vessels cannot engage in coastwise trade.

Act of 1914.—Shortly after the beginning of the European War, Congress removed the five year clause of the Panama Canal Act and allowed the President to exempt foreign built vessels from the restrictions regarding size and the citizenship of the ship's officers. This law is known as the ship-registry act of August 18, 1914.

Seamen's Law.—Probably no law in recent years affecting shipping has caused so much comment as the Seamen's Law, which became effective November 4, 1915. This law had been passed by both Houses of Congress in 1913, but did not receive the signature of President Taft. The main provisions of the law are as follows:

1. Abolition of imprisonment for desertion is secured.

2. Seamen on American vessels can demand one half their wages at any port.

3. Seagoing steamers of 100 tons or over must carry a crew, 75 per cent of which, in each department, must understand the language of their officers.

4. Sunday and holidays are to be observed, with nine hours constituting a working day in port.

5. After the 5th year after the passage of the Act, 65 per cent of the deck crew must be rated as able seamen. Able seamen must have three years' experience at sea, and receive certification from the Department of Commerce.

6. Regulation of seaman's quarters is stated: 120 cubic feet of air, and floor space of 16 square feet.

7. A hospital is to be set apart for the crew if it exceeds twelve men.

8. Separate washing places are provided for the seamen and firemen, with hot and cold water, basins, and showerbaths.

9. Increased allowances of water per day from 4 to 5 quarts and two ounces of butter, instead of one, are provided.

10. Lifeboat regulation: the equipment of passenger vessels must be such in lifeboats as to be able to take off 75 per cent of all on board, the rest to be accommodated by pontoon rafts. All life boats are to be manned by a prescribed number of certified lifeboat men, proportioned to the number of persons carried.

Effect of Seamen's Act.—The objections to this law on the part of ship owners have been levied against the language test and able seamen clause. The language test in effect makes it impossible to employ Asiatics, who formed a large part of the crew of our Trans-Atlantic lines of fruit steamers to the West Indies and also on vessels plying the Pacific. The "able seamen" clause and lifeboat regulations will make it necessary to carry more men than was usual before the enactment of the law. The net result is a higher operating cost under American registry than under foreign registry. The *Annalist* (December 13, 1915), illustrates this point by comparing the wages on nine ships of the United States Steel Corporation which were transferred from British to American registry:

	Total Crew	Total Monthly Wages
American Registry	393	$17,537
British Registry	373	12,478

It was also shown that the wage bill of the British ship, Ninian, and the American ship, Hawaiian, each of the same size and crew indicated a difference of $744.12, the wage of the American ship being 50 per cent higher than the British. Although it is variously estimated that wages form only 7 per cent to 15 per cent of the total operating expenses, in time of close competition, this wage difference must undoubtedly be a determining factor in the maintenance of our merchant marine. (See *Annalist* for August 11, 1919.)

Shipping Act.—Perhaps the most important piece of legislation in all our maritime history is the Shipping Act, of September 7, 1916. Because of the importance of this law, the main features of this Act are here summarized:

1. **Purpose.**—The purpose of the act is stated in its title: "An Act to establish a United States Shipping Board for the purpose of encouraging, developing and creating a naval auxiliary and naval reserve and a merchant marine to meet the requirements of the commerce of the United States with its territories and possessions and with foreign countries; to regulate carriers by water engaged in the foreign and interstate commerce of the United States; and for other purposes."

II. **Scope.**—The scope of the act includes not only carriers by water, but also "persons carrying on the business of forwarding or furnishing wharfage, dock or other terminal facilities in connection with common carriers by water."

III. **Shipping board.**—The United States Shipping Board is created with the following conditions:

1. The Board consists of five members appointed by the President, with the approval of the Senate.
2. Term: six years.

3. Qualifications:
   a. Due regard to fitness.
   b. Fair representation of geographical divisions of the country.
   c. Not more than three members from the same political party.
   d. No member of the Board is to be connected financially with any carrier by water or person subject to this act.

IV.—**Powers of Board.**—The Shipping Board is created for administrative purposes for carrying out the provisions of the Act. As such, its powers are very extensive. It ranks with the Interstate Commerce Commission and the Federal Reserve Board in its administrative functions. These functions are outlined as follows:

1. **Build an auxiliary fleet for navy.**—The Board is authorized, with the approval of the President to build, buy, lease or charter vessels to be used as army transports or naval auxiliaries. The main limitations to such purchases are:

   a. Preference is to be given to domestic yards.
   b. No vessel flying the flag of a foreign nation engaged in war is to be purchased.
   c. Vessels which are purchased must not show a depreciation greater than 25 per cent.

(2.) **Disposal of fleet.**—The Board is authorized, with the approval of the President, to charter, lease or sell to any citizen of the United States any vessel it has purchased or constructed. Vessels which are sold by the Board may engage in coastwise trade of the United States. These vessels, even after they have been sold by the Board are still under its jurisdiction to the extent that transfer to foreign registry or change of title must have the approval of the Board.

(3.) **Change of registry in emergency.**—The Board, in times of emergency, must pass on all changes of registry, and even all transfers, if they are made to persons not citizens of the United States. This applies to all vessels, and not merely to those owned by the Board.

(4.) **Opportunity to purchase.**—In normal times, the Board must be given the opportunity to purchase all ships which are about to change registry to a foreign flag, or be transferred to a person not a citizen of the United States.

(5.) **Emergency Fleet Corporation.**—The Board is authorized to organize the "Emergency Fleet Corporation for the purchase, construction, equipment, lease, charter, maintenance and operation of merchant vessels in the commerce of the United States." The theory of this part of the Act is to enable the Shipping Board through the Corporation to go into the shipping business only after private capital has indicated that it is unwilling to go into the venture.

The capital stock, of which the Board must always have the majority of shares, was fixed originally at $50,000,000. The operations of the corporation automatically stop five years after the conclusion of the War.

(6.) **Investigations of Shipping Board.**—The Board has power to investigate, in the United States and foreign countries:

a. Cost of ship-building.
b. Ship classification.

c. Marine Insurance.
d. Legal status of mortgage loans on vessels.
e. Comparative advantages of registry under United States or foreign countries.

(7.) **Reports.**—Annual reports are to be made by the Board to Congress on December first.

(8.) **Power of veto.**—The Board is authorized to file all agreements between common carriers by water or others subject to this act,[1] if these agreements pertain to rates, accommodations, the regulation of competition, etc. The board has the power of veto over all such agreements. But if once approved, they are exempt from the provisions of the Sherman anti-trust law of 1890.

(9.) **Fix maximum rates in interstate commerce.**—In the case of common carriers by water in interstate[2] commerce the Board is given the right to prescribe maximum rates, when the occasion requires it.

(10.) The Board has the power to require all records which pertain to the business of a common carrier by water or others subject to this act.

(11.) The Board may investigate the action of any foreign government regarding its treatment of vessels of the United States. Report on this matter is to be made to the President.

(12.) **Initiate proceedings.**—On its own motion the Board may initiate investigations into the violations of the Act, if money payments are not involved.

[1] "Others subject to this act" refers to any person not a common carrier by water carrying on the business of forwarding or furnishing wharfage, warehouse or terminal facilities in connection with a common carrier by water.

[2] "Common carriers by water in interstate commerce" refers to common carriers on the Great Lakes or on the high seas on regular routes from port to port.

(13.) To make its investigations effective, the Board is given the power to subpoena witnesses and compel papers.

V. The practices which are declared illegal on the part of common carriers by water by terms of the Act, are as follows:

(1.) **Unfair practice.**—The granting of deferred rebates. This is the practice of granting to certain shippers a return of a portion of the freight rate, in consideration of which the shipper gives the carrier assurance that all or a certain portion of his freight will be given to the same carrier.

(2.) The "fighting ship." This is a term which means the use of a vessel for the purpose of throttling competition.

(3.) Carriers are forbidden to retaliate against any shipper because the latter has patronized other lines.

(4.) Unfair discrimination based on cargo space, loading or unloading, or settlement of claims is forbidden.

(5.) Common carriers or others subject to this act, are forbiden to use influence on marine insurance companies inducing them not to give other shipping companies as favorable rates.

(6.) False billing, false classification and false weights are forbidden. This applies to common carriers by water and all others subject to this act.

(7.) Common carriers engaged in foreign commerce must not charge rates prejudicial to American exporters.[1]

(8.) The disclosing or soliciting of confidential information relating to a shipper or consignee on the part of common carriers or others subject to this act is forbidden.

[1] The ocean tramp is not deemed to be a common carrier by water in foreign commerce.

VI. **Procedure.**—Regarding procedure, the following are the essential points:

(1.) Any person can file a complaint against any party subject to this act.

(2.) The defendant must be supplied with a copy of this complaint.

(3.) The defendant must give satisfaction to the complainant, or file an answer in writing within a reasonable time.

(4.) In case of failure to satisfy the complaint, the Board investigates, and makes an order after a full hearing.

(5.) The Board, except as to orders for the payment of money, may, on its own motion, investigate any violation of this act.

(6.) All orders of the Board other than for the payment of money shall continue in force for a period of time not exceeding two years.

(7.) In case of violation of any order of the Board, other than an order for the payment of money, appeal may be made to the district court having jurisdiction of the parties. If the court finds that the order was regularly made and duly issued, it shall enforce obedience to the order.

(8.) In the case of the violation of any order of the Board for the payment of money, the person to whom such an award was made can carry the case to the proper court, present a petition or suit setting forth the causes for which he claims damages, and the order of the Board in the premises.

(9.) The findings and order of the Board shall be regarded as prima facie evidence in the district court.

(10.) Petition or suit for the enforcement of an order for the payment of money must be filed within one year after the date of the order.

VII. **Fine.**—A maximum fine of $5,000 is imposed for the violation of any provision of this act.

VIII. **Refusal of clearance.**—The Secretary of the Treasury is authorized to refuse clearance papers to all ships, when for any arbitrary reason, the cargo of an American shipper is refused.

War legislation.—Later legislation, mostly war measures, broadened the war time control of shipping by the government. The Urgent Deficiencies Act of June 15, 1917, conferred on the President broader powers of constructing ships, cancelling contracts, requisitioning plants and output of plants and placing shipping orders on a priority basis.

Housing.—On March 1, 1918, Congress authorized the Emergency Fleet Corporation to provide for the housing of its employees. This work was undertaken by the Passenger Transportation and Housing Division of the Corporation.

Hudson River terminals.—The Act of March 28, authorized the President to acquire title to the terminals owned by the North German Lloyd and Hamburg American Lines on the Hudson River.

Control over transfers.—On July 15, 1918, the Shipping Act of 1916 was amended in such a way as to increase the power of the Shipping Board over the transfer of American vessels or ship building plants, docks, or terminals to foreign control.

Additional powers delegated to Shipping Board.—The

Act of July 18, 1919, further increases the powers of the President over shipping. By the terms of this law the President is empowered (a) to require charters of American vessels, their terms, rates, etc., for his approval; (b) to fix and prescribe rates and conditions of shipment of goods on vessels of the United States; (c) to prescribe order of priority in which goods shall be shipped; (d) to pass on all chartering of foreign vessels by citizens of the United States; (e) to requisition, purchase or lease dry docks, wharfs and terminal facilities. The powers conferred on the President by this Act were delegated by him to the Shipping Board, July 29, 1918. This law is a war measure, to be discarded not later than nine months after the treaty of peace is signed. (*Second Annual Report of the Shipping Board,* p. 13, *Third Annual Report of the Shipping Board,* p. 27.)

It is difficult to judge the effectiveness of the Shipping Board in handling our commercial problems of shipping, because, since its organization, it has functioned essentially on a war basis. However, there are some outstanding conclusions which can be drawn from the foregoing analysis.

Summary.—The creation of the Board is a recognition of the fact that ocean shipping, as well as the railroads, presents a transportation problem which is a matter of public concern.

In an emergency, the Board will stand ready to assume government control of ocean shipping. It will have such control of ship building, ship operation and change of registry, that the public interest will be safeguarded.

The function of the Board is conceived to be regulation, and not ownership of merchant shipping, unless American shipping interests cannot be taken care of in any other way.

The powers of the Board in getting at, and giving publicity to, the facts of ocean shipping will educate public opinion to the problems of marine transportation, and tend to render our legislation more constructive. This, together with the fact that it will be the function of the Board to eliminate, as far as possible, unfair practice on the part of common carriers by water, will promote in a general way the foreign trade interests of the United States.[1]

[1] See Chapter XXV, *Principles of Ocean Transportation,* by Johnson & Huebner.

CHAPTER XVI

REACHING MARKETS—OCEAN SHIPPING (continued)

The United States emerged from the war with an enormous tonnage under her flag and with shipyards and ship construction plants highly developed. The United States has been confronted, therefore, with the problem of making a decision regarding the future use of her equipment. The question involves not only the matter of immediate disposal of equipment, but the whole future policy of the nation on the merchant marine problem.

To grasp the significance of the merchant marine problem, it is our purpose (1) to present the general facts of the changes in shipping produced during the war period; (2) to summarize the arguments which support the proposition that an American merchant marine is necessary to our foreign trade expansion, and (3) to outline the general reasons why England has been able to build up and maintain her position as a great cargo-carrying nation.

I

The great outstanding changes in shipping which will be discussed are (1) the increased tonnage under the American flag; (2) the capacity of American yards in 1918-19; (3) the increased percentage of tonnage carried in American ships; (4) the increasing use of oil for propelling ships.

Effect of War on tonnage.—The net result of the War on American shipping is an enormous increase in tonnage of American registry. The following table shows the situation, based on estimates made June 30, 1919:

Gross Tons.

June 30	Foreign Trade	Coasting Trade. Great Lakes	Coasting Trade. Sea and Rivers	Total
1914	1,076,152	2,882,922	3,969,614	7,928,688
1915	1,871,543	2,818,000	3,699,886	8,389,429
1916	2,191,715	2,760,815	3,517,119	8,469,649
1917	2,446,399	2,769,824	3,654,814	8,871,037
1918	3,603,706	2,708,523	3,612,289	9,924,518
1919	6,669,726	2,635,680	3,601,894	12,907,300

(*Report of Secretary of Commerce,* October 20, 1919). Of this total, almost four million gross tons were owned by the United States Shipping Board, at the time the report was submitted.

Of particular significance is the growth of tonnage, comparing the total of 1919 with 1918. The number of vessels built in the United States in this one year was slightly greater than the total constructed by the entire world in 1913.

Cancellation policy.—The general policy of cancellation, adopted by the Emergency Fleet Corporation, was that cancellation would be effected, whenever such a policy would cost less to the Government than the difference between cost to complete, and probable market value of vessels. (*Shipping Board,* 3d *Annual Report.*) In each case of cancellation, the following conditions have been taken into consideration:

1. Cost to the Government of cancellation.

2. Progress in respect to each hull proposed for cancellation.

3. Quantities of material at the yard.

4. Percentage of material manufactured or fabricated.

5. Status of contracts as to amortization of plant investment.

6. Whether new or old yard.

7. Whether the Emergency Fleet Corporation had an investment interest.

8. Whether the programme included a surplus of the type of ship proposed for cancellation.

9. Whether the general labor situation in each yard receiving cancellation orders would be disturbed by the cancellation.

With reference to the shipping situation of the rest of the world, the general condition is indicated by the following statistics from Lloyds' Register of Shipping:

Country	June 1914 Tons Gross	June 1919 Tons Gross	Difference between 1914 and 1919 Tonnage	Per'c'tge
United Kingdom	18,892,000	16,345,000	—2,547,000	—13.5
British Dominions	1,632,000	1,863,000	+231,000	+14.1
America				
Seagoing	2,927,000	9,773,000	7,746,000	+382.1
Great Lakes	2,260,000	2,160,000	—100,000	—4.4
Austria-Hungary	1,052,000	713,000	—339,000	—32.2
Denmark	770,000	631,000	—139,000	—18.1
France	1,922,000	1,962,000	+40,000	+2.1
Germany	5,135,000	3,247,000	1,888,000	—36.8
Greece	821,000	291,000	—530,000	—64.6
Holland	1,472,000	1,574,000	+102,000	+6.9
Italy	1,430,000	1,238,000	+192,000	—13.4
Japan	1,708,000	2,325,000	+617,000	+36.1
Norway	1,957,000	1,597,000	—360,000	—18.4
Spain	884,000	709,000	—175,000	—19.8
Sweden	1,015,000	917,000	—98,000	—9.7
Other countries	2,427,000	2,552,000	+125,000	+5.2
Grand Total	45,404,000	47,897,000	+2,493,000	+5.5

With regard to ships under construction, on June 30, 1919, Lloyds' report shows:

Total under construction in world's yards	8,017,767	gr. T.
Construction in United States	3,874,143	gr. T.
United Kingdom construction	2,534,050	gr. T.

Such was the momentum of American shipbuilding gained during the War, that in the second quarter of 1919 the United States had in its yards in process of building, 48 per cent of the world's tonnage under construction. The maximum building programme of the Emergency Fleet Corporation was at its highest point in 1918, when 17,399,961 dead-weight tons were under contract. (*United States Shipping Board, 3rd Annual Report*).

Inefficiency of tonnage.—Although the totals of American tonnage are impressive, they may be misleading. It should be remembered that during the War, depreciation was very heavy, due to the unusual wear and tear, and also because repairs were hastily made, if not altogether neglected. The submarines were directed against the most efficient ships, and the vessels which were constructed during this emergency were by the necessities of the case below par in efficiency for commercial purposes. (*See* 1918 *report of the Secretary of Commerce.*)

American tonnage in American ships.—The result of our increased tonnage is the increased volume of our commerce carried in American ships. While in 1914, about 8 per cent of our exports were carried in American bottoms, in the month of September, 1919, approximately 50 per cent were carried by vessels under American registry. The following table of statistics, taken from the *Annalist* for December 8, 1919, shows how this development has taken place during the war, in terms of value of exports:

Carried in	For 9 months ending September 1917	1918	1919
American Vessels..	$50,437,650	$733,531,213	$1,713,602,114
Foreign Vessels			
Belgian	43,483,803	75,657,877	87,982,348
British	2,005,968,877	1,879,200,578	1,875,226,911
Danish	79,826,508	108,333,580	121,026,259
Dutch	74,749,266	29,252,302	123,841,551
French	205,408,484	210,255,176	131,568,150
Italian	121,871,705	146,268,632	174,990,180
Japanese	196,818,087	237,547,108	288,044,868
Norwegian	285,067,181	213,894,487	338,907,316
Spanish	104,467,666	76,571,997	72,185,073
All other..........	178,164,100	137,627,192	237,728,439
Total in Foreign Vessels	$3,295,825,677	$3,114,608,929	$3,451,501,095

II

Economy in use of oil fuel.—The development of ships using oil as fuel is one of the significant events in maritime history. The economies resulting from the use of oil as fuel have been stated by the Shipping Board:

1. Oil requires less bunker space. Four barrels of oil are equivalent to one ton of coal, and these occupy only four-sevenths of the space required by coal.

2. It can be carried between double bottoms and in other places where neither coal nor cargo can be stored.

3. The space usually given to coal can be occupied by freight paying cargo.

4. Bunkering can be effected with greater dispatch. The efficiency of shipping has been reduced one-third since 1914, and one great factor is the delay occasioned during bunkering.

5. Labor and machinery are not required for handling ashes.

6. Oil fuel eliminates stoking, thus reducing the size of the crew and labor costs..

7. Uniform pressure is easily maintained, thus insuring a steady rate of speed and reducing the deterioration of furnaces and boilers resulting from uneven temperatures.

The Board shows the saving in man-power:

D.W.T.	Coal	Oil
5,000	16	12
6,000	17	13
7,000	17	13
8,000	24	14
9,000	24	14
10,000	27	18
11,000	27	18

The following item appearing in the *Journal of Commerce* for October 15, 1919, presents the argument in favor of the use of oil from the standpoint of the economy of space:

"London, September 20.—British shipowners are showing decided interest in Lord Fisher's articles advocating the substitution of the internal combustion engine for the reciprocating steam engine, according to the *Financial News*. He has pointed out the fact that the motorships of the same tonnage as ordinary cargo carriers can load much more freight.

Space economy.—"As regards the saving in cargo capacity of a motorship as compared with a steamer the following figures, published by the Commonwealth Government of Australia, are not without interest. They refer to the steamship Bellata and the motorship Benowa. These were sister hulls built for the Commonwealth Government on the Pacific Coast, the former being equipped with triple-expansion steam engines and the latter with motor engines:

	Tons	
	Steamer	Motorship
Launching displacement	2,004	2,004
Machinery	216	158
Tanks (empty)	30	104
Fuel	848	315
Fresh water	55	100
Deck machinery, wastes, stores, crew, effects	162	162
Deadweight cargo carrying capacity	3,437	3,909
Total displacement (light condition)	3,315	2,843
Difference in favor of motorship		472
	Cubic feet	Cubic feet
Cubic capacity of holds	160,140	206,888
Difference in favor of motorship		46,740

The advantage of oil over coal as fuel in point of saving of time, labor costs and lengthening distance radius is illustrated by a statement in the *Annalist*. November 17, 1919:

"Coaling of ships is a painfully slow procedure. The average cargo carrier seldom takes on more than 250 tons of coal a day, while 500 barrels of oil an hour can easily be loaded, and inasmuch as the substitution of oil for coal tends to increase the time of a ship at sea, it is in good grace with the operators.

Saving time and labor costs.—"Careful analyses of the two types of ships have been made by maritime interests. The Shipping Board dispatched two ships of equal tonnage from New York to Santos, Brazil. The oil burner made the round voyage in twenty-one days and thirteen hours, consuming the equivalent of 359 tons of fuel. The coal burner required twenty-four days and thirteen hours for the trip, and 657 tons of coal. Estimating the value of the ship to be $1,500 a day, it was figured that a total net saving of $36,105 had been made by the oil burner, inasmuch as she was able to carry 700 more tons of cargo at the freight rate of $45 a ton and required six fewer firemen in the engine department.

"The New York and Porto Rico Steamship Company, converted the San Juan and the Ponce, two passenger vessels in its fleet operating between New York and West Indies. The passenger and cargo capacity was increased 25 per cent, and the speed two knots. The steaming radius was lengthened from 4,500 to 6,000 miles. The change permitted the removal of the coal bunkers, thus adding 500 tons to the deadweight, or 25 per cent, to the cubic cargo capacity. The crew was reduced from seventy-eight to sixty-eight.

Economy of oil fuel. Time, labor costs and distance.—"In these times of labor unrest it has been especially difficult for steamship lines to employ a sufficient number of men for the engine rooms, owing to the extreme physical exertion required to feed the boiler fires, and the exposure to the intense heat. In the case of the oil burners there is no stoking. Comparative figures as to crew costs may be surveyed in the ships Omsk and Deepwater, both of which have a register of 11,000 tons. The Omsk, a Russian coal burner chartered by the Shipping Board, carried sixty-six officers and men, while the Deepwater, an American oil-fired freighter, had a personnel of forty-two. The difference in wages paid daily amounted to $64, and $25 in subsistence costs.

"The personnel of the engine departments runs considerably lower on the oil-burning steamers. The Shipping Board's normal manning scale shows this advantage."

III

Merchant marine problem.—From the standpoint of economic theory, it makes little difference whether products from the United States are carried in English, French, Japanese or American ships. The United States has specialized in producing products and Great Britain has specialized in carrying products. Both have gained by this division of labor. Our business interests are concerned in having our imports and exports reach their destination in a satisfactory condition. Ownership of the carrier is, theoretically, incidental. The one thing to be determined is this: in times of war and peace, can American goods reach their destination as satisfactorily whether there is or is not an American merchant marine.

With regard to the merchant marine problem in this country, it is the growing opinion that American expansion in foreign trade is, to a considerable extent, dependent on our ability to operate and maintain our own merchant vessels. The arguments usually advanced in favor of this general proposition may be stated as follows:

1. In case of war, whether the United States is a neutral or a belligerent, an American merchant marine is a necessity.

2. Without a merchant marine of our own, either in peace or war, American shippers are at the mercy of foreign shipowners, who by discriminations, delays, etc., can put our exporters out of the running, especially in highly competitive markets.

War argument.—In case of war, there are distinct advantages, from a commercial standpoint, in having our own merchant marine, whether the United States is a belligerent or a neutral. Assuming that the United States is a neutral, the declaration of war by any of the commercial powers is a matter of grave concern to American shippers. In 1914 about 90 per cent of our foreign trade was carried in foreign bottoms. We were immediately confronted with a shortage of cargo vessels when war was declared. Belligerent nations commandeered all possible tonnage. The British Government, at one time, put Canadian exporters on the preferred list, and we took whatever cargo space was left for our own needs. Before the War, the Standard Oil Company found it to be to its advantage to take out foreign registry for many of its vessels. These vessels, though owned by citizens of the United States, were requisitioned by the governments under which they were registered in August, 1914. This situation would have been avoided, if registration under the American flag had been made more attractive. (*Report of Federal Trade Commission on Cooperation in American Export Trade.*)

If the United States were a belligerent, it is unnecessary to suggest the obvious military advantage in having registered under the American flag a large volume of tonnage which could be requisitioned in an emergency, for transports, colliers, auxiliary cruisers, etc.

Merchant marine in peace times.—Aside from the commercial and military necessity of a merchant marine in time of war, there may arise conditions in times of peace which call for a merchant marine under the control of our own shipping interests.

There is, first of all, the possibility that foreign ship combines will discriminate against American shippers by charging higher freight rates than they charge their own shippers.

Many specific instances may be cited to show the advantage in rates which responsible shippers in this country say are granted to foreign competitors on account of shipping control. The following are typical expressions of opinion:

Rate discrimination.—"Without a merchant marine which is controlled by our countrymen and which will give us the same facilities that all other export countries have enjoyed, we can not see how we can be permanently benefited by our export trade. We are moved to make this remark because of the fact that it has come to our notice that certain commercial arrangements which have been made by our Government with the Republic of Brazil, whereby our product was admitted with a benefit of about 35 cents per barrel as against that produced in any other part of the world, have resulted, in many instances, in this benefit being absorbed in the freight rates charged by Englishmen who controlled, through their agents, most of the steamship lines engaged in the South American trade from here." (Federal Trade Commission: *Report on Cooperation in Export Trade*).

"A manufacturer of building materials who exports one-third of his output, states that freights from Montreal to South Africa given his Canadian competitors are materially lower than any which he can obtain from New

York to South Africa, and says further that these rates, combined with the 3 per cent preferential tariff concessions granted the Canadian Product by the South African Union, have seriously injured his business in that market.

"A Northwestern miller, after citing specific cases in which American flour mills were unable to obtain rates to European ports as low as those given Canadian millers by English lines sailing from Canadian ports, and in consequence lost export orders that were taken by Canadian millers, said:

" 'We realize more every day that the American manufacturer or shipper is entirely at the mercy and in the hands of foreign-owned steamship lines.' "

On this matter of rates, the foregoing opinion regarding arbitrary discriminations is by no means unanimous. The Foreign Trade Council (*House Document,* 2112-64th Congress-2nd Session, p. 63), makes this statement: "To insure a market for this grade (manufactured goods), it is necessary that transportation costs shall not exceed that of similar products reaching centers of consumption from competing seats of production. This desirable parity of rates in competition with the rest of the world did generally obtain before the war." Differences in rates, where they do exist, according to the Council are explained as follows: "Under normal conditions superior transportation is obtainable at European ports because the tonnage of imports in to Europe exceeds that of exports, making more cargo space available for shipments to neutral markets capable of consuming American manufactures. The more numerous and faster lines from Europe to neutral markets are due to—

(a) Greater diversification of European export trade.

(b) Larger number of traffic-producing ports at which vessels may call in early stages of outbound and last stages of homeward voyages.

(c) Profitable passenger traffic (including emigration).

(d) Financial support by Governments to insure communication with colonies or distant strategic points.

"Such lines give to European trade a great advantage not only in transportation of high-grade freight, usually classified as express traffic, but also in faster and more frequent mails. Low-grade freight is sometimes carried on liners, but the bulk of it the world over is borne in slow cargo carriers, usually tramp steamships, which do not operate on fixed lines.

"The total tonnage of imports is about half that of exports. Competition for cargoes to the United States, therefore, is nearly always brisk and normally keeps freights on imports (which are ultimately borne by the consumer) below those on exports."

In an address to the National Foreign Trade Convention at Washington June 13, 1914, Mr. P. A. S. Franklin, Vice President of the International Mercantile Marine Co., argued in defense of foreign lines:

"A fallacy which I should like to expose here is the contention that the foreign lines are seeking to throttle American export trade. On the contrary, I am confident the foreign lines are doing everything possible to encourage our trade, which it is, of course, to their best interest to do, even to the apparent detriment of the merchants of the foreign country to which the steamers happen to belong, as the shipowner has to be supported by and make a living out of his particular trade. If rates should be unduly advanced the foreign buyer, who pays the freight, would decline to purchase our products. The safety valve against the charging of exorbitant freight rates is in reality the lines' own interest to do everything in their power to foster trade, and to do nothing which would have a tendency to restrain it."

The Foreign Trade Council states the case thus: "The wisdom of reliance on foreign carriers depends on the degree to which they are engaged in transportation for the sake of the freight itself, regardless of nationality, rather than as agencies in the stimulation of their national commerce." It is this possibility that foreign carriers may be "agencies in the stimulation of their national commerce" which seems to turn the argument in favor of an American merchant marine.

Equally as important as freight discriminations, in many cases, is the matter of delay in shipping. The report of the Federal Trade Commission, referred to above, presents this evidence of an American shipper regarding delays:

Delay in shipping.—"There is another difficulty which has been met, and which has been rather increasing of late, and that is preference in forwarding goods. For instance, owing to the system which exists among the English and the Germans, and the cooperation between their forwarding companies and financial powers, American goods sometimes get left and have to take the next steamer. That, of course, creates dissatisfaction on the part of the buyer, who is expecting the goods to arrive. To remedy that we trust that we shall establish in time an American merchant marine."

A member of a New York firm that exports and imports crude materials on commission, says:

"In my line the main thing—in fact the vital thing—of importance, far in excess of any that might lie in a combination between producers in its effect on the export trade, is the absence of merchant-marine service and freight room to carry goods away. That applies not only to present conditions, where freight room has been taken up on account of the exigencies of war, but also in times of peace. The British steamship companies could give special facilities to their exporters in certain lines. For example, I recall that two years before the war we intended to open direct business with the Gold Coast. Our consul there published a little summary in the *Consular Trade Report* in order to help American exporters and importers to do direct business. It was impossible, we found, because there were almost no steamers at all trading between New York and the Gold Coast, and all business had to go through Liverpool merchants."

The general influence of a national merchant marine as an aid in foreign trade promotion is stated by Mr. Robert Dollar of San Francisco:

Trade promotion.—"There is no merchant that is as good a drummer for trade as the shipowner. You get a fellow with a ship in the Far East, and he has no cargo for it; anything short of stealing that fellow will resort to to get a cargo for his ship. So we often get very low rates of freight, which is a great advantage to the Pacific Coast. For instance, if I was living in London do you think I would be pulling for this Pacific Coast? Not at all. I would be pulling for London. If I lived in Germany, of course I would be working for Germany; and every shipowner, wherever you find him, is working to try to get his ships back home to his home port, there re-store them, pay off the crew, and do repairs and all the necessary work. Therefore, it is of the greatest importance that we should have our ships owned in our own country."

Remedies proposed.—In view of the arguments which present the necessity of some national policy which will safeguard the interests of American shippers in overseas trade, the question remains: What is necessary to be done?

Several suggestions have been made of ways by which this general problem can be solved. A few of the more important suggestions are presented here:

1. The repeal of the clauses of the Seaman's Act which are particularly objectionable to American Shippers is advocated.

2. A declaration on the part of Congress of a policy to give financial aid to a privately owned and operated American merchant fleet is urged.

3. One of the first essentials in maintaining our position of importance in the maritime and merchant marine affairs of the world is the encouragement of the American investing public in purchasing the securities offered by shipping companies. There are many reasons why investors have been indifferent to this class of securities. In the first place, American investors, as a class, have not, until recently, had their attention directed to the merchant marine enterprise. Shipping has not been a thing in which our business interests have been trained. and therefore, many companies to be formed under American registry will be pioneer organizations. Besides this, the competitive nature of shipping adds a speculative

feature which tends to detract from the safety of shipping securities.

4. An addition to these reasons for the failure of the American investing public to become interested in shipping securities, is the status of ship mortgages under American law. Under American law, a first mortgage on a vessel does not take precedence over other maritime liens. It is a prevailing opinion among investment bankers that our admiralty law must be amended in such a way that a first mortgage on a vessel will take precedence over all other liens except salvage and wages of the crew. (Decision of Justice Gray: 148 U. S. 1 (1892).)[1]

5. Restriction of transfer to foreign registry, for a period of years, is believed to be necessary as a policy to build up a merchant fleet.

6. Government ownership and operation of a limited number of ships and shipyards is urged, with the view of offering such potential competition that the shipping interests of the world will be forced to grant American shippers satisfactory accommodations.

7. Exemption of shipping companies from the excess profits tax is recommended on the condition that the sum which would ordinarily go to the Government be invested in shipping.

The problems of the disposal of tonnage in the hands of the Government, and the policy of the Government towards the merchant marine were made the basis of a referendum submitted by the Chamber of Commerce of of the United States. (Referendum No. 29, *Special bulletin,* of January 30, 1920).

In this referendum nine propositions were placed before the membership of the Chamber. Under the by-laws

[1] See statement regarding ship mortgages on page 266.

the vote closed at midnight on December 15, 1919, when 522 organizations had filed ballots. These organizations are situated in 44 States, Hawaii, Porto Rico, Alaska, Mexico, Italy, France and Cuba.

In the balloting, each organization casts as many votes as it may have delegates at an annual meeting of the Chamber. The number of delegates an organization may have depends upon the number of its members, but in no case falls below one or exceeds ten.

The propositions submitted, and the results of the balloting on each proposition, were as follows:

I	Sale of wooden vessels, and of steel vessels under 6,000 tons deadweight, on the best terms obtainable from American or foreign bidders, is recommended by the committee.......	1326 votes in favor 234 votes opposed
II	Sale of other government-owned vessels to regional associations for transfer at cost of private individuals and corporations of the several regions is recommended by the committee	1201½ votes in favor 244½ votes opposed
III	Absorption by the government of the difference between the war cost and present value, as a war loss, is recommended by the committee....	1395 votes in favor 61 votes opposed
IV	Freedom from regulation as to routes and rates is recommended by the committee	1370 votes in favor 84 votes opposed
V	Restriction for a period of years upon transfer to a foreign flag of steel vessels over 6,000 tons deadweight purchased from the government is recommended by the committee	1338 votes in favor 121 votes opposed

VI	Preference for American underwriters and use of the underwriting market of the world for insurance not covered by American underwriters, without intervention by government insurance, are recommended by the committee	1375 votes in favor 73 votes opposed
VII	Encouragement of an American classification society is recommended by the committee........................	1409 votes in favor 44 votes opposed
VIII	A general declaration by Congress of a policy to give aid toward the maintenance of a privately owned and operated American merchant marine is recommended by the committee	1374 votes in favor 93 votes opposed
IX	Continuance of operation of the competent American shipbuilding yards, on private account both as yards and the vessels they construct, is recommended by the committee	1414 votes in favor 42 votes opposed

It is clear that the general sentiment of the United States on the problem of the merchant marine is well definď on the following outstanding principles:

1. That the government should sell out to private individuals on the basis of the market value of the ships.

2. That government regulation should be reduced to a minimum, except on the matter of transfer of our larger vessels to foreign registry.

3. That the United States Government should grant substantial assistance directly or indirectly to privately operated and owned merchant vessels.

IV

British policy.—Having indicated the outstanding features of the history of the American Merchant Marine, it will be worth while to compare the policy of Great Britain with that of the Government of the United States, regarding merchant shipping.

The importance of Great Britain on the seas for centuries has been a conspicuous fact of history. The United States seriously challenged this position in the decade before the Civil War, and as a result of the changes produced since 1914, American competition is again formidable. The growth of British tonnage since 1850 is shown by the following:

Year	Net Tonnage Total	Sail	Steam
1850	3,365,133	3,396,659	168,474
1855	3,990,170	3,701,214	288,956
1860	4,658,687	4,204,360	454,327
1865	5,408,451	4,706,752	701,699
1870	5,690,789	4,577,855	1,112,934
1875	6,152,467	4,206,897	1,945,570
1880	6,574,513	3,851,045	2,723,468
1885	7,430,045	3,456,562	3,973,483
1890	7,978,538	2,936,021	5,042,517
1895	9,988,450	2,865,895	6,121,555
1900	9,304,108	2,096,498	7,207,610
1905	10,735,582	1,670,766	9,064,816
1910	11,566,663	1,113,944	10,442,719
1911	11,698,508	980,997	10,717,511
1912	11,894,791	902,718	10,992,073
1913	12,119,891	846,504	11,273,387

There are two general points of view from which to study the development of British maritime interests: first, the economic and geographic position of Great Britain and the British Empire; second, Government policy toward shipping.

Location.—The strategy of her location has made England a nation of ship builders. Situated at the gateway of Europe, England has become the great entrepot and distributing center for the continent.

Imports and exports.—The early development of industry in England insured a large carrying trade comprising imports of raw material and exports of manufactured products. A thing more important still, is the great dependence of England on the outside world for food stuffs, and the dependence of many parts of the globe on British coal. Thus British shipping has had little difficulty in solving the load factor.

Colonial policy.—The early colonization policy of England, monopolizing trade in the interests of British shipping interests, had its effect in strengthening her maritime power.

Coal.—The importance of coal in British shipping is emphasized by Kirkaldy, in *British Shipping,* p. 450.

"Coal exports have been of very great advantage in building up the world commerce of Great Britain. As has already been pointed out in some detail, the fact that there is a cargo of coal to carry outward, even though carried at a comparatively low rate of freight, has been a great factor in reducing homeward freights. Indeed coal, since the era of the steamships began, has been one of the great factors assisting the phenomenal growth of British shipping.

"Then again, it has been the British shipowners who in the first instance made use of the steamship for long ocean voyages. A great export trade in coal was developed by this country long before other countries were ready with steamships to enter into competition for the carrying trade of the world. Thus it has come to pass that English coal has been procurable even in the most distant markets. The conditions of the freight market, too, have been by no means a slight factor in bringing about this result. The industries of the United Kingdom require large quantities of bulky raw materials, and the large town population requires more foodstuffs than the country population has been able to produce. It is true that large quantities of manufactured and semi-manufactured goods have been exported, but the raw materials and foodstuffs imported have necessitated the employment of a far greater tonnage capacity than has ever been required for export manufactures."

Cheap steel.—The earlier use of processes which resulted in cheaper steel in England, as compared with the United States, gave England a superiority in ship construction.

Non-interference by the Government.—The economic factors in the case have undoubtedly been the fundamental causes creating the marine supremacy of Great Britain. The general attitude of the government has been one of non-interference. Grosvenor M. Jones, Special Agent of the Department of Commerce, estimates:

"The great bulk, 95 per cent or more, of the total tonnage under the British flag has long consisted of ships that have received no subsidy but owe their success and earning power to the fact that England has been able to build steamships more cheaply than any other nation, and because the great trade of England in all parts of the world provides them with full cargoes for most of their voyages."

Coastwise trade.—The policy of England, with regard to the coastwise trade, is to throw it open to the ships of all nations which grant a similar concession to England. However, some of the British colonies have reserved their coastwise trade to ships flying the British flag.

Registry of foreign ships.—Foreign built ships may take out British registry. This provision is the opposite of American policy, which until recently limited registry to vessels built in the United States.

Loan to Cunard Line.—In 1903, the British government extended a loan to the Cunard Company of 2,600,000 pounds sterling at 2¾ per cent, in order to make it possible for that company to build the Lusitania and the Mauritania, and meet the growing competition of German and American lines. Besides this immediate purpose, the government wished to provide for fast auxiliary cruisers and keep the Cunard Company in British control. The British government purchased only one share of stock with an approximate value of $100. By contract with the government, shares of the Cunard Line can be held only by British subjects; it must not give preferential rates to foreigners, and it must be ready to charter or sell all its vessels to the government at any time.

As typical of the policy of the British government in granting mail subsidies and admiralty subventions the following arrangements exist between the Cunard Company and the British Government: *Miscellaneous Series* No. 119, p. 54).

"The present Cunard contract calls for an admiralty subvention as well as a postal subvention and for the loan of a large sum at low interest rates to enable the Cunard Company to build two vessels that would be faster than any yet built.

Postal subvention.—"The postal subvention runs from August 7, 1902, to November 5, 1927, and amounts annually to 68,000 pounds ($330,922), less receipts from the sea postage, which were 10,000 pounds ($51,585), in the year 1912-13. In return the company agreed to operate one mail steamer weekly in each direction between Liverpool and New York via Queenstown (later, via Fishguard, Wales). Parcels not to exceed 100 tons (measurement) per week in each direction, as well as the letter post, were to be carried on this service.

Admiralty subvention.—"The admiralty subvention amounts to 150,000 pounds ($729,975) yearly and runs for a period of nearly 25 years; in other words, until the expiration of 20 years from the date on which the second of the 24-25 knot steamships sailed on her first voyage (November 16, 1907). The previous Admiralty subvention of this company had been only about 15,000 pounds ($72,998) yearly. The purpose of the large increase was to compensate the company for the additional cost of maintaining the new fast steamers which were called for by the contract and which would be especially effective as auxiliary scout cruisers and transports in time of war."

Whether Great Britain will adopt more aggressive measures to maintain her prestige will doubtless depend on the conditions of shipping competition as they develop the world over, and especially on the type of policy which is adopted by her commercial rivals.

CHAPTER XVII

THE MERCHANT MARINE OF 1920

In June, 1920, Congress passed a law, known as the Jones Act, which goes further than any legislation yet enacted in establishing an American merchant marine on a sound basis.

Private ownership.—The first thing which attracts attention, in examining this new law is the clear statement of policy regarding the much debated question of ownership and control of the vast fleet which is now owned and operated by the Government, under the direction of the Shipping Board. On this mooted question, Congress has adopted for the ships under its control the same policy which was applied to the railroads, namely, private ownership and operation under government regulation.

The object of the law is therefore twofold: first, to make the shipping business under the American flag an attractive field for private enterprise in this country; and, second, to provide such government regulation that the larger commercial interests of the country as a whole will be protected.

Method adopted.—Quite naturally, there were differences of opinion in Congress and elsewhere, when the issue was raised, as to the methods to be used in encouraging the development of a merchant marine. Many thought that a direct subsidy should be given to American vessels, to make it possible for them to compete with vessels of foreign registry. This direct subsidy policy was not adopted, but in its place certain definite measures were passed which very directly encourage the building of vessels in American shipyards, and the operating of them under the American flag.

The measures adopted to bring about this result are as follows:

1. The sale of ships now held by the Board, is to be made to Americans, if buyers can be found.

2. A construction loan fund is provided for, to aid in the building of vessels in American yards.

3. Certain exemptions from the war profits, excess profits and income taxes are granted, with the view of encouraging American shipbuilding industry.

4. The extension of the coastwise laws of the United States to our island possessions is secured, thereby giving to American ships a monopoly of this trade, excluding foreign vessels.

5. The adoption of a new rail-ocean through rate policy is provided for, by which a distinct rate preference will be given to goods carried in American vessels.

6. A reduction in import duties for all goods imported into the United States in American vessels is secured.

7. A new status for ship mortgages is created, which will make them a safer investment, thereby stimulating a wider interest in the shipping business throughout the country.

We shall briefly touch on the outstanding features of each of these seven points, because they are regarded as the constructive elements of the law.

Sale of ships.—The Shipping Board at the present time owns and controls a vast tonnage which it acquired from various sources during the war. What was to be done with these vessels? Should they be sold in the open market to the highest bidder, whether foreign or American, or should they continue to be owned and operated by the Board?

As finally determined, it was decided that the vessels should be sold by the Board at a fair market value, "as soon as practicable, consistent with good business methods." Whenever possible the sale should be made to American citizens. However, if the Board determines that a vessel is not necessary to the maintenance of an American merchant marine, the sale may be made to foreigners. If the sale is made to Americans, complete payment must be made within fifteen years, whereas if the sale is made to foreigners, the time limit is reduced to ten years.

Construction loan fund.—In order to encourage the building of vessels in American yards, a construction loan fund may be created by the Board. This revolving fund is available for loan purposes to all American citizens who build vessels of an approved type in American private shipyards. The accumulation of this fund which is to be derived from the revenues of the Shipping Board earned by the operation or sale of its own vessels, is limited to five years, and the maximum amount to be laid aside in any one year for this purpose must not exceed $25,000,000. No loan is to exceed two-thirds the cost of a vessel.

Another new policy for the development of the merchant marine is the granting of deductions for the purpose of estimating the net income subject to the war profits and excess profits tax. The deduction which equals the net earnings of the vessel during the year can be claimed by the owner of any vessel documented under the laws of the United States and operated in foreign trade. However the amount of this exemption must be set aside by the owner of a vessel in a trust fund, the proceeds of which are to be used in the construction of vessels in American shipyards.

Tax clauses.—To insure the investment of funds other than those accumulated in the manner just described, the law provides that at least two-thirds of the cost of vessels constructed with the help of these trust funds must come from ordinary funds or capital.

The taxation section of the law also provides that during the next ten years, any citizen of the United States who may sell a vessel documented under the laws of the United States, built before January 1, 1914, and invests the proceeds in building new vessels in American shipyards, shall be exempt from certain provisions of the income tax.

Coastwise trade extended.—The Jones Act extends the coastwise laws of the United States to the islands, territories and possessions of the United States, beginning February 1, 1922. When it is recalled that in general [1] coastwise trade is limited to American built vessels under American registry, it is obvious that an extensive monopoly has been created for American vessels.

New through rate policy.—Of special interest and importance is the new policy regarding through rates on imports and exports, granted by American railroads. According to the new arrangement, special rates can be granted by railroads on foreign freight, only if goods are transported in American vessels. This rate practice

[1] The exception to this is foreign built vessels acquired from the Shipping Board under the American flag, or operated by a corporation in which the United States is a stockholder.

may be set aside by the Interstate Commerce Commission, if at any port American vessels are not available.

It may be said that an unusual amount of interest centers on this phase of the law, because of the distinct advantage given American ships by its provisions. The far reaching effect of this new policy is suggested by the following clipping taken from the *Journal of Commerce* of New York, under the date of June 9, 1920:

Effect of the new policy.—"Regulations for the enforcement of the section of the Jones law forbidding the railroads to grant export rates—which are approximately 25% lower than domestic rates—to foreign steamship lines, are to be prepared by the Shipping Board, and the Interstate Commerce Commission. It was stated yesterday that the Shipping Board would put this provision into force "gradually and very carefully." However, American shippers were very jubilant yesterday and admitted that the benefits thus conferred on ships flying the Stars and Stripes, would more than offset the cost differential.

"The section was sponsored by Senator Jones of Washington, and it was suggested by the Pacific coast steamship companies who stated that some protective measure of this kind should be afforded to offset the aid granted to Japanese lines through the government subsidies. The importance of the discrimination may be illustrated by the fact that the difference between domestic and export rates on steel rails from Pittsburgh to Pacific ports is $14.00 per ton.

"Under this section of the law shippers using American vessels instead of foreign vessels, may enjoy a 25%

lower freight rate from the point of shipment to the destination.

"The importance of the preference is manifest. It will be recalled that Germany had such a system in force and caused many protests from the United States before the war. The prediction is made that the action of Congress will result in retaliatory measures being adopted by foreign nations."

Tariff preference.—In addition to the granting of lower through rail-ocean rates on goods transported on American vessels, it is the purpose of the law to grant tariff reductions on goods imported into the United States in American vessels. It will be recalled that the Underwood tariff of 1913 provided that all goods imported in American vessels should be granted a preference of 5%, in estimating the amount of duty to be paid. It was soon decided, however, that this section of the Underwood law was in conflict with many of our existing treaties, and therefore was held to be invalid. The Jones law gets around this difficulty by instructing the President of the United States to notify those nations with whom we have such treaties that they are to be abrogated. Within a reasonable time, therefore, it is presumed that the 5% preference on goods imported in American vessels will be put in effect.[1]

Status of the ship mortgage.—By no means the least important provision of the Jones Act is that section of the law which places ship mortgages on a more satisfactory basis than has obtained in the past. A ship or vessel mortgage was never regarded in the same light as other mortgage investments, because it did not con-

[1] President Wilson failed to comply with this section.

stitute a prior lien, and consequently the financial interests of the country could not create an active market for securities of this type.

The significant feature of this section is the creation of the preferred mortgage. In case of foreclosure the preferred mortgage takes priority over all claims except certain claims, called "preferred maritime liens" and court costs. A preferred maritime lien refers to a lien arising prior in time to the recording and endorsement of a preferred mortgage; a lien for damages arising out of tort, for wages, for general average, and for salvage.

Other phases of the law.—The analysis of the Jones law which we have made up to this point presents the salient features of our government policy, by which an American merchant marine is to be created and maintained. In addition to those already mentioned, there are other sections of the law which should be briefly discussed.

Shipping Board.—The Shipping Board is increased from five to seven members, and the geographical selection of its personnel is now determined as follows: two are to be selected from the States touching the Pacific; two from the States touching the Atlantic; one from the States touching the Lakes; one from the States touching the Gulf of Mexico; and one from the interior.

Mail Contracts.—Wherever practicable, mails are to be carried on American built vessels, registered in the United States. Senator Jones has estimated that at the present time of a total of $3,000,000 paid for carrying our mails overseas, $2,500,000 is paid to foreign ships. This substantial sum, if turned to our own shipping companies will materially help in establishing regular and permanent shipping facilities under the American flag.

Port problems.—The Shipping Board is instructed to co-operate with the War Department, local communities, and the Interstate Commerce Commission in studying and helping to solve port problems, freight congestion and inadequate terminal facilities which hinder the economical handling of freight.

Establish routes.—Where it is deemed advisable, the Shipping Board is instructed to inaugurate shipping lines to and from those points which are in need of shipping facilities. In carrying out this policy, the Board is authorized to operate ships, only if private business cannot be induced to undertake the enterprise.

Change of registry.—It is unlawful to sell, transfer, mortgage or charter any vessel purchased from the Board or documented under the laws of the United States to any foreigner, or to place the vessel under foreign register without first obtaining permission from the Board. This section is especially important, in that it protects our tonnage from transfer at a time of national emergency. Under the present law it is evident that transfer of registry will be permitted only when the commercial and military position of the United States is not threatened by such a move.

Insurance.—For the first time, an American classification society, corresponding to Lloyds in London, is officially recognized, in the American Bureau of Shipping. Since only about 10% of our hulls, and 30% of all our marine insurance is taken from American companies, it is evident that some special legislation of this kind is necessary to counteract the power of foreign companies. The American bureau will make surveys of government vessels, and will cooperate actively with American underwriters.

Taken as a whole, the Jones Shipping Law is a vivid example of the growing self-consciousness of the United States that she is in a position to play a rôle of mastery in the commerce of the world. With vast natural resources, industrial development, financial organization, and finally, ships of her own, America is forging the weapons which challenge the old world of Europe and the new world of Japan and South America to a struggle, not only for the markets of he world, but for the control of the basic economic forces of this century.

It cannot be denied that in this situation there lurks the danger of creating international friction and producing retaliation against American goods and American ships abroad. To prevent this calls for statesmanship of the highest order. In the long run it may be a wise policy either to modify some of the provisions of the Jones law, or to reach some satisfactory understanding with the other world powers on the shipping problem.

CHAPTER XVIII

DEVELOPING MARKETS—MARKET ANALYSIS

The first principle of all methods of marketing is ability to meet the customer's demands in quality, quantity and price.

Creating demand.—If the demand does not exist, it is the business of the sales department to create it; if it is sluggish, it must be stimulated. If it is already developed, it must be developed still more. Back of this lies the whole advertising and selling policy of every business enterprise.

The basic problems of developing foreign markets are the same as those which confront the domestic sales promoter. In both cases, the sales machinery is directed toward creating demand for products, turning that demand into an order, and then filling the order.

Kinds of demands.—The starting place, therefore, in analyzing the problem of marketing American products abroad is the study of foreign demands. We may divide demands into two classes: insistent or active demands, and potential demands.

Insistent demands.—During the War foreign demands for many commodities were insistent, especially the demands of the Allies, because with them it was a matter of life and death to secure our products. It was not necessary for us to go to the buyer; he came to us. He did not quibble over matters of credit or prices. These were dictated, not negotiated. It was a seller's market with a vengeance, because the demand was insistent.

Insistent demands of this kind are, of course, the product of the unusual and abnormal conditions of commerce which have existed throughout the world since 1914. But somewhat like these demands for the necessities of war, are the demands for some of the great staple products, such as wheat, lumber, etc., in which salesmanship is a factor in selling only to a limited extent. These products sold through the great exchange markets of the world, "sell themselves." For them an active demand already exists. Selling these products involves no such problems of marketing as is the case with specialized machinery or products with distinctive qualities. It is in the selling of these that the special problems of market development arise.

Potential demand.—Potential demand is that demand which might be developed and become active if the proper advertising and selling methods were adopted. But before the American exporter can gauge potential demand, he must make an extensive analysis of his market.

Market analysis.—An analysis of a market consists primarily in finding out all the facts which directly or indirectly affect the demand and supply conditions in that market.

In analyzing the demand side of any given market, information on the following is of special importance: (1) the purchasing power of the market, (2) special conditions of demand peculiar to the market, (3) demand, or buying seasons, (4) lists of possible buyers, (5) investment control of the market and (6) national and racial prejudices.

1. **Purchasing power and prices.**—The purchasing

power determines, partially, the level of prices which can prevail in the market. It is much more important to know the buying power of a population than almost any other one fact. For instance, it is of small value to the exporter to know that the population of Peru is about 4,000,000. He is interested in knowing, however, that of this population 50 per cent are Indians; 32 per cent half breeds; 2 per cent negroes; 1 per cent Chinese. These statistics tell him that the bulk of the population of Peru has a low buying power and a very small demand for manufactured products.

The point has frequently been made that Japan has been more successful in exploiting the textile market of China than the textile exporters of the United States. One of the reasons for this success is the cheaper grade cotton goods which China demands, and which Japan has taken particular pains to meet.

American exporters should realize that the buying power of the average Chinaman is one seventh that of the American. (E. A. Ross, *The Changing Chinese.*)

In making an analysis of the foreign market, it is not enough for the American exporter to know the general purchasing power of the foreign country. He must know especially the buying power of the particular class of customers whom he is expecting to reach. He should be able to estimate approximately the price which he can command for his specific product. From this he can form some estimate of whether the development of the market is worth while or not. In the special report "*Chile as a Market for Hardware,*" issued by the Bureau of Foreign and Domestic Commerce,, the following significant statement is made, regarding the buying power of the population of Chile:

"Being a new country and having many people with little money, Chile uses much that is cheap and of poor quality, in which the European manufacturer, because of his cheap labor, not only can compete easily but can almost control the market. As the higher quality is demanded, the opportunity for American competition increases rapidly, and the future for the articles made in the United States seems bright, always provided that steps are taken to give the buyer the thing he asks for and business facilities comparable to those afforded by the European exporter.

"It is probable that the use of cheap material will continue for some time in the rural districts, because on the small farms, or those in the new southern agricultural section, the people are poor, while on the large estates there is little security of employment."

2. **Special conditions.**—Special conditions prevailing in the market which will require some adjustment in the product exported should be studied. The following statement made by an officer of the International Harvester Corporation to the *Annalist* indicates how that company makes adjustments to meet the special conditions prevailing in the foreign market.

"The first struggle that confronted our search for foreign trade was to educate the foreign farmer to use modern machinery. The next task was to make machinery fit the special requirements of each district, which involved costly experimental work. Passing these two milestones, another struggle developed. Foreign factories, without sharing the cost, took advantage of these preliminary expenditures, and began systematically to imitate and produce the same machines to the smallest detail.

Experience of International Harvester Company.—"We were forced to overcome the customs and conditions of centuries in fifty countries, scattered over a vast area, and affected by every climate.

"In Holland, for instance, where the grass is short and thick, a mower must cut almost as close as a barber's clippers—every inch of straw must be saved; while in Denmark, where moss grows under the grass, it must be cut so high as to leave untouched the moss, which is harmful to animals. In Argentina a lightweight harvesting machine, such as is used in this country, would not stand the reckless driving and rough usage of the frontiersmen farmers of that country for more than one or two seasons. A different model was necessary.

"There are small horses in Russia, large ones in France, even in India, camels and reindeer in Siberia, and buffalo in Austria. The harvesters must be adapted to each, and to do so involved costly expenditures. The cow in the older settled countries is considered a very valuable animal. Dairying is far advanced and an important industry in South Germany and Switzerland, for instance. On these dairy farms frequently there is but one horse, and sometimes none. The mowers, as built for horses, were too heavy. It was necessary to build a smaller intermediate weight and draught machine to be used with cows, without affecting their milk-giving capacity, and so the "cow-mower" was developed. In many countries it was found that the driver walked on the left side. He would not use our left-hand binders, for it would necessitate his walking in the grain, a thing he was unwilling to do, nor was it possible to persuade him to change the custom of generations. This forced the building of a right-hand machine for his use.

"Australia must have a monster machine called a "stripper," which would comb off the heads of the grain, and, again, Argentina, because of its dry climate, desired "headers," a combination of reaper and thrashing machine.

"In Great Britain, where stone walls prevail, the gates were built of a standard width. The machines were too wide. To change the gate would have been sacrilege; hence the machines were constructed to run sideways, so as to enter the fields.

"It has required earnest and continuous effort for ten years to overcome prejudices, to meet the peculiar requirements of foreign farming conditions, and to educate the foreign nations to throw away the "hook and cradle" and cut their grain in a civilized way."

Mr. C. D. Snow, in a publication issued by the *Bureau of Foreign and Domestic Commerce,* points out that "the natural requirements are not the only local requirements that have to be heeded. Sometimes the taste of the foreign consuming public is equally important. This is particularly true in articles of wearing apparel. If a semi-civilized population insists on having the brightest and gaudiest colors and combinations, their demands cannot be satisfied by shipping them plain lines of blacks, browns, and mouse colors. Some of the American makers of typewriters have employed entirely different type faces on their machines for foreign consumption, merely to humor the tastes of their foreign customers."

In this study of foreign demands, it is of course a matter for the exporter to decide whether he will take things as he finds them, or educate the foreign customers to desire the same products as the American customers. It might be advisable to adopt the latter policy, providing the American style is suited to the foreign market, and has a distinct superiority to any other type. Very often, however, this is not the case, and it is better to adjust the product, even to the whims of the foreign market, than to attempt to "educate" the foreign market to the product.

3. **Buying seasons.** Each country has its particular time for "stocking up." This varies with different countries largely because of the seasons and conditions of transportation. The necessity for the American exporter keeping in touch with these demand seasons is obvious. In our discussion concerning travelling salesmen, further reference is made to this subject.

4. **List of buyers.** Names of possible customers will give the exporter the chance to find out credit-rating and general methods of doing business. Lists of wholesalers and retailers handling various lines can be obtained from the Philadelphia Commercial Museum and other commercial agencies.

5. **Investment situation.** Purchases usually go to the country controlling the investment situation. If the market is already monopolized and controlled by a competing creditor nation, it might be questionable in the mind of the exporter whether he can successfully develop sales of certain products in this territory.

6. **Prejudice.** In studying the matter of national and racial psychology it is necessary to determine to what

extent prejudice, if any, exists against Americans and American products. If it does exist, this fact should lead to an inquiry into why it exists and how it can be overcome.

Supply. Studying demand is only one side of the exporter's analysis of the foreign market. Conditions of supply are of equal importance to him in estimating the possibilities. The analysis of supply of goods serving any given foreign market involves a knowledge of the following: (1) source of imports; (2) conditions of local production; (3) whether the market is overstocked or not; (4) the supply agencies which would best serve the market; (5) units of supply most conveniently handled.

1. **The source of imports.** This item will tell the exporter the foreign competition he will have to face. Particularly in this "after the war" period is it valuable to know how much of the export trade of Europe the United States is supplanting. The following table, taken from the bulletin of the Pan-American Union, shows how the United States has absorbed a great volume of the trade of South America which normally belonged to Europe, especially England, France and Germany:

Three Years Before the War	United Kingdom	Germany	France	United States
1911	$262,099,378	$166,957,707	$77,470,841	$129,701,069
1912	271,596,755	179,183,276	84,009,125	153,363,245
1913	285,555,025	188,900,663	89,520,389	167,523,500
Total	$819,251,158	$534,141,646	$251,000,355	$450,587,814

Three Years During the War				
1915	$134,893,988		$25,935,543	$157,281,670
1916	151,330,088		33,135,448	245,039,415
1917	135,391,598		29,237,751	328,104,692
Total	$421,615,574		$88,308,742	$730,426,107
Increase	*$397,635,584		*$162,691,613	$297,838,292
Per Cent Three Years	—48		—65	+62

*Decrease

The question which is immediately raised by these statistics is whether South America will turn to her pre-war source of supply, or whether the United States will hold her gains.

By an analysis of the statistics presented by the Bureau of Foreign and Domestic Commerce, the American manufacturer can see how much of his special product is being exported from this country to any given market. From this data he can judge whether his share in this trade is proportionate to output. At least a study of this kind will give a clue to lines of market research, in case the manufacturer cares to expand his sales.

After examining the source of supply of goods offered for sale in any market the American manufacturer must determine whether there is anything in tariff laws or commercial treaties or transportation facilities which would debar him from competing on equal terms in supplying any given market.

2. **Local production.**—The amount and possibilities of local production should be studied. Ordinarily it will be easier to meet foreign than local competition.

Besides, the possibilities of local production, which are determined by the status of labor, capital and resources, may suggest whether the market should be regarded as temporary or permanent.

3. **Is the market overstocked?** To answer this would require accurate statistics of material on hand and the probable length of time it would take to dispose of it. To sell to an overstocked market would probably result in lower price levels or an indefinite time before payment could be made if goods are held for a rise.

4. **Supply organization.**—What are the best organizations of supply agencies with which the American exporter will have to deal? This implies a knowledge of the necessity and position of wholesalers, retailers, commission houses, export agents, etc. For example, an exporter who is planning to enter the Chinese market should understand the importance of the "comprador" or Chinese middleman who is the distributor of goods to native dealers.

5. **Units of supply.**—What units of supply can be handled most conveniently? This depends on conditions of warehousing, methods of distribution and transportation.

Government help.—The above analysis will be incomplete unless it is supplemented by data which presents the broad economic background on which the fundamentals of trade rest. Through the consular service and the Bureau of Foreign and Domestic Commerce, much valuable data is available. Two examples will illustrate how the government is attempting to supply this information for American business interests. The following instructions were sent to certain consuls, by the Department of State (*Special Instructions* No. 508, Consular):

"With reference to the following description of a sample which accompanies this instruction, and the queries enumerated below, the department desires that the officers designated in the attached list investigate and report in triplicate at their earliest opportunity upon this subject:

"The accompanying sample is an artificial leather, consisting of a base of cotton cloth coated with a tough, flexible material and embossed by steel plates and rolls to produce the appearance and feel of any desired natural leather grains. All standard grades are waterproof. Heavy grades are suitable for furniture, boat and automobile upholstery. Another grade is used in the suitcase and traveling-bag trade. Another quality is used in the manufacture of leather novelties, desk sets, leather-covered cases, etc. Special grades are produced for particular trades, such as bookbinding, hat sweats, belts, shoes, and art leather. Very light sheeting grades are used in covering cardboard, etc., where a leather appearance is desired.

Information is desired on the following points:

1. Present market, if any, with data as to quantity, quality, and prices.

2. Sources of supply, domestic and foreign, with data as to competitive conditions.

3. Sales methods in trade; agencies; commissions; advertising.

4. Customs duties; trade-mark and patent protection; other laws affecting trade.

5. Financing of trade; credit terms.

6. Packing and shipping.
7. Lists of users, importers, or dealers with whom American manufacturers can enter into correspondence."

Government analysis of the market of Chile.—An example of the type of research and investigation carried on by the Bureau of Foreign and Domestic Commerce is presented in the pamphlet, *"Chile, a Market for Hardware."* (Miscellaneous Series No. 41.) The comprehensiveness and scope of this market survey are indicated by the important points covered:

I. General Economic Conditions:
1. Geographic position of Chile.
2. Chilean ports.
3. Mineral resources.
4. Agricultural resources.
5. Transportation facilities.
6. Freight rates.
7. Ocean freight and service.
8. Banking and finance organization.
9. New York banking correspondents.
10. Exchange problems.
11. Economic effect of natural barriers.
12. Possibilities of local manufacturing.

II. Social Conditions:
1. General living conditions.
2. Emigration and immigration.

III. Specific Study of the market for hardware:
1. Items of hardware in greatest demand.
2. Character of local product of enamel.
3. Annual demand for railroad bolts.
4. Marketing of railroad bolts.
5. Particular demand of Chile for shovels.

6. Detailed list of kinds of hardware demanded for mining camps in the nitrate districts.
7. Amount and source of importation of nails.
8. Amount and source of importation of wire.
9. Influence of concessions on the control of orders.
10. Locks: amount imported.
11. Reasons why local manufacturing of hardware has not developed in Chile.

A report of this kind is highly valuable to the American exporter. By supplementing such a study with research and investigation of his own, he is in a position to act intelligently in determining whether the market is suited to his product and in choosing the methods by which his market is to be developed.

CHAPTER XIX

MARKET DEVELOPMENT—CORRESPONDENCE AND PUBLICITY

I

Correspondence.—After making an analysis of markets, the exporter must study the best methods of developing them. The first, and in many cases, the most important weapon in making a conquest of a foreign market is the pen. Whether the "pen is mightier than the sword" in other fields may be still a matter of discussion, but in the field of commerce the written word has often turned the tide. Which way that tide has turned has frequently depended on the wise use of words, phrases and ideas as they are found in trade correspondence, advertising or commercial catalogues. True salesmanship may be revealed in a sentence, as well as in the convincing argument of the traveling representative. Salesmanship, whether written or spoken, is based on impressing on the buyer the value of products, and laying the basis of permanent trade relations.

Its importance.—The study of correspondence is here taken up as the first method of developing foreign markets, because in most cases, it is the first contact that American exporters have with their distant customers. An inquiry from abroad, sent at random, may receive a reply from an American manufacturer, who may in this way get a foothold in a foreign market, and establish important trade connections. It is the possibilities of making commercial friends or enemies which lends to the subject of foreign correspondence its interest and importance.

The basic fact to remember in conducting foreign trade correspondence is that the foreign customer, or prospective customer to whom the letter is addressed, is not essentially different from the business man in this country. Distance, language, nationality and social customs do not change human nature. The general principles of psychology are universal, not local. Foreigners are not impersonal, inanimate objects inhabiting another sphere. Clearness of argument, preciseness in detail, courtesy in manner, friendliness and promptness in reply are therefore as much necessities in foreign as in domestic correspondence. Perhaps more so, because of the natural lurking suspicion and uncertainty which are usual in buying and selling at a distance.

Translation.—In handling foreign correspondence, the translation is all important. Understanding a language is not merely a matter of mastering the grammar in a mechanical way. It is much more than this. It consists in grasping the spirit or "feeling" of the language. Words, slang and idioms which are difficult to translate should be avoided. The genius of translating lies in detecting the subtle meaning of words and phrases. The translator must have this capacity in two languages: the foreign language and English. The translator is essentially acting as a go-between or interpreter, for the buyer and seller. In a large sense he holds the key to selling results.

Body of letter.—The drafting of a letter to a foreign correspondent is likewise not primarily a mechanical operation. Its purpose is to break down the barrier which distance has created between the buyer and seller, marshal such facts as will secure a favorable reply, and at the same time draw out from the recipient of the letter useful information.

Circular letters.—To secure this satisfactory result, the spirit of the letter should be friendly. A letter which is impersonal is cold, and coldness is an atmosphere in which it is hard to transact business. This idea is emphasized in a statement appearing in a Consular report of October 14, 1919:

"The cold impersonality of the printed circular or circular letter repels more than it attracts the foreign buyer, in the opinion of a business man in Copenhagen, Denmark, who is himself interested in selling American specialties in Europe. In a letter to the Bureau of Foreign and Domestic Commerce this importer lays particular stress on the need for the more intimate note in communications sent to foreign countries and the desirability of supplementing the printed catalogue with a personal letter containing specific information as to prices and terms, saying:

" 'The main object of my letter to-day is to point out to you that very many circular letters, circulars, and catalogues were sent me by American manufacturers and exporters; with few exceptions these were sent as printed matter in a most impersonal way. You will fully appreciate, as I do, that this is a very poor way of trying to develop business. I would suggest that you point out to American manufacturers and exporters the necessity of writing an individual letter when sending catalogues, giving full details regarding prices, discounts, mode of payment, and other obvious particulars which are necessary in order to develop business, especially in foreign countries.' "

Information.—The letter should present a clear array of important facts, which the seller may assume the buyer wants to know. Typical phases of these "talking points" will be somewhat as follows:

1. Detailed description of product.

2. Testimony of experience regarding the efficiency of the product.

3. Business policy of the firm.

4. Price and credit terms.

5. Shipping terms. On this subject the letter should be very specific. Confusion regarding the point at which delivery is made is embarrassing to both buyer and seller. So serious has this become that the National Foreign Trade Council has issued a bulletin requesting American exporters to be very clear in their quotations. Instead of quoting F.O.B. New York, it would be better to quote F.O.B. New York railroad terminal, dock or overseas vessel.

6. Description of boxing, crating, etc.

Postage.—Such a detail as placing the right amount of postage on a letter is very important, because failure to do so creates an impression of carelessness. A commercial attaché, on the receipt of mail with insufficient postage made the following suitable reply:

"Your attention is respectfully called to the fact that your communication to this office did not bear sufficient postage, and I take the liberty of pointing out the unfavorable impression this would have created had your communication been addressed to a foreign firm. Many short-paid letters are not accepted by the addressee and the sender loses the postage that has been paid as well as the stationery. In many cases he also gains the permanent displeasure of the foreign merchant." (*Miscellaneous Series No.* 41, Bureau of Foreign and Domestic Commerce).

Follow-up letter.—Follow-up letters should be carefully timed, so as to give the recipient opportunity to reply. They should not become a nuisance. Someone aptly says that the purpose of the follow-up letter is to educate, not to irritate.

On account of the possibility that letters may not reach their destination, carbon copies of the former letter are sometimes enclosed in the next letter sent to the foreign prospect or customer. This method serves to bring before the customer the previous letter, if it has been received; and if it has not, it serves, of course, as the original.

Draw out information from buyer.—Letters to foreign customers should draw out from the buyer any information which will be of use to the seller. Such information might include the following:

1. Import duties.
2. Customs regulations regarding packing.
3. Success of competing lines.
4. Credit and price conditions in the market.
5. Shipping and transportation facilities.

Any data which can supplement or verify the contents of a letter, such as catalogues, or descriptive pamphlets should be enclosed in the letter or forwarded by the same mail.

II

Advertising.—The object of advertising is to introduce products and the firm which sells those products to the buying public. It is, in a sense, public correspondence. As such, it generally requires greater art in its composition, because of the number and variety of people to whom it is addressed.

The problems of foreign trade advertising will be discussed here from three standpoints: first, the objects sought; second, advertising copy; third, advertising mediums.

Purpose in advertising.—Before it is possible to decide on the most effective copy or the most suitable medium, the American exporter should decide on the purpose of his advertising. There are four main purposes which he may have in mind:

1. To secure general publicity.
2. To get in touch with agencies or distributors.
3. To secure inquiries.
4. To secure direct orders.

General publicity.—The exporter, in seeking for general publicity in his advertising, is aiming to familiarize the public with his product, or the emblem of his product, the trade-mark. This general publicity acts as a sort of barrage preceding a selling attack. It makes it easier for the local distributors or traveling salesmen to follow up in territory which has thus been prepared. This "advance fire" must be accurately timed. Ordinarily the goods must not be advertised before they are locally available.

Reach distributors.—It may be the object of the advertiser merely by this publicity to get in touch with agents or distributors, and not to reach the general consuming public. In receiving replies to this type of advertising the exporter needs to be on his guard against choosing his foreign agents without careful investigation. Many cases have been uncovered where agents selected in this way have been representatives of competing foreign firms marketing the same merchandise. It is small wonder, when this has been the case, that the American exporter finds his business "pigeon-holed," and gets few or no orders from the foreign market.

Stimulate inquiries and orders.—The advertising may be drawn so as to stimulate inquiries or secure direct orders. The chief advantage of this method is that the results are more easily traced and the value of the advertising estimated.

Advertising copy.—The first thing of importance in the study of foreign advertising copy is the matter of translation. It makes little difference what mediums are used or what copy is displayed, if the meaning of the advertiser is not conveyed to the reader. It is a case of the meeting of minds. All that was said about the importance of real translation of correspondence, applies to the subject of advertising.

Translation.—One of the largest American exporters of certain electrical products to South America realizes the importance of translation to such an extent that every advertisement intended to reach Latin America is subject to the review of three types of experts who understand both English and Spanish. In the first place the advertisement is criticised by a professor of Spanish in one of our universities. His interest is in the literary quality of the advertisement. Next, it is studied by a Spanish electrical engineer. He passes judgment on the advertisement from the standpoint of a technical expert. Finally, the advertisement is submitted to a Spanish newspaper man, who gauges it from the point of view of its publicity value. No one angle of view is complete without the others. Combined, a well-balanced, effective advertisement is the result.

Contents.—Regarding the contents of advertising copy, and the arrangement of these contents, the judgment of an expert who understands the psychology of advertising and effective display should be sought. The psychological principles of foreign trade advertising are of course no different from those which govern advertising in this country. Only the application of these principles will vary with locality.

Psychology of advertising.—This is not the place for a discussion of the psychology of advertising. The standard books on this highly specialized subject should be consulted by all who wish to understand the subtle phases of the mind which determine successful and unsuccessful advertising. A few suggestions on the general topic are here noted, not for the purpose of analysis, but rather to direct the student to the further study of this important part of the selling program.

Appeal and response.—All advertising is based on making an appeal and getting a response. The kind of response is the test of the appeal. (H. L. Hollander, *Advertising and Selling.*) To determine the right kind of appeal, involves first of all a study, on the part of the advertising manager, of the general character of the mind of the people in the foreign country in which he is carrying on his campaign.

An illustration of general racial and mental characteristics is presented by Professor E. A. Ross (*The Changing Chinese,* page 52), from whom we quote:

"The more cheaply gotten-up races of men have a short mental circuit and respond promptly to stimulus. Knowing the impulses aroused in them by their experiences you can foretell their actions. They cannot inhibit their impulses and let them accumulate until reflection has fused them into a conscious purpose. But the races of higher destiny are not so easily set in motion. They are able to hold back and digest their impulses. The key to their conduct is to be found, not in their impressions, but in their purposes. Their intellect is a massive fly-wheel by means of which continuous will-power is derived from confused and intermittent stimuli. The man of this type does not act till he has made up his mind and he does not make up his mind till he has heard both sides. His emotion is not as the crackling of dry thorns under a pot, but like the lasting glow that will smelt iron. He obeys not his promptings, but his decisions. His conduct is not fitful and zigzag, but even and consistent. More and more this steady and reliable type is demanded in a social organization so complex that normal action must be deliberate and in a civilization so scientific that pondered knowledge is essential to wise decision.

"We like to think of the Anglo-Saxons as of this stable type and feel that such an endowment makes up to our race for its lack of the quick mobile feeling, the social tact and the sensitiveness to beauty so characteristic of South Europeans. Now, of this massive unswerving type are the Chinese. Fiery or headlong action is the last thing to be expected of yellow men. They command their feelings and know how to bide their time. They are not hot to-day, cold to-morrow. Hard are they to move, but once in motion they have momentum.

General national and racial characteristics.—"Some observations made by a gentleman writing life insurance in Hawaii throw a strong light on Chinese traits. He found the Japanese impressible and easy to persuade, especially if he learns that other Japanese are taking out policies. Tell him his friend so-and-so has insured and he promptly orders a bigger policy. But when a month later the policy arrives from the New York office his interest has cooled and he will never take it unless he was required to make an advance payment. On the other hand, the Chinaman can be neither cajoled nor stampeded. He takes a sample policy home, studies it over night, and is ready next day with his answer. If it is "Yes," he invariably refuses to make an advance payment on the ground that, as yet, he has received nothing of value. When the policy arrives he receipts for it, takes it home, and compares it line by line with the sample policy. The next day he is always ready with the premium. I introduce this comparison not to discredit the Japanese, for their gifts are well known, but to bring out the deliberate unimpressible character of the Chinese.

"Chinese conservatism, unlike the conservatism of the lower races, is not merely an emotional attitude. It is not inspired chiefly by dread of the unknown, horror of the new, or a fanatical attachment to a system of ideas which gives them confidence in the established. It is the logical outcome of precedent. Change the ideas of the Chinese and their policy will change."

It would be well for the advertising and sales manager to take these large mental aspects into consideration, before entering any country.

In addition to these general considerations, advertising should definitely cater, as to style and content, to the particular class which is intended to be reached. For instance, in classified advertisements, which are read mostly by those already interested in the contents of the advertisement, the result may depend on the clearness of expression and the arrangement and size of type. In public advertisements, results may depend on the size, repetition, and on such considerations as whether the names, words and trade-marks are catchy or not.

In advertising in newspapers, the advertisement should attempt to compete in attractiveness and interest with the contents of the medium. On the other hand, in the case of posters and bill boards, where there is no competition, the thing aimed at is to catch attention. Novelties make their appeal because if they are useful they are constantly under observation. Further, they serve to create "good will," because of the gift element in such an advertisement. (Hollingsworth.)

Psychology of advertising.—Effective copy depends therefore in a large measure on the right appeal to the various faculties of the mind, as for instance, feeling, memory, instinct, reason or will. To which of these faculties appeal should be made depends on the intelligence of the public who will read the advertisement, or the type of product which is to be marketed. (Walter Dill Scott, *Psychology of Advertising.*)

When the foreign sales manager or advertising manager has made a study of the fundamentals of advertising in general, his problem lies in applying them to specific foreign markets.

Study of localisms.—This involves an extensive and intensive study of the temperament, habits, prejudices, whims and general "localisms" which he will quickly encounter in attempting to market his goods. As an example, it has been pointed out by travellers acquainted with foreign peoples that in advertising, the choice of colors is a matter which should be determined by the point of view, or prejudices, ingrained by long years of custom, prevailing in foreign markets. In certain countries green is a sacred color, and white is the color of mourning. These are naturally taboo for use in decorative advertising. In some parts of India, food in process of preparation must not be touched by human hands, and it must contain no animal fat. Advertisements in these sections can avoid offending the religious sentiments of the people or arousing their suspicion or opposition by displaying the use of machinery in manufacturing the product and the absence of the forbidden fat in its makeup. It has been frequently stated that in certain parts of South America the goods and advertisements which make the most effective appeal are those in which the color of the native birds and foliage is present.

One of the best statements of the importance of studying local conditions, before making up copy, is the following, taken from an investigation into the problem of advertising in Chile:

"It is often carelessly asserted that "What is good for us is good for them," meaning, no doubt, that the effective American copy, when translated into correct Spanish, would be effective in Chile or in any other part of South America. Nothing could be further from the truth, and the advertiser who labors under this delusion is handicapping himself from the very start. In the first place, correct Spanish is not necessarily idiomatic and effective

Spanish, any more than correct English is convincing and effective selling English. Moreover, the free-and-easy, colloquial, friendly American advertising and particularly in "Gingery" sales letters, would not only not be understood but would be misunderstood and indeed would affront Latin-Americans, who would regard it as impertinent. The advertising of "Prince Albert" tobacco would mystify and probably offend Latin Americans, and at its best would certainly fail to convince, whereas the quiet, dignified handling of "Fatima" cigarettes copy would probably meet with a welcome response. Not that the Latin American is averse to novelties. On the contrary, he is more susceptible to their appeal than we are and more easily attracted by a simple moving display in a window, or an ingenious souvenir, or a novel illustration. But his respect for what he regards as the proprieties, his dignity on all occasions, and his resentment of our jovial and intimate "hello, there," copy appeal are fundamental facts to be remembered. The raciness and originality of the type of copy represented by "Big Ben," despite its tendency to slanginess, would, in spirit at least, be effective in South America. But that same copy translated into correct Spanish would be only partly intelligible and wholly ineffective, because the individuality of it finds no parallel in corresponding Spanish words. The effectiveness of its appeal is untranslatable into Spanish except in the most labored, roundabout, prosaic fashion. The terse "snap" and sparkle of its phrasing, which is its essential appeal, can not be found in Spanish, which is primarily a language of dignity and indirection and formality. It has its colloquialisms and local idioms, which have crept into the language through usage as with us, but it is not given to "slang" nor to the making of new and expressive phrases overnight. However, there are fundamental copy peculiarities not shared alike by all Spanish-speaking South American countries. Instances of scores of correct Spanish words might be quoted, which, while understood in all South American countries, are not used identically in all of them but are replaced for everyday usage by their own local words. A single example may suffice. The Spanish word for child is "nino" or "nina." In Chile the word for child is "guagua," while in Argentina it is "nena." "Nino" might be understood in all these countries but it would not make the instant appeal that the local word would. Instances might be quoted at length but would only serve to emphasize this same point: that many of the countries of South America have added their own phrases to the body of the Spanish language, and only an individual familiar with each local field could hope to render final and unerring judgment in the censoring of copy." (*Special Agents Series No.* 185)

Advertising mediums.—The selection of the advertising medium will depend on many considerations. The class of buyers and the effectiveness of the various mediums in reaching this class are the determining items.

Export journal.—First among the mediums for foreign advertising is the export journal. The export journal is published in the language of the foreign country. It contains the advertisements of American firms who in this way wish to reach foreign buyers. The journals may be designed to appeal to a certain general class, for instance the farmers; or they may be so edited that only a limited class or trade would be interested in their contents. The editorial policy of such papers usually deals in issues of general mutual interest to the American exporter and the foreign buyers. Such matters as presenting the American point of view on international problems of diplomacy, business or politics would come under this head. Also, discussion on American business practice and law relating to banking, transportation, corporate organization and foreign trade promotion, would be fitting subjects for editorial comment.

Checking up advertising mediums.—Whatever journal is chosen, the American exporter should make sure that it is bona fide in its claims, and that its foreign clientele is the class which the exporter wishes to reach. Such questions as the following have been suggested in a publication of the Department of Commerce as satisfactory in testing the value of the advertising medium:

"What is your total circulation each issue?

"What is your total circulation in each Spanish-speaking country?

"How is it secured?

"What is the type of its readers?

"Is your circulation certified by the Audit Bureau of Circulations?

"Are your papers sent out in bulk or are they wrapped, stamped, and individually addressed?

"Are your editorials and news articles merely compiled from doubtful sources or written by men who know the country and your type of readers?

"Do you permit 'write-ups' in your reading pages?" (*Special Agents Series No.* 185, Bureau of Foreign and Domestic Commerce.)

Export editions.—American magazines and journals, intended for distribution in this country, may issue special editions for distribution abroad. The chief criticism brought against these mediums is that, not being originally edited for foreign circulation, they may not meet the requirements of the advertiser.

Directories.—Foreign trade directories and consular directories are often successful mediums in attracting inquiries from dealers and distributors.

Reaching the public.—In reaching the large consuming public, house organs, local newspapers, show windows, display rooms, moving picture screens, electric signs, novelties, and magazines with stories, articles and news items which attract the general reader, may be used.

House organs.—House organs are often issued by export commission houses or foreign distributing firms. They have a mailing list of possible customers, to whom their pamphlets are sent.

Selection of foreign newspapers.—The same care should be taken in the selection of newspapers as in the choice of export journals. The same questions which are suggested to test the value of the latter should be submitted to the circulation manager of the newspaper for reply. In addition to this, such information as is contained in the following statement regarding the policy and contents of certain newspapers of Chile will give the doubtful advertiser some basis for reaching a decision:

"With few exceptions the publications in Chile are primarily political and in many cases were founded with political purposes in mind; consequently, an independent paper is almost unheard of. However, this need play no great part in the plans of an advertiser, provided he will take pains to assure himself that the paper he purposes to use is established permanently and not merely temporarily for certain political objects. He will do well to assure himself also, provided he is advertising merchandise to be sold to railroads or other Government properties, that he does not choose a medium that is "at outs" with the party in power.

"It has been commented that Chile is a newspaper and not a magazine reading country and that it is a morning and not an evening newspaper field. It would be well to remember also that its reading public is made up largely of men. In striking contrast to the advertising in American newspapers, the bulk of the Chilean advertising is aimed at men rather than at women. However, against this must be set the significant fact that some of the most farsighted advertisers in Valparaiso and Santiago have recently discovered that the woman field has been overlooked and they have been cultivating it assiduously and profitably ever since. On the street cars and the trains leading to the principal suburbs, one is struck with the fact that, among the better classes at least, there is a wide reading public among the business men and that the leading dailies, from the angle of news at any rate, have a keen appeal for them.

"The most influential group of newspapers in Chile is that of *"El Mercurio,"* published in Santiago, Valparaiso, and Antofagasta under the same name. *"Las Ultimas Noticias"* is the evening edition of the Santiago *"El Mercurio."* All these dailies are distinguished for their constructive conservatism and are the only dailies in Chile without political bias. They are undoubtedly the dominating publications in their respective communities and stand first in the estimation of local advertisers. They are read by the thinking, influential, buying class. While three other dailies are published in Antofagasta (*"El Industrial," "La Nacion," and "El Norte"*), it was the consensus of opinion that unless an advertiser used a large appropriation or spread it very thin he would do well to limit his Antofagasta advertising at first to *"El Mercurio."* Both the Santiago and Valparaiso editions of this daily are regarded as first choice by all local advertisers, although the Santiago edition is regarded as being stronger than the evening edition. (*"Las Ultimas Noticias"*), whereas in Valparaiso the reverse is the case, the evening edition of *"El Mercurio"* being not only more influential but alone in its field.

"The only other group of papers in Chile bearing one name is *"La Union"* published in Valparaiso, Santiago, Concepcion, and Punta Arenas. This group represents the Catholic Party and the clerical and conservative political interests. Except the Valparaiso edition, which is probably the most influential morning paper in that city, *La Union* has comparatively little influence. In Santiago, for instance, *La Union* is practically disregarded by the larger local advertisers. Its readers belong to no distinct economic class, as is the case with some of the other dailies, but are drawn to it as a result of political or religious adherence.

"The second most influential daily in Santiago is *La Nacion.* While established only in January, 1917, it has accomplished the almost unprecedented feat of having acquired, in the short time since its foundation, an apparently permanent and growing body of readers. It is the spokesman of the Liberal Party in politics and probably draws its readers from more different economic classes than any other newspaper in Chile. It is a most aggressive and enterprising daily, and its methods of circulation and news getting are sometimes not flatteringly referred to as "Yankee methods." It is generally regarded by Santiago advertisers as their second choice, after *El Mercurio,* and both are used, not only for their Santiago circulations, but for their out-of-town influence, particularly to the south between Santiago and Concepcion." (*Special Agents Series No.* 185.)

Display rooms.—The development of window display and show room advertising is coming into greater importance in foreign countries. Display counters and sample rooms in which goods from the United States are exhibited are conducted, in some cases, by foreign branches of the United States Chamber of Commerce. The Japanese Commercial Museum at Shanghai is regarded as one of the best exhibits of its kind. The museum is maintained by the Government of Japan and a business association of Tokio. Here are displayed products which the members of the association are interested in selling. Samples, catalogues, and descriptive literature of all kinds are available.

Moving pictures.—The use of the moving picture screen as an advertising medium in foreign countries is developing. Pictures which show American processes of manufacturing and demonstrate the utility of products should find greater use in the future.

Catalogues.—Besides general advertising, the preparation and distribution of catalogues is a problem of importance to exporters who wish to maintain and develop their foreign trade interests.

Purpose.—The purpose of catalogues is to supplement the other agencies of publicity. The advertisement calls attention to the product. The catalogue describes the product, and gives the general terms of sale.

Translation.—The preparation of a catalogue, from the standpoint of translation, requires all the care which was indicated as necessary in the case of correspondence and advertising. Since the purpose of the catalogue is to give a minute and detailed description of the product, the translator should understand the process of manufacture and the exact purpose of all the parts which make up his product, especially if the product is machinery or technical equipment. Ingenuity must be displayed by the translator, in case it is necessary to use a word for which there is no exact synonym in the foreign language. He may coin a word, use a near-synonym, or adopt a word of a language which the reader is likely to understand. It may be advisable, for instance, in some cases, to use a Spanish word in Brazil, where Portuguese is spoken. When foreign language catalogues are not available, it is customary to send the catalogue printed in English, with a letter of explanation in the language of the foreign market.

The catalogue should be firmly bound, because it will generally be handled a great deal, and when not in use will be filed away for further reference.

Contents.—The contents of the catalogue should present a display of the variety of products offered to customers. The first essential is accuracy of description. There is no occasion for bombast, boast or exaggeration. Description may call for a statement of how the product is manufactured, the use of each of the parts, and its special points of value.

Prices.—In addition to the description of the product, there should be a statement of the price. This price should never be the net price, but the listed price. The amount of discounts should be reserved for a supplementary folder, or direct correspondence. The reason why this practice is generally followed is to prevent friction between the dealer and his buyer, since the latter may think that the dealer is overcharging him.

Shipping terms.—The price should so be quoted that the dealer will know what the goods will cost him, after freight and insurance and incidental expenses of transportation are paid. This quotation should be C. I. F., foreign port, F. O. B. vessel, New York, or F. O. B., foreign port of destination.

A description of the character of the packing, weight and measurement, in metric units, should be given. If prices are quoted in dollars, equivalents in foreign currencies are usually listed. A code word for the product listed, and also for each of the separate parts of the product, will facilitate cable communications between the American exporter and his prospective customer abroad.

Duty on catalogues.—In distributing catalogues, it is necessary to know the customs regulations of the foreign countries to which they are sent. In some countries they pay no extra duty; in others a heavy duty is levied. In the latter case, care should be taken not to include catalogues in a consignment of merchandise, if there is any danger that the rate of duty on the catalogue is higher than the rate on the products. If it were higher, the whole consignment might have to pay this advanced rate.

Distribution.—On account of the expense in preparation of catalogues, they should not be distributed wastefully. Many firms adopt the policy that catalogues should be sent only on request. The main consideration is to send catalogues only to those who are interested enough to make good use of them. A pamphlet issued by the Bureau of Foreign and Domestic Commerce suggets the following letter as a practical help in making out a catalogue mailing list:

"We will be pleased to send you our catalogue in the event that you indicate your desire to receive it. Will you kindly fill out the blanks on the inclosed card and mail it to us? If you import such material as we manufacture, we are sure we can quote satisfactory prices, if quality be considered. It is our hope that such relations as we may establish with you shall continue for many years, and because of this we desire to start with the proper information."

Very truly yours,

(signed with pen and ink, not stamped or printed.)
Foreign Sales Secretary, or Sales Manager.

The card heading might be as follows:

May we correspond with you in English? If not, what language may we use?

Shall we send you our catalogue, which weighs —— kilos?

Do you import direct? If not, through whom do you import?

Through what bank do you prefer to do business?

Name ....
Street and number.............Post Office Box.......
City ....State............Country..........
(*Miscellaneous Series No.* 41, Bureau of Foreign and Domestic Commerce)

In case a catalogue is of a bulky and inconvenient form, it may be well to have smaller editions issued for special classes of customers.

Distribution of catalogues is made mostly to export and import commission houses, consular offices, chambers of commerce, and trade bureaus.

III

Trade-marks.—In all advertising, the trade-mark has an important place. An effective trade-mark must be a design which is "simple and strong, and, if colors are used, they should be bold. The name should be pronounced in all languages ('Sapolio,' for instance) and it should not be possible to confuse it with any other word." (*Special Agents Series No.* 185.) The necessity for these requirements is seen when we realize that the purpose of the trade-mark is to distinguish brands, identify a manufacturer, and protect consumers.

Requirements.—The general legal requirements of a trade-mark are that it must have a distinguishing and identifying quality. It must not be a surname, a geographical name or a word which is in general use. For this reason a name given to a patented article does not make a good trade-mark, because as soon as the patent expires, the article can be manufactured by any one, and the mark ceases to identify a definite brand. The use of state insignia, flags, etc., is forbidden. Close resemblance to a registered mark, liable to deceive customers, is not allowed. In some countries, marks cannot be legally registered which have not first been registered in the United States. Initials cannot be registered in Great Britain.

The study of trade-mark regulations of all countries where products are to be sold is necessary from every standpoint. This study is necessary because in some foreign countries there is a piracy of trade-marks.

International convention.—The following countries, subject to the International Convention, grant to the nationals of each party to the Convention the same protection in the use of trade-marks which is accorded to their own citizens:

Belgium, Brazil, Denmark, Dominican Republic, France and her Colonies, Great Britain, including Canada, New Zealand and Queensland, Italy, Japan, Netherlands with Dutch Indies, Norway, Portugal, Serbia, Spain, Sweden, Switzerland, Tunis, United States.

Registration in United States.—In the United States, the owner of a trade-mark is protected if he has it registered at the Patent Office at Washington. The requirements in registering a trade-mark in the United States are that there be proof of ownership, and that the mark be in actual use.

In many other countries, however, there is much laxness in the laws, which reacts to the disadvantage of the American exporter, especially if he is not acquainted with the conditions.

Registration in foreign countries.—In many of the South American countries, application for registry is all that is required to gain legal possession of a trade-mark.

Any person can in this way get the sole legal right to use an American trade-mark, in spite of the fact that he may have no moral claim whatever to this right. An unscrupulous person might resort to this practice for the purpose of extorting money from the rightful owner of the trade-mark, in case he wishes to sell his brand in that market.

Piracy in trade-marks.—By this sort of black-hand method, a foreigner might secure an exclusive sales agency for an American house. He would have the American house at his mercy, because it could not enter the market without his consent, unless the brand or trade-mark were changed.

In some countries, the sale of goods, the trade-mark of which has not been registered, subjects those goods to confiscation by the government. It is necessary, therefore, before sales are attempted that exporters make sure that the details of registration are taken care of.

Illustrating the corrupt practices which are possible under the existing laws of some countries, Mr. H. A. Mumma, international trade-mark expert, presents in the *Exporters' Review,* January, 1919, a few examples of loss from failure to properly register trade-marks:

"An American flour manufacturer, who had been selling mainly to Spanish American countries, had been selling in Costa Rica through a certain dealer. Some months ago the manufacturer decided to change his dealer in that country, and also to register his trade-mark there. He discovered that his trade-mark had been registered by the local dealer in his own name. The flour manufacturer is no longer shipping that brand to Costa Rica.

"An American sewing machine manufacturer with a large export business had been selling in France through a particular dealer. The dealer registered the trade-mark of the manufacturer in his own name. The manufacturer later wished to change his dealer, whereupon the facts as to the trade-mark registration came to light. The manufacturer instituted litigation on the ground that the dealer held the trade-mark registration in trust for the manufacturer, and after spending about $4,000 in legal fees lost the litigation, and was compelled to come to terms with the dealer.

"An American exporter received an order for cutlery from an Argentine purchaser. The exporter purchased the goods from an American manufacturer, which goods bore the trade-mark of the manufacturer, and shipped them to the customer. Later the exporter received another order for cutlery from another purchaser in Argentina. The exporter purchased the cutlery from the same manufacturer and shipped it to the second purchaser. When the cutlery arrived it was confiscated at the dock by government authorities. The first purchaser had, in the meantime, registered the trade-mark in his own name.

"An American typewriter company shipped its machines to South America without registering its trade-mark. The trade-mark was prominently displayed upon the typewriter. The mark was suddenly registered in Argentina by a stranger, who is reported to have demanded a large sum for an assignment of the registration. The manufacturer refused to be blackmailed, adopted a new trade-mark and registered it in Argentina. As a consequence he now must segregate all machines for shipment to that country and mark each with the new trade-mark.

"An American paper manufacturer had his trade-mark registered by a stranger in a South American country in the same manner. The trade-mark was water-proofed in the paper. Changing the water-proof and running off special shipments for this South American country would have been most expensive. The manufacturer after some negotiations was obliged to pay to the stranger several thousand dollars for his own trade-mark."

The American Manufacturers' Export Association has advised the State Department that over forty trade-marks of American automobiles have been appropriated in Portugal. Attempts have been made by so-called trade-mark pirates to register "India Rubber" in Argentina, "Corona" for typewriters, "3-in-1" oil and "Havoline" in Spain, "Kissel Kar" in Uruguay, "Coco Cola" in Japan, "Marmon" and "Stutz" in Argentina; and "Vitagraph" in Spain. This list could be added to indefinitely. (*Journal of Commerce,* January 6, 1920.)

In view of the situation described above, there seems to be a clear necessity for some kind of international agreement which will offer legitimate protection against the use of trade-marks for fraudulent purposes.

Pan-American agreement.—One of the most practical attempts to deal with this problem was the scheme proposed by the Pan-American Union in 1910. According to this scheme, the American continent was divided into the northern and southern group. The central office of the northern countries is located at Havana. Rio Janeiro is the location of the office of the southern group. When a trade-mark is registered at Havana, it is protected in all the countries of both groups, by the deposit of a fee of $50.

Article 2 of the Convention is regarded as ambiguous in its meaning, especially its reference to the rights of third parties and the laws of each state. The article in question is as follows: (Savay, *Principles of Foreign Trade.*)

"Any mark duly registered in one of the signatory

States shall be considered as registered also in the other States of the Union, without prejudice to the rights of third persons and to provisions of the laws of each State governing the same."

Mexico, Salvador, Colombia, Venezuela, Peru, Chile and Argentina have not yet ratified the convention. Before it becomes effective for the United States, Congress will have to pass a law authorizing the Commissioner of Patents to accept marks sent to him by the international bureau.

"Made in America" trade-mark.—There has been much discussion on the subject of a national label or trade-mark such as "Made in America" which would identify our goods in foreign markets. The purpose of such a trade-mark would be to protect the foreign buyer, in case he should demand American products, and also serve as a general advertisement of American wares. It has also been argued that a national trade-mark will tend to eliminate the piracy such as has been discussed.

With reference to the latter argument, namely, the value of the national trade-mark to prevent piracy of emblems, the best way to prevent this type of theft, is to secure proper legislation and treaty agreements which will make this form of robbery more difficult.

As to the value of a national trade-mark in identifying American products when these are in demand, it may be argued as forcibly that where there is a prejudice against American goods, the national trade-mark would prove to be a poor commercial asset.

A national trade-mark, if carefully guarded in foreign countries to prevent its being stamped on the products of other countries, might indicate origin, but it could not indicate quality of product and without being able to guarantee quality, it is difficult to see how a label, "Made in America," would advance the interests of our exporters.

CHAPTER XX

DEVELOPING MARKETS—DIRECT METHODS

Selling agencies.—The problem of foreign selling is only begun when the policy of publicity is settled. It is of vital importance to determine the method of representation in the foreign market.

Whether this method of representation is direct or indirect depends on a complex set of conditions, such as the policy and financial resources of the exporting firm, the nature of the products to be exported, the permanence of the export market and the local conditions of marketing which must be taken into consideration. This situation calls for great flexibility in handling foreign sales. No one method is necessarily the right one. What the right method is in any given case may require close study and many years of experience to determine.

Among the factors of success in foreign selling, none is more important than the selection of the export manager. It is he who is largely responsible for the methods chosen, and for the personnel who will carry out his plans.

Export manager.—To be an export manager requires a breadth of training, and a native capacity to grasp the importance of details and general policy, which is a severe test of executive ability. He should, of course, understand the selling game thoroughly. He must be able to appreciate the point of view of various peoples, in many parts of the globe. He must know the processes of manufacturing, so that the particular needs of his markets will be met. He must be able to make quick decisions on matters of credit, financing, insurance, shipping, advertising, etc. Although he may have assistant export managers who assume the burden of these details, still the ultimate responsibility is his. All this suggests the necessity of having as export manager a man of unusual executive ability.

Direct or indirect methods.—The policy of the export manager in reaching and developing the foreign market may be to get into direct touch with his customers, or to reach them, indirectly, through the use of intermediaries. In this connection, it is regarded as sound policy not to look for success in developing markets abroad with methods which have not proved to be successful in the domestic market.

Direct.—The direct methods of developing the foreign market are: traveling salesmen, branch offices, and foreign agents.

Indirect.—The indirect methods of market development are the export or import commission house, the export merchant and the manufacturers' agent. These various methods will be discussed in the order named.

When the export manager decides that a market justifies direct representation, it is his responsibility to make the selection of the salesman.

Selection of salesmen.—The importance of making the right selection of salesmen is emphasized in a government report on selling in South Africa. (*Special Agent's Series No.* 146.)

"The success or failure of any manufacturer attempting to create a market for his goods in South Africa hinges chiefly on the character of the representative he sends to sell his goods and otherwise foster a demand for them. The first essential is that he should enjoy the full confidence of his principals and have full authority to agree to make such changes as may be indispensable in the adaptation of the goods to the requirements of the trade. Confidence in the salesmen's good judgment in this respect should be such that whatever recommendations he makes will be strictly adhered to. A salesman should be endowed with an agreeable personality, a dignified bearing, and the ability to discuss matters with the heads of large firms. He should be aggressive and enthusiastic, as a great deal depends on his arousing the interest of the chiefs and staff of the firms that he may visit. He should also be prepared to meet in a social way those with whom he transacts business. As a rule, social contact and intercourse are far more important in the transaction of business in South Africa than they are in the United States. No Man should be selected as a representative in South Africa whose employer does not consider it a pleasure to entertain him at his own home. A salesman operating in South Africa must also be aware that business is not transacted there as rapidly as in the United States. A certain amount of acquaintance is necessary before business will be seriously considered."

Problems of salesman.—The qualifications of a successful traveling salesman can best be appreciated when his problems are understood. These problems may be classified as: first, the study of the buyer; second, the study of the market. In both cases, there is but one end in view, and but one test of salesmanship—making sales.

No exact rules.—In the study of the foreign buyer, the traveling salesman must show his versatility and adaptability. No exact rules can be laid down. Someone has defined salesmanship as "a mental struggle, with odds depending on circumstances." As such, the salesman's best method of approaching the prospective buyer depends on his own strategy, developed from his own experience, common sense and instinct.

Steps in making sales.—Most of the selling specialists point out that in approaching the buyer, the salesman must pass through the following stages in making the sale: disarm suspicion, command respect, attract attention, develop interest, meet objections and close the order. Buyers vary, and sellers vary, but some of these phases enter the making of every sale.

Disarm suspicion.—In foreign selling, it is especially necessary to disarm suspicion. We are likely to be suspicious of people whom we do not know. And we tend to be suspicious of foreigners. The best way to break down this barrier is to cultivate the friendship of the buyer. This means that the salesman must have social as well as mere business capacity.

The social phase of selling is especially emphasized by all business men who trade with the Latin countries. It may be impossible to transact business for several days, or even weeks after the first interview. It may be necessary for the salesman to be entertained at the buyer's club or home, before he is in a position to discuss the business transaction on hand.

Letters of introduction.—In addition to cultivating friendship, suspicion may be disarmed if the seller can convince the buyer both of his own reliability and that of the firm he represents. This calls for proper letters of introduction. These letters should come first from the manufacturer in the United States. This may not mean much to the buyer, unless the manufacturer happens to be well known. The most effective letters of introduction come from those banks and business houses which have standing in the business world in which the buyer lives. Passports should also be included. A letter from the American manufacturer to the prospective buyer reaching the latter at a reasonable time before the salesman's visit, will serve to make the preliminary introduction easy.

Power of attorney.—Papers giving the salesman "power of attorney" convince the buyer that he is dealing with a responsible agent. These letters giving "power of attorney" should be signed by the American manufacturer, by the proper official of the court of record and government officials.

Command respect.—Commanding the respect of the buyer is the next step in the seller's path. Respect is recognition of excellence. Applied to selling it means that the salesman should have that type of personality and those mental qualities, which lead to the recognition of his personal excellence, the excellence of the product he is selling and that of the firm he is representing.

Knowledge.—Personal appearance, affability and tact, are, of course, the prerequisites to all successful selling. Granting these qualities, nothing commands respect so much as knowledge. The salesman who knows what he is talking about is in a strong position to convince. Otherwise he is not. This point is illustrated by the evidence presented by Charles H. Haney, manager of the foreign department of the International Harvester Company, in the District Court of the United States for the District of Minnesota. The question under discussion was the qualifications required of foreign representatives.

"Q. And what is more important to you in a man—knowledge of the business, or knowledge of the language of the country where he is doing business?

"A. Knowledge of the business, absolutely. Naturally, in hunting for a man for any certain country, we try to find a man who speaks the language of that country. If he did not speak the language of that country but spoke some other language, it was some advantage; but primarily knowledge and experience in our business, if he spoke only English. That was the first qualification."

Languages.—Knowledge is one thing; ability of expression is another. Without the latter, the former may be worth little. For this reason, the traveling salesman to do his best work must acquire a speaking, conversational knowledge of the language, prevailing in his territory.

Attract attention.—To attract attention, samples and catalogues are used to good advantage. The old phrase, "seeing is believing," merely attests to the fact that the appeal to the eye, is more effective in many cases than any other argument. This must be especially true when the salesman speaks an unfamiliar language with faulty grammar or accent. In attracting attention, the importance of advertising should not be overlooked. The object of general publicity is to create familiarity with the trade brand, or the name of a firm. It makes it easier for the salesman to introduce a product on which the buyer has some information, no matter how slight, than to have to start at the very beginning of "breaking the ground." This is especially true if the advertisement has been successful in stimulating curiosity.

Interest.—Interest may be defined as developed or sustained attention. The salesman who can impress his buyer with the importance of the thing he is selling has interested his buyer. This may be done by pointing out some special feature of advantage of his product, its appearance, economies, etc. The inducement may also be in the matter of credit extension, price, or cost of upkeep.

Meeting objections.—Meeting objections tactfully is an art. It does not consist in a policy of browbeating. It is partly a matter of argument; partly a matter of suggestion. To be sure of the advantages of the product one is selling, as compared with competing lines, and to state these advantages clearly, is the best method of meeting objections. To do this successfully, the salesman must be quick to detect the doubts in the buyer's mind. Then he must be able to marshal his facts to combat them. Above all, the meeting of objections should never degenerate into a quarrel. If it is necessary for the salesman to be quick in detecting doubts in the buyer's mind, he must be just as quick in knowing when the buyer's mind is made up. Beyond this point it would be unwise to press the argument. Whether or not a sale is made, the door should not be closed to another visit.

Close the sale.—Closing the sale is the test of salesmanship. This consists in turning delay, uncertainty, and hesitation into decision and action. The salesman must understand the making of the contract, and have the authority to make a binding contract, which will close the sale.

Get information.—Besides getting in touch directly with prospective buyers, it is the salesman's business to obtain all information which may be of value to the export manager in the home office. This data, which will be included in the salesman's periodic reports should contain such information as the following:

1. Specific credit information.

2. General credit and economic conditions which may effect sales.

3. Active competition in the market.
   a. Source of competition.
   b. Reasons for its success or failure.
   c. Quality of competitor's goods.
   d. Price and credit arrangements.

4. List of prospective buyers.

5. Various lines in which merchants are interested.

6. License regulations.
   a. Amount. In Argentina, this varies from $212 per year in the Federal District, $297 in Mendoza, to $254.76 in Tucumen. Special seasonal rates are granted. In Tucumen, the July-December rate is $127.38. (*Tariff Series No.* 35.) In one province, Salta, the fee varies according to the quality of goods represented. The fee in the case of empty bags is $25.48, which is the lowest; that of textiles is $424.60, which is highest.
   b. Conditions. Sometimes a license fee is charged

only when goods are sold from samples, and not when sold from catalogues. This is true of the Federal District, Argentina.

c. How avoided. In Buenos Aires, it is possible to avoid paying this fee by assigning travelers to local importing houses.

7. Customs treatment of samples.

a. Clearance. In some countries, provision is made for facilitating the clearance of samples, before the passing of other cargo through the customs house.

b. It is usual in some countries, for instance, Argentina, to ship samples "in bond." It is possible to have samples "bonded" for 90 days in Argentina with the privilege of renewal for 90 days.

c. In Bolivia, and many other South American countries, samples of "no commercial value" may be admitted free of duty.

8. Customs duties on advertising matter. As an example of the need of special information on this matter, the regulations of Chile are cited: (Ibid.)

"There is no regulation permitting commercial travelers to import advertising matter for complimentary distribution without the payment of duty except in the case of catalogues, which are specifically exempted from duty. In this regard the superintendent of the Chilean customs has stated that a certain latitude is allowed and that a commercial traveler would not be charged duty on a reasonable amount of catalogues and advertising matter. It is not probable, however, that the customs house would pass any more than a very limited number of souvenirs or souvenir calendars."

9. Buying seasons. On this point, each market varies according to the peculiar conditions prevailing. The general situation as regards Argentina has been presented as follows:

Buying seasons in Argentina.—"The importing merchants in Argentina generally foresee their wants from 12 to 18 months in advance. The mere fact that they are fully 30 days steamer distance from the United States and Europe obliges them to place their orders far in advance of the time when they wish the goods to be placed on the shelves of the retail merchant. Taking into account the time required for an order to reach the United States or Europe, the preparation of the order for shipment, the time in transit to this country, and the time before the goods can be cleared through the customs house, it would take from four to five months to bring the merchandise to the wholesale jobber in Buenos Aires. In addition to this, it requires from six weeks to two months for the goods to reach the small country retailer after passing through the hands of the minor jobbers in the principal provincial cities. In the case of textiles, purchases for winter use are made one year in advance. The winter season here differs from that in the United States, as it falls during the months of May, June, July, August and September, while the summer season takes up the other months of the year.

"Holiday (Christmas) goods must be in the hands of the retailer not later than November 1, although dealers here insist on having these goods on hand not later than October 1 in most cases, and the orders must be placed not later than June 1. This is also true of goods for use during carnival time, which generally falls during the month of February. Orders for this class of goods are placed invariably six to eight months in advance.

"The harvest and thrashing season in Argentina begins in December for wheat, and continues until May for corn, and machinery, twine, bags, etc., destined for this purpose must also be purchased at least 12 months in advance to insure their being here at the time of the harvest.

"In the case of other merchandise where climate or other reasons do not enter into consideration, orders are generally placed 6 to 12 and 18 months in advance of the receipt of the merchandise and before it can be placed on the shelves of the small retail dealers in the interior of the country." (Ibid.)

10. Characteristics of business law which may affect credits and collections.

11. Special packing requirements.

12. Tariff regulations.

These are the things of special importance to which the traveling representative of the American exporter must keep alert, as he comes in direct contact with the foreign market conditions.

If the foreign traveling representative has the instinct for salesmanship, supplemented by technical and cultural training, and an ability to read and take advantage of the signs which appear in the sky of market opportunities, he is the type of man in whose hands American trade abroad can be safely entrusted.

CHAPTER XXI.

DEVELOPING MARKETS—BRANCH HOUSES AND AGENCIES

I

Branch houses.—Direct representation in the foreign market may be secured by the establishment of foreign branch houses. The purpose of a foreign branch house may be either for selling, repairing or storing. Before establishing a foreign branch house abroad the advantages and disadvantages must be carefully weighed.

Added overhead expenses.—Assuming that the market is regarded as a permanent one, and that it is worth cultivating, the first matter to be considered is the expense involved in establishing a branch. Establishing a foreign branch house means a heavy addition to overhead expenses. The question to be decided is whether the additional profits are liable to counterbalance the added costs. The International Harvester Company found that, comparing selling through jobbers and branches, in Europe, expenses based on sales increased from 11.05 per cent to 28.70 per cent. (*Miscellaneous Series No.* 81, p. 147, Bureau of Foreign and Domestic Commerce).

	European Sales	Total Selling Expense	Selling Expense Based on Sales Per Cent
Deering, 1902, jobbers.......	$1,261,789.35	$139,479.04	11.05
International, 1912, branch houses	23,133,307.56	6,638,679.57	28.70

Another item to be taken into consideration is the local antagonism which the branch house may develop. The American manufacturer becomes a competitor of the local wholesale importers and distributors. Only where this antagonism can be overcome or overbalanced by gains should the branch office be established.

Price changes.—There is the added element of risk involved in storing goods in a market where branches are located when a turn in prices might react against the American manufacturer. An illustration of this is found in the evidence of Mr. Farrell of the United States Steel Products Company presented to the District Court of New Jersey: (*Miscellaneous Series* 81, p. 140, Bureau of Foreign and Domestic Commerce).

"Q. You have already stated that the corporation maintains large warehouses in different parts of the world."

"A. Yes."

"Q. Filled with goods of different varieties?"

"A. Yes."

"Q. In view of the distance these warehousese are from home, and the fluctuations from time to time in markets, will you state whether or not that is a hazardous business or otherwise?"

"A. Hazardous, by reason of the fluctuations in the price. It sometimes takes four or five months for us to get our material to what we call the domicile; that is, the warehouse in the country where we are doing business. The European market on any product might drop within two or three weeks after the vessel sailed, and when those goods arrived there they would be worth less money. It occasionally happens that the reverse takes place, and they are worth more money, but it is a hazardous business."

The advantages of branch houses abroad may be stated as follows:

1. They act as service stations, providing repair parts, etc., for machines and mechanical equipment. With the increase of technical goods as exports, the importance of branch houses for this purpose is very evident. American manufacturers who export automobiles, harvesting equipment, and machines of all types may be expected, more than any class of exporters, to establish foreign branches.

The necessity of providing for spare parts and repairing in certain lines of exports is emphasized in the government report on "Argentine Market for Motor Vehicles." (*Miscellaneous Series No.* 62. Bureau of Foreign and Domestic Commerce).

Repairs and spare parts.—Argentina is a 21-day boat trip from New York. If an automobile buyer cannot obtain spare parts from a stock on hand, he may have to wait several weeks or months. It is evident that the matter of spare parts is a serious problem in an agricultural country like Argentina. No American automobile exporter could hope to hold the market unless at Buenos Aires, or some other center, he is prepared to establish branch offices, service stations, or other facilities for keeping in repair the machines he has sold.

The garages at Buenos Aires are qualified to handle repairs of all kinds, being equipped with high class machines, and modern machinery. The mechanics are, for the most part, Europeans—Spanish, French or Germans. It has been charged that these mechanics are more skilled in handling machines from their own countries, and in some cases there seems to be ground for the charge. For example, the American electric starting and lighting system is a matter with which foreign mechanics may not be familiar. However, in general, branch offices are not so necessary for purposes of repair, as in supplying the spare parts.

2. **Publicity value.**—Branch houses, established abroad, may be regarded as having a certain publicity value. Aside from the fact that the mere location in a foreign city may serve as a sort of advertisement, they may be of great aid to salesmen in furnishing display windows or demonstration rooms.

3. **Open markets.**—Branch houses may be especially serviceable in creating markets in those localities where otherwise goods might not be ordered from the American manufacturer. This might be due to the indifference of the local importers, who may not care to go to the trouble of bringing the goods from America.

4. **Service.**—Branch houses, equipped with complete lines, may be able to offer quicker service to local merchants and customers than would be possible if they depended on wholesale importers.

5. **Supply supplementary parts.**—Branch houses may make it possible for local buyers, not only to purchase the product of the American manufacturer, but also to obtain supplementary products. There are some goods which sell other goods. Automobiles, for example, sell oil and gasoline. For the accommodation of foreign buyers, the branch house might keep a stock of supplementary goods.

6. In the case of machines, which have to be first set up after the parts reach the foreign market, and then

demonstrated before they are sold, the branch house functions best in meeting a practical need.

Combination branch houses.—Where it would not be advisable for one manufacturer to establish foreign branches, because of the small volume of his sales, it is possible to establish combination branch houses, in conjunction with other exporters to the same market.

Discussing such a scheme for marketing hardware in France, a recent government publication (Markets for American Hardware in France, *Miscellaneous Series No.* 49) points out the feasibility of combination branches abroad:

"It is suggested that it might be a good plan for American hardware manufacturers to combine to open a branch house in France. For example, lockmakers, toolmakers, plumbing suppliers, etc., are often specialists in the United States. Suppose 10 such noncompeting concerns combine to open a branch house in Paris. Let it be known as a distinctly American institution, ready and willing to supply absolutely any article wanted, and let it be in charge of a capable resident American agent. Perhaps rent would amount to $10,000, and office and warehouse expense to another $10,000 for the first year. This would be only $2,000 for each of the 10 associated companies, and an absolutely thorough test could be made in regard to the feasibility of their entering France on a favorable basis. Even if the expense for the first year were to amount to $40,000, this would be only $4,000 for each manufacturer, and that sum would quickly be spent if he tried out the market alone and on a much smaller scale. If one concern in the combination found out after one or two years that its particular line would not be an overwhelming success, it could easily retire in favor of some other manufacturer new to the "combine" or in favor of some one or all as of the remaining nine. It would be best to operate in France as a French company, organized under the laws of this country. Most of the houses here that are part of big enterprises in the United States operate as French companies."

Objections to combination branch houses.—The main objection to the idea of the combination branch house seems to be that the American exporter might lose some of the advantages of direct representation. The manager of the warehouse or branch office, taking care of the interests of many firms, might fail to give sufficient attention to any one. Out of this, misunderstanding and suspision are liable to develop.

II

Foreign Agencies.—Besides direct contact through traveling salesmen and branch houses, the American exporter may get in touch with the foreign market through local agents. These agents are of two types; the first is primarily a seller and works on a commission basis; the second is a merchant who buys his goods outright from the American exporter.

Necessity for care in selection.—The choice of these foreign agencies of either type is of great importance. Since through correspondence and handling of products, the agent comes into close touch with the American exporter's trade secrets and policies, the first requirement is that in his dealings with his principal, he act in good faith. Many references are made in consular reports and trade journals to cases of fraud and deception on the part of foreign agencies.

One of the commonest complaints is that once having secured an exclusive agency for American goods, the "agent" will, in the interest of some competitor whom he is also representing, smother the trade possibilities of the American exporter. These trade possibilities may be smothered either by not pushing the American trade, or by deliberately turning over all orders to the favored competitor. Whether due to indifference or deliberate intent the result is much the same.

The turning over of information of a confidential nature to a competitor of the American house is also a practice of which complaint is frequently made.

This situation may be largely prevented by making careful investigation into the responsibility of the agent, or by binding him by contract not to deal in a competitor's goods.

Social standing.—In choosing foreign agents, it is important that they command high social and business standing in the community where they are located. This may result in securing more prestige for the American exporters than any other factor.

Contracts with agents.—In negotiating with foreign agents, contracts are generally drawn up. The items usually included in these contracts comprise the following:

1. The agent is authorized to be the official representative of the American exporter.

2. **Exclusive agencies.**—In most cases the agent is given exclusive control over the sale of products within his territory. This has been found necessary because competing firms in the same locality might import American products, with a small margin of profit. This small

margin of profit would probably tend to discourage pushing sales. The exclusive agency thus concentrates incentive and responsibility.

3. **General agencies.**—The terms of the contract may create "general," as opposed to "exclusive" agencies. In this case the American exporter appoints a general agency over a district, but reserves the right to trade directly with dealers within the district. The general agency will probably manage the advertising, and push sales on its own account, and on all sales made directly between the American exporter and local dealers, it will get a commission. In this way the American exporter gets all the advantages of the exclusive contract, without playing entirely into the hands of the foreign agent.

4. **Rate of commission.**—In making contracts with agents working on a commission basis, the contract, of course, specifies the rate of commission. This often involves an agreement regarding prices which are to be charged.

Prices.—It is obvious that the higher the prices the commission agent can charge, the greater will be his income. Whether he is allowed to earn on the basis of the price fixed by the American exporter, or on the basis of his own price will be determined by the agreement.

5. **Limitation of territory.**—It is necessary for the contract to limit the territory over which the agency has jurisdiction. The boundaries of this territory should be determined by the geographic and transportation area of the general district. An American consul at Honduras points out that although this Republic is only about 375 miles in length, and 125 miles in width, the topography

of the country and the lack of railroad developments divide its territory into three distinct trading districts. Under these conditions it evidently would be advisable to establish three agencies instead of one exclusive agency in Honduras. (Consul John A. Gamon, *Miscellaneous Series* No. 35.)

It has been repeatedly pointed out by consuls and trade experts that it has been a common mistake for American exporters to blanket all of South America as one agency district. One consular report illustrates the fallacy of this policy in a case where Buenos Aires is made the head agency for South America. Barranquilla, which is Colombia's principal port, is about 6,000 nautical miles from Buenos Aires, and between the two there is very little commercial interchange. New York, however, is only 1,800 miles away from Barranquilla, and between these two ports there are regular shipping connections. In spite of this commercial situation, the report states that an important manufacturers' organization in the United States "has an agent for all South America located in Buenos Aires" to whom they are referring matters from the Barranquilla market!

Quoting from this report, we read: "No New York exporter would establish a general agency at Bombay to supply tools and implements and cotton goods to Yokohama, yet the distance from Bombay to Yokohama is probably a little less than that from Barranquilla to Buenos Aires. Moreover, there are regular lines of steamers between Bombay and Yokohama."

"Americans must discriminate between Latin America as a whole and the various Republics composing it. This is an important point in American trade propaganda and should be driven home to every merchant and manufacturer of the United States." (*Miscellaneous Series No.* 35, Bureau of Foreign and Domestic Commerce).

6. The contract may specify that the agent guarantees not to represent any other firm which deals in products which compete with those of the American exporter.

7. Provision for cancellation and renewal of the contract is usually made.

8. The contract may stipulate the minimum amount of sales which the agent must make to retain the agency.

9. A time limit is placed on the duration of the contract.

Advantage of agencies.—The main advantage of the use of foreign agencies in marketing American products is that the agent is presumed to have an intimate knowledge of the credit and mercantile conditions of the market. He may be in a better position to estimate business conditions than a traveling representative, whose time in any one locality is probably limited. Furthermore, in establishing agencies less expense will be involved than in locating branch offices.

Adjustment of disputes.—The commission agent, being the representative of the American exporter, is in a position to adjust disputes over matters of accepting delivery of, or making payment for goods. For this reason an "in case of need" clause on shipping and financing documents directs all complainants, whether carrier, bank or consignee, to present claims to and receive instructions from the agent.

Small shipments.—The presence of an agent, whether he be a commission agent or a merchant in a foreign market makes it possible to consign small parcels under one bill of lading. The shipment is billed to the agent, who makes delivery of the packages to the purchasers.

Defects of agencies.—The most serious defect in marketing through agencies has already been referred to. It is the possibility that for one reason or another, the agent may not be especially anxious to push the sales of the American exporter who is depending entirely on him to develop the market. If the agent handles too many lines to give special attention to any one; if he is interested in promoting certain lines to the exclusion of others, or if his sales organization is inefficient, the American exporter cannot expect satisfactory results. This idea has been emphasized in the study carried on by the Bureau of Foreign and Domestic Commerce in the "Argentine Market for Motor Vehicles," to which reference has been made.

In Buenos Aires, automobile dealers are not exclusive dealers as they are, generally, in the United States. A dealer in Buenos Aires in many cases may be a general merchant selling farm machinery, equipment for mills, factories, etc. Naturally, since the automobile is merely one item in his list of stores, it does not receive the attention it should, either in the matter of store or window display, advertising or highly specialized salesmen. It is easy to understand how sales may be merely accidents, and not the result of a progressive selling policy. (*Miscellaneous Series No.* 62, Bureau of Foreign and Domestic Commerce).

Merchant agents limited by lack of capital.—Foreign agents who buy outright from the American exporter are often limited in the scope of their activities, on account of lack of capital. It was partly for this reason that the International Harvester Company was forced to abandon this method of market development.

The foreign merchant was compelled to limit his purchases of farm machinery to the number he was reasonably sure to sell each season. Otherwise he would have to keep them in stock perhaps for a whole year before he could dispose of them. The merchant, because of his lack of capital, would be forced to sell on a basis of cash or short term credit. This was a special hardship on the small farmer. In many cases the merchants did not have sufficient resources to maintain an efficient staff of trained men who could demonstrate machines, set them up and provide repair service for the benefit of the buyers. The merchants, too, found it to their advantage to sell a few machines at a large profit, rather than expand their sales, which might mean a smaller unit profit. On the whole, the branch office is a better marketing agency than the foreign merchant agent, particularly in selling technical machine products.

Cooperation between agents and traveling representatives.—Probably the best results from foreign agents can be secured by having them work in cooperation with traveling representatives of the American exporter. The traveling representatives' advice should be especially valuable in the selection of agents. They can cooperate with the agents in conducting advertising and selling campaigns. They are in a position to hear complaints from customers and note the success or failure of the agency scheme of developing foreign markets.

CHAPTER XXII

MARKET DEVELOPMENT—INDIRECT METHODS

Indirect methods of market development.—The methods of developing foreign markets which have been described in the two previous chapters are usually classified as direct methods, because the American exporter is reaching his customers through representatives whom he has selected, whether traveling salesmen, branch offices, or selected agents. It remains for us to discuss the indirect methods of foreign market development: the export commission house, the export merchant and manufacturers' export agent.

The indirect methods are employed when the entering of a foreign market is a new venture; where sales are spasmodic; when the volume of business is small; or when the capital necessary for establishing direct sales methods is lacking.

Export commission house.—The export commission house is taken up first, because it is undoubtedly the most important factor in handling our present volume of foreign trade, outside of government orders. No accurate statistics are available to indicate the importance of the commission houses in our overseas commerce, but there is general unanimity of opinion that over 50 per cent of American exports pass through the hands of these agencies of trade.

An examination into the practical functions and operations of the export commission house and the export merchant shows that they overlap. In one transaction, they may work on a commission basis; in another they may be acting as merchants. For our purposes of analysis, however, we will assume a distinction in function and operation between the two.

The extent of this overlapping and duplication of function is illustrated by the statement of Daniel Warren:

"About 25 years ago the forward-looking commission merchants began changing their methods of doing business. In addition to sending travelers abroad, they established branch houses in Cuba, Mexico, the east and west coasts of South America, in South Africa, Australia, China, Japan, etc. This enabled them to study local conditions and European competition, and they gradually changed their way of doing business, so that to-day the commission business forms a very small part of the business of most of the large exporting houses. Nearly all of us still do some commission business, especially for old clients, and there are some houses who continue to do a strictly commission business. In over 90 per cent of its business my company functions as merchant engineer and contractor. We have been in the export and import business for nearly 50 years, during which time we have sold all kinds of general merchandise and machinery abroad, built and equipped railroads, waterworks, sugar mills, paper mills, electric light and power plants, cement and steel factories." (*Miscellaneous Series No.* 81, Bureau of Foreign and Domestic Commerce).

The functions of the export commission house are:

1. To solicit foreign orders.
2. To execute orders.
3. To act as agents for foreign or American firms.

Incidental to performing these functions, the commission house plays the role of banker, transportation agent and packing, insurance, and customs house expert.

Solicit orders.—In soliciting orders, the export commission house may adopt any one or all of the following means:

1. Advertising, through house organs, etc.
2. Appointing agencies abroad to solicit orders.
3. Establishing branch offices.
4. Sending out traveling salesmen.

Execute orders.—Having received orders, it is the business of the commission house to execute them. A foreign client may want to purchase ploughs of a certain grade. As soon as the commission house in New York gets this information, it immediately proceeds to get in touch with American manufacturers or firms dealing in ploughs. The letter which is sent to the manufacturer asks for specific answers to the following questions:

1. What is the lowest export price for ploughs?
2. What is the best cash discount?
3. What is the cost of packing, cases, etc.?
4. At what point is delivery made?
5. When can the order be completed?

With replies received from the various American manufacturers of ploughs, the order is placed by the commission house where the latter feels it is getting the most favorable terms.

In case the commission house is acting as the agent for one manufacturer of ploughs, the order may be placed without sending an inquiry about prices, etc., to other manufacturers.

Commission house as agent.—Acting as agent for certain American firms, the commission house may agree, for a consideration, to give its principal the first chance to fill an order. The agreement between the American manufacturer and the commission house may specify, for example, that all orders for ploughs shall be first submitted to one plough manufacturer for acceptance or refusal; or the agreement may apply only to orders for ploughs which are received from certain markets.

Amount of commission.—The commission house gets its income by collecting a commission on the average of 2½ to 5 per cent. Mr. E. E. Pratt, formerly head of the Bureau of Foreign and Domestic Commerce, commenting on this rate says: "I believe the commissions that the manufacturers pay or are willing to pay to export houses are entirely too low. You can not expect to get a selling service for 2½ or 5 per cent. You gentlemen—particularly those of you who manufacture specialties—know that your selling overhead varies from 15 to 30 per cent. How can you expect to get service in foreign markets for 2½ or 5 per cent?" (*Proceedings of Fourth National Foreign Trade Convention*).

The commission is based on the total amount which the foreign buyer has to pay for his goods. This includes the invoice value of goods, as delivered by the manufacturer. Added to this are all costs which accrue, in the way of freight, insurance, cartage, etc. Because the commission house is acting as the agent of the foreign buyer, the only compensation which it can legitimately claim is this commission. Any discounts, freight concessions, etc., are for, or assumed to be for the benefit of the buyers, and not the agent, which in this case is the commission house.

Advantage of export commission house.—The advantage of the export commission house, from the standpoint of the manufacturer, is that it is a comparatively cheap way of handling foreign business. The overhead expense is assumed by the commission house.

Overhead expense.—Mr. William E. Peck, a New York exporter, has stated that it costs $1,000 to find out whether a line will sell in Great Britain, to say nothing of the expense involved in completing the sales organization, when it is found that there is a demand for the product.

Risk.—From the standpoint of the manufacturer, too, there is the advantage that, as far as financing the shipment is concerned, the sale is a domestic one. The risk, therefore, is a domestic risk. Although the manufacturer may demand cash on delivery, he should be willing to extend credit to the commission house on the time basis for which the commission house has extended credit to the foreign customer.

Details of making shipment.—There is a further advantage, from the point of view of the manufacturer, in dealing with the export commission house. The details of chartering vessel space and making shipment are handled by the commission house. Although the manufacturer is getting the benefit of a widened market, he is relieved of the ordinary routine, in taking care of overseas trade, described in the chapter "Making Shipment."

Agent of the American exporter.—In many cases the manufacturer may not care to handle the details of shipping and financing consignments to foreign markets, even though those orders have come to the manufacturer directly, and not through any commission house. Under such conditions, the shipment may be handed over to the commission house, which is acting, in this case, as the agent of the manufacturer.

This kind of a transaction is described by W. J. Harris, export manager of the Asbestos Protected Metal Company:

"As manager of the export department, I felt that my first duty was to get trial orders. That was the essential point. When the orders came the next important thing was to get the money, and I then went to the export houses who were, speaking generally, doing business in the particular markets from which the orders had come. I said to them, 'Here is an order for $500, or $1,000, or $2,000 worth of my material. Will you finance it? And what will you charge us?' There has never been a case, whether the customer said ship the goods on open account, or on time draft, or sight draft, attached bill of lading, that I have not been able to find an export house that would finance the business for a relatively small amount of money. I then wrote the customer and thanked him for his order, saying that our good friends, Messrs. So-and-so, who were acting as our representatives or something of that sort, would forward his shipment, and that he would receive his goods through them; that, further, our company would pay any charge they made for their services, so that the goods would cost him no more than if he had bought them direct from us, but with the fine point that we would get our money within 10 days, cash in New York." (*Proceedings of the Fourth National Foreign Trade Convention.*)

Advantages from the standpoint of foreign buyers.—Looking at the export commission house through the eyes of the foreign buyer, there are many arguments in its favor. In many markets the commission house is the only agency through which the foreign buyer becomes acquainted with the variety of American products, which become available to him through this means. Even if the foreign buyer were acquainted with the products which he might obtain in the United States, his lack of contact with American manufacturers, his ignorance of the freight, insurance and shipping situation at New York, and his own unknown credit standing would place serious obstacles in the way of importing from this country, if these problems were not taken care of for him by the commission house.

The most conspicuous advantage of the export commission house from the standpoint of the foreign buyer, is the economy secured in placing a variety of orders through one agency, and having the whole consignment shipped in bulk on one bill of lading. This economy is illustrated by W. H. Douglas in the following:

Economy in placing orders.—"The man abroad who is dealing in a general line of goods cannot afford to deal directly with the manufacturer as a rule. The man who will do the most work for the least pay, and who will do it willingly and honestly, is the man who is always going to be busy, and the world will use him. A man sends me an order. Of course, this example could be multiplied a hundred times. He is buying 50 American lines of goods, not once, twice, three times, but four times a month. He is cabling, too—for one-third of all the export business is done by cable. The man who is the cheapest gets the business. And that business is usually done on a basis of 1¼ to 2½ per cent, so keen is the competition. Suppose this man deals also with Germany and England. Then he has 150 lines he is going to buy four times a month. Is that man going to burden himself with writing 150 letters several times a month and checking the prices from 150 manufacturers? Is he willing to put up with the vicissitudes of the business? Is he willing to have 150 drafts drawn on him four or five times a month? Naturally he turns to such houses as mine and others to handle the trade for him, and very rightly, too. If we make 2½ per cent on his order, and it amounts to $5,000, covering 150 lines, we would make $125. Now, when we are making $125 you manufacturers likely are making $1,000. You are doing well and had better let well enough alone on that point.

"Now, what do we do? We have to take that order, to dissect it, and write to 50 different manufacturers—some are not educated to the export trade—some do not know what we want. We have to keep writing to them. We have to see that the goods are properly marked, verify the markings when the goods get to New York, collect the cases, check the bills, make the invoice, and often have them viséd by the consul. We have to see that the weights and measures are right; if not, we pay the price, because we have to pay the penalty. The foreign buyer mulcts us. Then we have to draw the draft, and we must ship all orders promptly, or they will give the business to some of our competitors. Now, we give credit to those men, too. You gentlemen in your wisdom—and I do not question your wisdom—under your trade combinations and your regulations for export business, have done what? You have placed the American trade, except when you do it yourselves, on a cash basis. When you do it yourselves, heaven only knows how long credit you give, because I doubt if you know yourselves!" (*Proceedings of the Second Annual Convention of American Manufacturers' Association,* p. 22).

Handling staples.—Although the foreign buyer looks with favor on the commission house in handling an order, such as is described by Mr. Douglas, it is plain to be seen that the commission house nets its profits not in executing large orders of varied products, but in handling orders for single products, such as staples, etc. In executing an indent of this kind, clerical work is reduced to a minimum.

Banking function.—It should also be said that the export commission house, in granting credit to the foreign buyer, is really performing an important function in promoting foreign trade.

Disadvantages of export commission houses—Buyer's agent.—There are certain disadvantages in dealing with export commission houses, which are always brought out in any discussion of this subject. The first one usually presented is that in theory the commission house in most transactions is the agent of the buyer, and not the agent of the seller. As such, he is not primarily interested in the development or expansion of the American exporter's market. The conclusion from this argument is that the American manufacturer should not depend on the commission house to act as a missionary for his particular products in a foreign market.

Identity of buyer concealed.—A second objection to dealing with the export commission house is that in many cases the identity of the American manufacturer, and that of the foreign buyer, are concealed from each other. The purpose of such secrecy is designed to make it impossible for direct trade relations to develop. When this is the policy of the commission house, it may react against the American manufacturer, because he will not be able to check up on the success or failure of his product in a given market, or "follow up" his sale with proper publicity, salesmen, etc.

In case of exclusive agencies.—Concealing the identity of the buyer or market from the American manufacturer causes complications when the latter has granted exclusive agencies abroad. When this is the situation it would be impossible to deal with a commission house, unless the latter would be willing to disclose information regarding the destination of the consignment.

In spite of the objections, there is no question but that the export commission house is, and will continue to be, a very important factor in reaching and developing foreign markets. In some lines, direct selling will tend to displace the commission house as a selling agency. But there is hardly any more reason to suppose that it will be entirely displaced, than that the middleman in domestic trade will cease to function.

Export merchant.—The export merchant, as the name implies, buys on his own account for the purpose of selling in a foreign market. He is acting as a principal, and not as an agent.

The basis of profit of the export merchant is different from that of the export commission house, inasmuch as the merchant gets the advantage of all discounts, concessions in freight, etc.

Many so-called export merchants are really more bankers than exporters. As bankers they lend money to foreign buyers who place their orders in this country. This has been more especially the development that has taken place in Europe, rather than in the United States.

The problems of the export merchant are discussed by Mr. John F. Fowler, of W. R. Grace & Co., in an article in the *Americas* (Vol. 1, No. 3). From this article, a few phases of the work of the export merchant are selected with the view of emphasizing not only the difficulties of the export merchant, but also, the problems of all who would engage in direct foreign selling. The following are some of the important problems which suggest the exacting duties of the export merchant:

(1) **Vigilance as to prices.**—He must keep a constant watch on the movement of prices of the commodities he buys and sells. This is a matter of vital importance to him because by shrewdly calculating the future trend of prices both in this country and abroad, he makes contracts for sales to his foreign customers.

(2) **Inform customers.**—It is necessary for the export merchant to keep foreign customers informed as to price changes. This is especially the case when a change in prices is likely to attract the attention and especially interest certain foreign buyers. This involves, on the part of the export merchant, an alert policy of keeping in close touch with the manufacturer's price lists, and also with the buying power of his foreign customers.

(3) **Office facilities necessary.**—The export merchant must maintain an office force large enough to handle miscellaneous prospective orders, and he must have such data on hand that he can quickly quote C.I.F. prices.

"The American manufacturer has no idea of the energy spent by the exporter in preparing and supplying thorough information on foreign inquiries which savor of 'prospect'; for the correspondent counts upon getting a careful report including elaborate calculations of cost at his port because his inquiry, which is often scarcely beyond an idle curiosity, can be satisfied gratis. Yet these reports are often of a painstaking technical nature. If there is anything serious in the inquiry and the exporter happens to have erred in under-calculation in his multifarious detail (including the problem of accuracy in ocean charges on doubtful cubic measurements) be assured that he is snapped up and must then work out his problem against an outright loss. Apart from staple goods, such labors prove sterile in fully 75 per cent of the inquiries. Would any lawyer, or doctor, or engineer, or other professional man so gratuitiously contribute his valuable time?"

(4) **Errors are extremely costly.**—In making offers by means of cabling, the possibilities of error are very great. Mr. Fowler points out that cabling is "usually done in hysterical rush; and code words, or economical combinations, are now so intricate that the slightest mutilation in the transmission of a word may readily lead to a misunderstanding costing thousands of dollars. This really serious risk is never an item in the exporter's operating cost, yet it must come in somewhere, all the same, for the misunderstandings will occur. Or there may happen a merely clerical mistake in the hurry of the exporter's office, often an affair of decision with only 30 minutes for reply, yet involving a complicated calculation! When the export merchant intervenes in the business, who pays for it! Why he, of course, since he is the guilty

party. The manufacturer or commodity seller never cares to contemplate this risk of his colleague in the transaction. The manufacturer who enthuses for export business does not hesitate to establish his own special office, perhaps in New York, quite willing to incur expenses of 5 per cent, 10 per cent, or even 15 per cent on this turnover. Yet, illogically, he has misgivings of the export merchant, who not only is frequently the "pioneer" in introducing his goods, but also finances the operation and carries the whole responsibility from time of taking delivery. If the manufacturer were to analyze the facts he might realize that his own fixed expenses to deal directly are far beyond the margins derivable by his natural colleague."

(5) **Specialist in documents.**—It is necessary for the export merchant to be expert in making out and handling the various documents used in financing and making shipments. The drafts on the foreign buyer must be accurately drawn up, and properly negotiated at the bank. Then the matter of marine insurance papers must be attended to. The bill of lading must be made out, and care must be taken that it contains the proper marking, weight, etc. The commercial invoice must be explicit and accurate, to check up with the other documents. The consular invoices must be arranged for. This requires a description of goods in a foreign language, and usually the conversion of weights and measures into the metric system. All this merely suggests that in the matter of documentation, the export merchant must be a specialist.

(6) **Delay is costly.**—Shipping the goods on time, so that there can be no claim for delay, is often a difficult matter. Not only is the problem of having goods leave

port by a certain boat often difficult, but there is the additional matter of having the shipping papers leave by the same boat. When there is some holdup in making out consular papers, for instance, it is easily possible for the shipping papers to be delayed. In this case the foreign buyer will have to wait till they arrive before he can clear them through the custom house.

(7) **Cost data.**—The export merchant must keep accurate data on railroad rates, ocean shipping rates, packing requirements and custom regulations of foreign countries, shipping facilities, and all the minute details of cost, which will make it possible for him to quote prices and ship commodities to the mutual advantage of himself and his customer abroad.

Manufacturers' agents.—In concluding our statement regarding indirect methods of market development, a word should be said regarding manufacturers' agents. These agents represent manufacturers, or exporters, instead of foreign buyers, as in the case of export commission houses. They may undertake to represent several manufacturers in New York. They get in touch with foreign buyers visiting the city, distribute catalogues of their clients, and keep in touch with export commission houses. They represent the manufacturer in taking out papers with the customs house, insurance companies, consular offices and shipping companies, etc. It is important that these agents do not represent competing lines.

Freight forwarders.—Although not classed among the selling agents, the freight forwarder, as a shipping agent should be mentioned at this point. The services of the freight forwarder are often enlisted whether sales are made directly or indirectly. His specialty is in handling the details of making shipment.

The services of the freight forwarder are usually requisitioned when, (1) the inland shipper has no New York agent to make the necessary arrangements with shipping companies for cargo space, etc.; (2) when shipments are of small bulk; (3) when shipments are made to some port to which sailings are not frequent.

When shipments are of small bulk, the freight forwarder holds the consignment till more freight destined to the same port is accumulated. He can then ship the various consignments on one bill of lading, and in this way get the advantage of the lower rates for bulk shipments. At the port of destination, the agent of the freight forwarder, to whom the consignment is billed, receives the bulk shipment, and by instructions contained in the way-bill, knows to whom he should deliver each package. The freight forwarder will send his own bill of lading for each parcel to the consignee, who can, by presenting it to the foreign agent, receive his goods.

The chief difficulty in dealing with the freight forwarder is in the possibilities of delay. In waiting for freight to accumulate till favorable shipping rates are secured, the freight forwarder is naturally acting in his own interest. Unless a definite time limit can be made between the exporter and the freight forwarder, the delay may be unnecessarily great. At least the exporter should keep in constant touch with the situation, and not feel satisfied that by turning over the shipment to the forwarder prompt shipment will take place.

CHAPTER XXIII

COMBINATIONS FOR FOREIGN SELLING

Combinations for export trade.—No discussion of market development at the present time would be complete without an analysis of the problem of selling combinations formed for the purpose of promoting foreign trade. Interest in this phase of foreign trade has been stimulated in the United States by the agitation for the Webb Law, approved April, 1918, by which export combinations are relieved from the limitations of the Sherman Anti-Trust Law of 1890. The report of the Federal Trade Commission on "Cooperation in American Export Trade" (1916) has been especially useful in throwing light on the status of those combinations abroad, with which American exporters are forced to compete.

In making an analysis of this problem of export combinations the whole subject will be discussed from two standpoints; first, the necessity for combinations; second, the provisions of the Webb law authorizing combinations for foreign trade.

Necessity for combinations.—In presenting the case for the necessity of combinations for export trade, the basic argument is the practical economies resulting from such an organization of business.

There is perhaps no better illustration of the economy produced by combinations in developing foreign markets than the evidence of Mr. James A. Farrell of the United States Steel Corporation, presented in the United States District Court of New Jersey:

"Q. From your knowledge of the business and the way it is done, what would you say as to whether or not the different constituent members of the Steel Corporation could altogether have developed such a foreign trade as has been developed by the corporation, if they had remained separate and distinct?"

"A. It would have been utterly impracticable or impossible. We had had an exemplification of that at the Pittsburgh Wire Co., where we were obliged to confine our exports to two or three different products, because of the necessity of having facilities to deal with certain lines of business."

"Q. What has been the percentage of the cost of selling in foreign countries, speaking of the time of the organization of the Products Co., and at the present time?"

"A. At the time of the formation of the United States Steel Products Company it was costing the various subsidiaries that were doing a foreign business between 7 and 11 per cent. In the case of the National Tube Company, it cost them 8½ per cent."

"Q. Does that mean on the face of the sales?"

"A. On the invoice value. At the present time it costs 0.8 of 1 per cent to do our foreign business."

"Q. Has that been a gradual decrease or a sudden one?"

"A. Gradual. In 1905 we started in; it cost us 3 per cent the first year and has been gradually getting smaller up to the present time, until last year, or 1910 or 1911 it costs 0.8 of 1 per cent, and we expect to get it down to one-half of 1 per cent." (*Miscellaneous Series, No.* 81, Bureau of Foreign and Domestic Commerce.)

Production.—The economies relating to foreign trade which combination produces may be summarized as follows:

1. Greater efficiency of production.

(a) Greater tendency toward standardization of products.

(b) Distribution of orders to those mills or plants which can do the work most efficiently.

2. **Transportation.**—Greater efficiency in transportation.

(a) Combinations can own or command better shipping facilities.

(b) There is possible the elimination of cross freights. By this is meant that plants nearest the suitable port of shipment would be asked to furnish the material required to fill the order, in preference to a similar plant not so favorably located.

(c) Reduction in freight and shipping costs, due to bulk shipments can be secured. Referring again to Mr. Farrell's testimony, we find this interesting statement:

Combination orders.—"In the case of a railway in Brazil working under a concession from the Brazilian Government, the concession generally stipulates that all the rails to be used in the construction of the railway must be shipped together. You might ship the rails in one vessel and fail to include the fishplates, and when the fishplates come along they would pay separate duty. Then it is an advantage to the consumers in those countries to get all their materials on one bill of lading. They generally have to pay a tax on the bills of lading, and if they have 20 bills of lading they would pay 20 taxes, whereas if the products were all included on one bill of lading, they would just pay the Government for one bill of lading. That is the reason all that business is brought before the consuls here. Every bill of lading that goes out to a foreign country is viséd by the foreign consul before the goods are cleared."

3. **Administration and selling.**—Greater efficiency in administration and selling.

(a) Duplication of salesmen, agencies, branch offices may be eliminated.

(b) Reduction in quantity and increase in effectiveness in advertising can be produced.

(c) Combination catalogues, etc., will tend to reduce costs.

(d) Stronger capital resources will make it possible to experiment in new marketing enterprises, tie up capital for a longer time and grant more liberal extensions of credit.

(e) The tendency toward direct selling will be stimulated. This is illustrated by further quoting from Mr. Farrell's testimony:

"Q. Why could not a corporation manufacture only a single line of goods, develop their trade, and sell to advantage? Have you any further reasons?"

"A. In the first place, they would not have the selling facilities; a pipe manufacturer could not afford to establish an office in Singapore, or a tin-plate manufacturer could not establish an office in Valparaiso for the purpose of selling a few dozen boxes of tin plates that might be bought there every year. It is the great bulk of the product and the diversity of the product that we are able to offer through these various offices that we are able to do this large business, and the reasons I have stated are the principal reasons why a smaller concern manufacturing one line of goods would be unable to cover the whole world with its sales."

"Q. Take, for instance, the American Steel & Wire Company, as an economic proposition, as a business proposition; will you state whether or not it would have been feasible or possible for the American Steel & Wire Company to maintain agencies in the various countries as stated on Exhibit 39?"

"A. It would have been impossible owing to the cost."

"Q. What would be the fact as to the Carnegie Steel Company in all these countries?"

"A. The same thing would apply to the Carnegie Steel Company, even to a greater extent, because of the character of their product, which is not as widely consumed as wire products and sheet-steel products, and some of these others, except in the case of some coarse products."

Foreign combinations.—Besides the argument of economy, in defense of foreign trade combinations, is the additional argument that this scheme of organization prevails in these countries which are our greatest competitors. If we wish to hold our own against these competitors we must forge the same weapons with which they have gained success. Whatever the foreign situation was before the war, it is certain that the economic tendencies in Europe and Japan since 1914 have hastened the development toward business concentration.

Trade-mark goods.—The advantage of combination export agencies is generally admitted in the case of marketing stable or standardized products. But it is questionable whether it can act as efficiently in handling specialized or trade-mark goods. In the latter case, however, good results have been secured by associations handling trade-mark goods adopting a dominating trade-mark for all goods handled by the organization. Each product, according to this scheme, would retain its own trade-mark, and in this way keep its identity.

Types.—There are two main types of combination in Europe, against which American exporters must compete: (1) combinations of buyers; (2) combinations of sellers. The activity of both of these types is described in the report of the Federal Trade Commission, from which much of the following material is taken.

Combination of buyers.—The advantage of a group of buyers acting as a unit against a group of sellers who are competing against each other is obvious. Collective bargaining on one side can only be met effectively by collective bargaining on the other. The Federal Trade Commission points out that before the war, collective buying was especially noticeable in the following cases:

1. Australian and European lumber buyers.
2. Buyers of cotton seed in Denmark, Germany, Holland.
3. Austrian buyers of raw cotton.
4. British buyers of silver.
5. German buyers of metals (especially copper).

Combinations of sellers.—There are three kinds of selling combines, as illustrated by the development in Germany:

1. Combinations which agree as to selling terms, terms of payment and conditions of sale.

2. Combinations which agree as to fixing prices, either directly, or indirectly, by regulating production.

3. Combinations which centralize all sales agencies, which are controlled by one central office.

Before the war, Germany led in the movement toward combinations both for control of foreign and domestic trade. It is estimated that in 1911 there were at least 600 various kinds of combinations, or cartels in Germany. These cartels regulate especially the sale of dyes, electrical equipment, coal, coke, iron and steel.

The development of combinations in Germany has for many years been the outstanding factor of her economic organization. The following report on this general trend was made to the British Government in 1907:

"Another factor that is considered to have helped the development both of home industries and foreign trade is the great extension in Germany of the principle of association or cooperation among the commercial classes for every kind of mercantile enterprise. The smaller people, who are unable to incur great expense individually, combine for common ends to an extent not known in England. This system is in marked contrast to the characteristic individual efforts of the Englishman in commerce. Both have advantages and disadvantages. But in the present day of keen competition there is a great deal to be said for more extensive cooperation where the individual effort is insufficient for immediate purposes. An instance of this principle is to be found in the remarkably well-organized "export unions" in the German Empire, which have done so much with their extensive organization to further foreign trade in all parts of the world.

The tendency to form industrial combinations had, in late years, a great influence on the development of the country." (*Americas,* Vol. 3, 1.)

France.—In France, combinations were effective in selling glass, iron, steel and silk.

Japan.—The sale of Japanese cotton goods and tea has been placed lately in the hands of syndicates organized for this purpose.

England.—The combinations of England are less developed than those of Germany. However, these play a large part in the sale of coal, machinery, electrical goods, textiles, pottery, tobacco, wall paper, iron and steel.

Sherman Law.—In view of the evident economies resulting from combination and also because of the development of this type of organization in Europe, the need for adjusting American business to large scale marketing methods becomes clear to thoughtful observers. But the existence of the Sherman Anti-Trust Law, declaring illegal all combinations in restrain of trade or competition, has put a barrier in the way of forming combinations which should promote our foreign trade.

Webb Law.—Public opinion was focused on this problem for several years before Congress yielded to the pressure of general sentiment, by enacting the Webb Law, "an act to promote export trade and for other purposes." The main significance of the Webb Law is that it removes the restraint of the Sherman Act from combinations formed to engage in export trade. The regulations and limitations imposed by the Webb

Law are so important that a detailed statement of its provisions is necessary.

The following is a summary of the provisions of the Webb Law:

1. **Provisions of the law.**—Combinations are exempted from the operation of the Sherman Law, on condition that

(a) Such combinations are not in restraint of trade within the United States.

(b) Such combinations are not in restraint of the export trade of a domestic competitor.

(c) Such combination, "either within the United States or anywhere does not enter into any agreement, understanding, or conspiracy, or do any act which artificially or intentionally enhances or depresses prices within the United States of commodities of the class exported by such association or which substantially lessens competition within the United States or otherwise restrains trade therein."

2. **Clayton Law.**—The provisions of the Clayton Anti-Trust Law are set aside to the extent of authorizing the ownership by any corporation of the stock of a corporation organized expressly for the purpose of engaging in export trade. In no case must such ownership result in checking competition within the United States.

3. **Unfair competition.**—With regard to unfair competition against competitors in export trade, the law provides that the same prohibitions shall apply to all export selling as are designated in the Act, creating the Federal Trade Commission, "even though the acts constituting such unfair practices are done without the territorial

jurisdiction of the United States." This provision applies to all export selling, and not merely to selling through combinations.

4. **Data filed with Federal Trade Commission.**—Export combinations are instructed to file the following data with the Federal Trade Commission:

1. The location of its offices or places of business.
2. The names and addresses of all its officers and of all its stockholders or members.
3. If a corporation, a copy of its certificate of articles of incorporation and by-laws.
4. If unincorporated, a copy of its articles or contract of association.

On the first of January, each year, this information is to be brought up to date by the filing of supplementary information.

5. **Violations of the law.**—Whenever the Federal Trade Commission is convinced that the law is being violated, it is authorized to investigate such violations. On the basis of this investigation it may make certain recommendations to the association investigated for the adjustment of its business. On failure to comply with these recommendations, the matter will be placed in the hands of the Attorney-General of the United States.

Combinations formed.—Under the Webb Law, combinations have been formed among exporters of steel, wooden ware, textiles, paper, office equipment, lumber, phosphate, coffee, magnesia, tanning and webbing.

Special points of the Webb Law.—There are several points of special interest, or points of special emphasis, raised by the experience gained from combinations operating under this law. Some of these features are as follows:

1. Combinations cannot be formed under this act for trading with the Philippines, Hawaii, or Porto Rico.

2. Combinations engaged in importing cannot be organized under this act.

3. To get the benefit of the law no association or corporation needs to be formed. Agreements or contracts may be all that is necessary.

4. The prohibition against unfair competition evidently is intended to apply to all our export trade, however or wherever undertaken. It is not clear, however, whether unfair practice "against competitors engaged in export trade" refers only to American competitors or not.

5. The statement of section 5, of the Federal Trade Commission law is that "unfair methods of commerce are hereby declared illegal."

6. The methods of organization, financing and control of combinations formed under this act vary extensively. In some cases, capital is raised by issuing common and preferred stock, voting or non-voting. In some, there is no capital, expenses being defrayed by assessments on the members.

7. Control may be exercised in various way: (1) It may be vested in a voting trust. (2) Each stockholder may be entitled to only one vote, or to as many votes as he has shares. (3) Voting power may rest only in a given number of shares of no par value which may or

may not be non-dividend paying. (4) Stock ownership may vary with volume of business.

8. Under articles of agreement of associations, the power of the central association may include some of the following rights:

1. Right to buy a certain per cent of each member's output.
2. Right to buy at a certain price.
3. Right to act as a broker soliciting foreign orders, which the member may or may not bid on or reject as he chooses.
4. Right to allot orders on a ratio agreed upon.

In some cases, the combination is a principal, buying and selling on its own account; in others, it is an agent, merely acting for the members.

The extent of power and control which corporations organized under the Webb Law may secure is illustrated by the main charter provisions of the Consolidated Steel Corporation organized under the laws of Delaware: By this charter the Consolidated Steel Corporation is empowered

1. To buy or sell for its own account merchandise of every kind and nature for exportation.
2. To export merchandise for account of others.
3. To charter, lease and acquire vessels as principal or agent.
4. To engage in construction in any foreign country of any structure or article made entirely or partly of any article exported by this corporation.
5. To appoint agents in all parts of the world.
6. To purchase and invest in stock, bonds and securi-

ties of any corporation.

7. To aid by loans, subsidy, or guaranty, any corporation whose securities are held, and to do anything whatsoever to increase the value of such securities.

8. To acquire good will, rights, property and franchise of any person, firm, or association.

8. To borrow money and issue bonds and debentures.

10. To have one or more offices to carry on business, and without restriction or limit as to amount, to purchase or otherwise to acquire, hold, own, mortgage, sell, convey or otherwise dispose of real and personal property of every class and description in any of the states, districts and colonies of the United States and any and all foreign countries.

CHAPTER XXIV

THE RELATION BETWEEN THE GOVERNMENT AND FOREIGN COMMERCE

Activity of United States Government.—The Federal Government at Washington, operating through its various departments, is an important factor in developing the foreign trade of the United States. By means of its facilities for furnishing information, carrying on research, adjusting the tariff, negotiating commercial treaties, providing for American representation abroad, and regulating shipping, the general policy of the government is far-reaching in its effects on our foreign trade. The object of this chapter is to sketch the most important phases of this relation between the Federal Government and our international trade problems.

I

Department of Commerce.—Foremost among the governmental agencies which are directly interested in our foreign trade is the Department of Commerce. Created in 1903 as the Department of Commerce and Labor, its purpose, as then stated, was "to foster, promote, and develop the foreign and domestic commerce, the mining, manufacturing, shipping and fishing industries, the labor interests and the transportation facilities of the United States." In 1913, a separate Department of Commerce was created. In this department, the following bureaus function in carrying out its purpose: the Bureau of Foreign and Domestic Commerce, Bureau of Standards, Bureau of Census, Bureau of Fisheries, Lighthouse Bureau, Coast and Geodetic Survey, Bureau of Steamboat Inspection, and the Bureau of Navigation.

Bureau of Foreign and Domestic Commerce.—Of these bureaus, the one of chief importance to the student of foreign trade is the Bureau of Foreign and Domestic Commerce. The scope of its activity and the practical service it offers to American business men who are interested in foreign trade can probably best be indicated by examining the contents of the annual report of the Chief of the Bureau, dated October 15, 1918. The extent of the work of the Bureau, as indicated in this report is especially significant, when it is realized that the work of this department as well as of other branches of the Government, was to a large extent at that time concentrated on war activity. In spite of this diversion of its energy, the Bureau of Foreign and Domestic Commerce kept in mind a constructive plan for the future development of our overseas commerce. From this report it is possible to form an estimate of the varied activities carried on by the Bureau.

1. **Statistics.**—The official statistics of foreign trade, including the following, are published by the Bureau:

(1) Statistics of imports and exports of the United States.

(2) Statistics of the movement of gold.

(3) Statistics of trade volume by groups, such as (a) crude material for manufacturing, (b) crude food, (c) manufactured food, (d) manufactured goods for further manufacture, (e) manufactured goods for consumption, (f) miscellaneous.

(4) Statistics by geographical grand divisions or continents: Europe, North America, South America, Asia, Oceania, Africa.

Value of statistics.—The Bureau has suggested the practical value of these statistics, as follows:

"In order that you may know whether your foreign sales organization is getting its proper share of export trade you can get export statistics of the United States which will indicate to what extent your product is already being shipped by the United States to foreign countries.

"Likewise, import statistics of the United States which will show you the sources from which raw materials can be obtained. If one of your sources is shut off, these statistics will enable you to locate another source of supply.

"At this time, the export and import statistics of foreign countries are deserving of particular attention. The export and import figures with reference to materials are to-day undoubtedly of much more real importance than export and import figures with reference to manufactured goods ready for consumption.

"Foreign import figures will continue to be of great assistance in gauging foreign markets, in spite of the fact that reconstruction needs and other changes incidental to the war make the extent of the foreign markets to-day less a question of foreign trade statistics than previously. The Bureau of Foreign and Domestic Commerce does not publish regularly the export and import statistics of foreign countries, with the exception of those contained in the annual reports of our consuls. But the Bureau has them on file and will gladly answer any inquiry relating to them which does not involve extensive original compilation."

2. **Special reports.**—Special reports were prepared

during the year, by the Bureau on the following topics of general interest:

(1) German Trade Organization.

(2) German Trade and the War.

(3) Regulation of Trade Marks.

(4) Platinum situation.

(5) The Linen Industry.

(6) Tin Imports.

(7) Furniture Imports of Foreign Countries.

(8) Spanish-English Pamphlet on Accepted American Standards for Portland Cement. (Prepared by the Bureau in cooperation with the *American Society for Testing Materials, American Society of Civil Engineers, Bureau of Standards, Office of Public Roads.*)

3. **Investigations into moving pictures.**—Investigation was made by the Bureau into the possibilities of the use of motion pictures for the purpose of advertising American products in foreign countries.

4. **Education for foreign trade.**—The Bureau has been interested in analyzing and offering constructive programs regarding special education for foreign trade. In this work it has cooperated with the Bureau of Education of the Department of the Interior, the Federal Board of Vocational Education, National Foreign Trade Council, Chamber of Commerce of the United States, American Manufacturers' Export Association, National Association of Manufacturers, Philadelphia Commercial Museum, and various Chambers of Commerce through the United States.

5. **Commercial attachés.**—The Bureau has charge of the direction of the work of the commercial attachés.

In regard to the work of the commercial attaché as distinguished from the function of the commercial agent, and local consul, the *General Consular Instructions* No. 397, Apr. 5, 1915, issued by the Department of State, makes the following explanation:

Functions of the commercial attaché.—"The Secretary of Commerce in his latest annual report has appropriately distinguished between the various classes of offices engaged in the promotion of trade abroad by describing the commercial attaché as an officer whose duty it is to maintain a general outlook over trade in the country within which he is stationed; the consul general or consul as an officer with a fixed post and charged with the duty of maintaining a local outlook over the trade of the consular district; and the commercial agent as a traveling officer with a single subject or group of subjects for investigation, and who is not restricted in his studies to any one country. It will then be seen that the officers of each class have their special field, and it is believed that they should be able to find therein full opportunity for the employment of their activities."

The commercial attaché is appointed by the Secretary of Commerce, and accredited by the Department of State. He is, therefore, a commercial expert with diplomatic standing in the country to which he is sent. His functions are to investigate and report all matters of industrial, financial, and commercial importance which may be of interest to American business men. Besides being an investigator, the attaché is useful in settling commercial disputes, promoting American trade, and creating the element of "good will" for American products in general.

6. **Commercial agents.**—Besides directing the work of the commercial attaché, the Bureau has control of the commercial agents. These agents, as suggested by the Consular instructions noted above, are specialists in particular lines of trade. Their function is that of the investigator rather than the trade promoter. The report of 1918 refers to twenty-six investigations which have been carried on by the commercial agents. Among these are reports on the markets for agricultural implements, cotton goods, electrical goods, hardware, motor vehicles, paper, paper products, printing machinery, shoes and leather, textiles and rubber. Investigations into port facilities and investment opportunities should also be included in the list of contributions made by the commercial agents.

7. **District branches.**—The Bureau maintains district offices in a few selected cities of the country, and cooperative offices in connection with various Chambers of Commerce. The branch offices are designed to assist the Bureau in circulating trade information, conducting conferences and stimulating education along the lines of commerce. The district offices on the seaboard were especially useful during the war in handling the issuance of export licenses. The New York district office maintains an exhibit, showing samples of the products with which American exporters have to compete abroad.

The following is the list of the district and cooperative offices established at the present time:

DISTRICT OFFICES

New York: 734 Custom House.
Boston: 1801 Custom House.

Chicago: 504 Federal Building.
St. Louis: 402 Third National Bank Building.
New Orleans: 1020 Hibernia Bank Building.
San Francisco: 307 Custom House.
Seattle: 848 Henry Building.

CO-OPERATIVE OFFICES

Cleveland: Chamber of Commerce.
Cincinnati: Chamber of Commerce.
Cincinnati: General Freight Agent, Southern Railway, 96 Ingalls Building.
Los Angeles: Chamber of Commerce.
Philadelphia: Chamber of Commerce.
Portland: Oregon Chamber of Commerce.
Dayton: Dayton Chamber of Commerce.
Pittsburgh: Chamber of Commerce.
Baltimore: Export and Import Board of Trade.

8. **Special divisions.**—The Bureau has separate divisions to provide special information on trade conditions of Latin America, the Far East and Russia. As an example of the work of these divisions, the Latin American Division has compiled bibliographies of trade which should be valuable to American importers and exporters dealing with South America. It has, for example, made an intensive study of the Brazilian market for railroad supplies and construction equipment. It has gathered opinions and suggestions regarding improved cable service. A file of names, institutions, etc., which may be of service in promoting trade connections is maintained.

9. **Foreign tariffs division.**—A Division of Foreign tariffs has been organized by the Bureau, the function of which is to supply data on all foreign customs regulations. The importance of this information is presented in a statement issued by the Bureau:

Importance of knowing foreign tariffs.—"By applying to the Bureau you can get tariff rates in force in foreign countries, which, in conjunction with freight rates, will enable you to determine the price at which your goods can be sold. It is particularly essential to know this if you are competing with a native product, or if you are shipping to countries that give preferential rates of duty to the goods of other countries. It is also important that you know the basis on which duties are levied, since tariff rates have a direct and vital bearing upon problems of packing and shipping. In some countries, if several articles are packed in one container, the entire shipment will carry the highest rate that applies to any one article in the lot. In other countries the duties are levied on the gross weight, and it is important to make the packing as light as is consistent with safe transit. In still other countries duties are levied on the net weight, which includes the article itself and the immediate container in which it is placed, but not the weight of the outside case or crates.

"In writing for information in regard to foreign rates of duty, it is necessary to give a detailed description of the article involved and to specify the particular country or countries for which tariff information is desired. It is advisable to confine inquiries to information needed immediately rather than to ask for comprehensive statements for future reference, which may be out of date by the time they are used.

"You can obtain information regarding license fees for commercial travelers and customs treatment of their samples. These topics should be carefully considered if you contemplate sending a traveling representative to foreign countries."

10. **Publications.**—There are separate divisions of research, statistics and trade information in the Bureau. The division of trade information publishes the data received from its representatives, and makes it available to business men daily. Among the best known of the publications are daily reports which are based very largely on data received by the State Department from American consuls abroad. One of the valuable features of the Commerce Reports, is the list of foreign trade opportunities, with the reserved addresses which may be had for the asking. Below is given a typical list, taken from the *Report of November* 10, 1919:

Foreign trade opportunities—"Reserved addresses may be obtained from the Bureau and its District and Cooperative Offices upon written request by Opportunity Number. The Bureau does not furnish credit ratings or assume responsibility as to the standing of foreign inquiries; the usual precautions should be taken in all cases.

Agricultural implements...31232
Aluminum goods 31234
Boats 31237
Boots and shoes 31231, 31323
Brushes 31240
Chocolate 31238
Clothing 31239
Drugs 31235, 31240
Furniture 31231
Foodstuffs...31231, 21232, 31239
Hardware 31234
Hosiery 31231
Household supplies 31232
Iron siding and roofing...31239
Knit goods 31239
Leather and leather goods 31231, 31234
Machinery 31240
Office supplies and furniture 31232, 31235
Oils and greases 31232
Paper 31233
Perfumery 31240
Pharmaceutical products ..31235
Plumbing supplies 31232
Radiators 31232
Rubber goods 31231
Soaps 31240
Stoves 31232
Textiles 31231, 31239
Tools 312334, 31240
Varnish 31240
Water heaters 31232

"31231.—The representative of a firm in France desires to secure an agency for the sale of raw and tanned material, manufactured leather goods, boots and shoes, foodstuffs, textiles, rubber goods, furniture, and hosiery. References.

"31232.—An American who has been a traveling salesman in Europe for several years is in the United States and desires to secure an agency for the sale in central European countries of stoves, radiators, instantaneous gas water heaters, bathroom and plumbing supplies, office furniture, boots and shoes, household goods, and furnishings, oils and greases, agricultural implements, and foodstuffs. He is prepared to purchase cheese, condensed milk, meat extract, and canned meats. References.

"31233.—A company in Egypt desires to secure an agency for the sale of cardboards and paper of all kinds. Quotations should be given c. i. f. Egyptian port. References.

"31235.—A manufacturers' representative in Spain deires to secure an agency for the sale of hardware, drugs, pharmaceutical products, and office supplies. Correspondence should be in Spanish. References.

"31236.—A resident missionary in the Dominican Republic desires to receive tenders for the iron framework and sheet-iron sides and roof of a new church. The building is to be one story, 12 feet to eaves, moderate pitch, entrance to be in front with small covered porch made of metal, uncovered entrances on both sides, and ample space for windows. Specifications and quotations f. o. b. New York, or c. i. f. destination, should be submitted. Payment, cash upon delivery. References.

"31237.—The president of a French steamship company in England desires to receive quotations for one small steamer, 250 tons dead weight, and one small motor boat of 250 tons dead weight."

The 1918 report points out that the Bureau had received about 135,000 inquiries prompted by these lists of "opportunities."

Regarding the consular reports and other publications, the Bureau says:

"The Bureau of Foreign and Domestic Commerce is concerned chiefly with the collection and dissemination of information relating to foreign markets for American goods, and it has unrivaled facilities for rendering such service.

"The bulk of the information is obtained from three sources, namely, the Consular Service, which includes nearly 300 Consuls and many consular agents; the traveling Special Agents, who study special industries in certain specified countries; and the Commercial Attachés, who are stationed in the principal countries and give all their time to commercial investigations. In addition, the statistics of American trade with foreign countries are collected at American custom houses in cooperation with the Treasury Department."

Information from all these sources is forwarded to Washington and is distributed chiefly through the Bureau's publications, which may be classified as regular, or periodical publications and as special bulletins, or monographs.

The special publications of the Bureau are divided into four groups: (1) *Special Series,* which comprises monographs on special industries and special phases of commerce, prepared by Special Agents; (2) *Special Consular Reports;* (3) *Foreign Tariff Series;* and (4) *Miscellaneous Series.*

II

Department of State.—The Department of state directly touches the foreign commerce of the United States by the negotiation of treaties, by the control of the consular service, and by directing the work of the Foreign Trade Advisers.

Making commercial treaties.—The Constitution provides that the President "shall have power by and with the advice and consent of the Senate, to make treaties, provided two thirds of the Senators present shall concur." The Department of State is the channel through which the President acts in formulating compacts with other countries.

Types of commercial treaties.—There are two types of commercial treaties: general and special. The former provides in a general way for "amity, commerce and navigation"; the latter attempts to regulate such things as maximum, minimum and preferential tariffs; reciprocity; the right of citizens of each nation to carry on business with either country; license taxes of commercial travelers; the right of navigation on rivers, canals, etc.; arbitration over commercial disputes, etc.

Most favored nation clause.—In the study of commercial treaties, the two most common matters of discussion are on the meaning of "the most favored nation" clause, and the character of reciprocity which is granted. It is important to notice that the European and American interpretations of "the most favored nation" clause are not the same. The generally accepted European interpretation is that when two nations make a treaty with each other, containing "the most favored nation" clause, they agree to grant to each other as favorable treatment as is extended to any third nation.

European view.—Thus, in the famous Cobden Treaty of 1860, between England and France, each nation "promises to grant to the other every favor, every privilege or reduction in import duties of the articles mentioned in the present treaty, which one of them shall accord to the third power."

The American view of the "most favored nation" clause is not quite the same as the European interpretation. From the American standpoint, the European interpretation holds if the favor granted by the United States to a third nation is gratuitous. If, on the other hand, the favor is granted in return for some concession, on the part of the third nation, nations which have the "most favored nation" clause will not get as favorable treatment as the third nation till they grant the same concession.

As an example, let us assume that the United States has a "most favored nation" clause with country A. At the same time, she makes commercial treaties with countries B. and C. With country B. the United States agrees to allow her cotton goods to enter our ports without paying any duty. B. in return grants no special concession to the United States. In this case, the United States would have to allow cotton goods from A. to enter the United States without paying any duty. This is an example of a gratuitous concession on the part of the United States.

In the treaty with country C. the United States agrees to admit her wheat into this country free of duty, on condition that she admit American steel rails free of duty into her ports. In this case the United States would have to allow wheat from country A. to enter American ports free of duty, only if country A. admits American steel free of duty.

Reciprocity treaties.—The basis of commercial reciprocity is mutual concession. The history of the commercial treaties of the United States shows that many forms of reciprocity have been attempted. Dr. G. M. Fisk points out that there have been eight distinct phases of reciprocity from 1785 to 1903. These are as follows:

1. **1785.**—General reciprocity. This is illustrated by the treaty with Prussia in 1785, which provided for "the most perfect equality and reciprocity for the basis of their agreement."

2. **1815.**—Tonnage reciprocity. In the treaty of 1815 with England it was agreed that the same duties would be levied on vessels entering the ports of either nation.

3. **1830.**—Tonnage reciprocity in West Indian trade. The treaty with England of 1815 applied only to direct trade with British possessions in Europe. In 1830, this principle was extended to apply to West Indian trade.

4. **1854.**—Reciprocity in customs duty. This phase is illustrated by the reciprocity treaties with Canada of 1854 (repealed in 1866), with Hawaii in 1876 and with Cuba in 1903.

5. **1886.**—Tonnage reciprocity. The law of 1886 reestablished reciprocity in tonnage duties which was rescinded during the Civil War.

6. **1890.**—Specified items subject to reciprocity. This principle was adopted as a result of the McKinley Tariff of 1890. By this law certain goods which were on the free list, such as hides, coffee, tea, were to be made to pay a duty, if in the judgment of the President, the countries exporting these products to the United States levy duties which he "may deem to be reciprocally unjust or unreasonable." The evident aim of this legislation was to gain certain concessions from South America and the Far East. Under this Act penal tariffs were imposed on Colombia, Venezuela and Haiti.

7. **1897.**—The tariff of 1897 authorized the President to offer lower rates than those listed in the general tariff on crude tartar, brandies, champagnes, wines, paintings and statuary. This was aimed to conciliate France, which would feel the effect of our higher rates on silk.

8. The tariff act of 1897 further provided that the President was empowered to make reciprocity treaties with other nations, with the approval of Congress in each case. Senate opposition was effective enough to prevent ratification of any of the treaties negotiated under this Act. (Fisk: *International Commercial Policies,* Chapter 12.)

A penalty tariff, similar in purpose to that of the law of 1890, was a feature of the Dingley tariff of 1897.

1903.—Since 1897, the most important arrangement regarding reciprocity is the treaty of 1903 with Cuba, providing a preferential tariff of 20 per cent on the products of either country, with the added provision that neither country shall extend similar reductions to others.

1906.—Since 1906, by legislation rather than by diplomatic arrangement between Brazil and the United States, Brazil grants preferential treatment to certain American products, notably flour, in return for American concession on coffee.

1909.—The law of 1909 established the principle of "bargaining tariff," in the form of maximum and minimum rates, in order to compel favorable treatment of American products abroad.

1913.—The Underwood tariff of 1913 authorized the President, with the consent of Congress, to negotiate reciprocity treaties.

This sketch of commercial treaties and tariff legislation suggests the work of the State Department in taking up with foreign governments the many changes in our national policy which affect international commerce. The investigations of the Tariff Commission into the subject of commercial treaties, as referred to elsewhere, have brought together valuable material which explains the economic background of this whole problem. The conclusion of the Commission regarding American policy for the future is significant:

Principle of equality of treatment.—"A great gain would be secured, now that the United States is committed to wide participation in world politics, if a clear and simple policy could be adopted and followed. The guiding principle might well be that of equality of treatment—a principle in accord with American ideals of the past and of the present. Equality of treatment should mean that the United States treat all countries on the same terms, and in turn require equal treatment from every other country. So far as concerns general industrial policy and general tariff legislation, each country—the United States as well as others—should be left free to enact such measures as it deems expedient for its own welfare. But the measures adopted, whatever they be, should be carried out with the same terms and the same treatment for all nations. It can not be too much emphasized that any policy adopted by the United States should have for its object, on the one hand, the prevention of discrimination and the securing of equality of treatment for American commerce and for American citizens, and, on the other hand, the frank offer of the same equality of treatment to all countries that reciprocate in the same spirit and to the same effect. The United States should ask no special favors and should grant no penalties, not for the purpose of securing discrimination in its favor, but to prevent discrimination to its disadvantage."

Consular service.—Besides negotiating commercial treaties, the Department of State has charge of the important work of the consular service. The function of the consular service, in a general way, is to protect the interests of the United States Government and to foster and safeguard American trade in foreign countries. It is, of course, this latter function which is of special interest to students of commerce.

Different from diplomatic service.—It may be worth noticing that the members of the consular service do not have the same type of work as the personnel of the diplomatic service. The distinctions between these two branches are: (1) The diplomatic service deals with the central government, while the consuls come in contact with local authorities; (2) the jurisdiction of the diplomatic officer is the whole nation to which he is assigned; the consul, on the other hand, is limited in his activities to the territory of his consular district.

The duties of American consuls which affect our shipping and foreign trade interests are described as follows by the Department of State:

I. With regard to regulations affecting shipping these duties are:

1. To protect American trade rights in foreign countries, as these rights are prescribed by existing treaties, or the general usages of trade.

2. To ship, discharge and under certain conditions, maintain and send American seamen to the United States.

3. To settle disputes between masters and seamen of American vessels.

4. To investigate charges of mutiny and insubordination on the high seas and send mutineers to the United States.

5. To render assistance in case of wrecked or stranded vessels and in the absence of the master or other qualified person, take charge of the wrecks if permitted to do so by the laws of the country.

6. To receive papers of American vessels arriving at foreign ports and deliver them after the discharge of the obligation of the vessels toward the members of their crew, and upon the production of clearance from the proper foreign port officials.

7. To issue to the vessels clearing for the United States, bills of health describing the conditions of the ports, vessels, crews, passengers, and cargoes.

8. In case of consuls appointed to China, Turkey, Siam and Morocco, there are added duties of a judicial nature, involving trial of civil cases to which American citizens are parties.

II. Consular duties more directly affecting trade are:

1. Answering inquiries from American firms, regarding the possibilities of market development.

2. Reporting to the State Department opportunities for American products. These reports are turned over by the State Department to the Bureau of Foreign and Domestic Commerce, which issues them as Daily Commerce Reports.

3. When the value of shipments to the United States amounts to more than $100, the correctness of the valuation must be certified to by the Consul.

4. When goods are shipped abroad from the United States on which a refund of duty or taxes is due, the landing of these goods abroad must be certified to by the American Consul.

5. The Consul may keep on file catalogues, trade papers and general literature which may serve to introduce American goods abroad.

There are several classes of consuls and consular officers, depending on the character of the work and the importance of the district they represent. The various classes, together with the salary attached to each is as follows:

Classified Service

Consuls General at Large (with traveling and subsistence expenses)	$ 5,000
Consuls General, Class I	12,000

Consuls General, Class II	8,000
Consuls General, Class III	6,000
Consuls General, Class IV	5,500
Consuls, Class I	8,000
Consuls, Class II	6,000
Consuls, Class III	5,000
Consuls, Class IV	4,500
Consuls, Class V	4,000
Consuls, Class VI	3,500
Consuls, Class VII	3,000
Vice Consuls de carrière, Class I	3,000
Vice Consuls de carrière, Class II	2,750
Vice Consuls de carrière, Class III	2,500
Interpreters, senior	3,000
Interpreters, junior	2,500
Consular assistants, fourth year	2,000
Consular assistants, third year	1,800
Consular assistants, second year	1,650
Consular assistants, first year	1,500
Student interpreters (also provided with tuition and quarters)	1,500

Unclassified Service

Vice Consuls not of career: Compensation at the rate of one-half of the salary of the principal officer during his absence. These Vice Consuls at the same time may also hold the position of clerk and receive compensation for their services in that capacity.

Consular Agents: Compensation provided by one-half of the fees collected, not to exceed a maximum of $1,000 per annum.

Clerks: $500 to $2,500 per annum, according to responsibilities and locations. Clerks may also hold appointments as Vice Consul (not of career) and receive additional compensation when in charge of the Consulate General or Consulate during the absence of the principal officer.

Consuls General at Large.—The Consuls General at Large, of whom there are seven, are appointed by the President with the approval of the Senate, for the purpose of making general inspections of the consular offices.

Consuls General and Consuls.—Consuls General and Consuls are assigned to have charge of consulates as principal officers. The law provides that twenty-five Consuls of class 3, 4 and 5 are to act as assistants to Consuls General who may be engaged in work involving economic investigations.

Vice Consuls.—Vice Consuls are substitute officers who take charge of a Consulate in the absence of the principal Consul or Consul General. There are two types, Vice Consul de carrière, and Vice Consuls not of career. The latter receive as compensation one half the salary of the principal officer in charge of the post. This salary is paid only in the interval while the principal officer is absent.

Consular Assistants.—Forty Consular Assistants, appointed by the President for good behavior, are assigned to posts by the Secretary of State and perform such duties as he may designate.

Student interpreters are appointed to Japan, Turkey and China.

Interpreters.—These interpreters are appointed with the view of having them become familiar with the language, so that they will be eligible for promotion to the higher ranks of consular service in the country where they are located. Interpreters must agree at the time of their appointment to serve the government for five years, if their services for that length of time are desired.

A Consular Agent is located at some point at which there is no regular Consul or Consul General, to both of whom the agent is subordinate. He may be a local business man handling the consular work in addition to his regular vocation.

Appointments.—Regarding the appointment of consular offices, the law provides that Student Interpreters, Consular Assistants, Vice Consuls de Carrière, and Consuls in class 6 and 7 are required to pass an examination before they are eligible for the office. Officials and clerks of lower rank may be appointed to positions in the consular service, but promotion will be impossible unless they pass the prescribed examinations.

Vacancies in the grades above class 6 are filled, in general, by promotion from the lower consular grades. However, in the case of appointment of Consuls of classes 3, 4 and 5 whose function it is to act as investigators in economic research, selection may be made "from among candidates who have successfully passed an examination equivalent in character to that prescribed by the Civil Service for Economist, in addition to the usual oral examination for the consular service." Promotion of men appointed in this manner cannot take place until they have completed satisfactorily four years' work in charge of Consulates of class 3, 4 or 5.

All persons in the Department of State with salaries of $2,000 or upwards per year are eligible to any grade above class 3 of Vice Consuls.

Examinations.—Reference has been made to examinations for the consular service. Those eligible to take these examinations must apply to the Secretary of State, who will notify the candidates who have been chosen to take these examinations. Washington is the only place where these qualifying examinations are held.

According to the executive order issued by Mr. Roosevelt, "the scope and method of the examinations shall be determined by the Board of Examiners, but among the subjects shall be included at least one modern language other than English; the natural, industrial, and commercial resources and the commerce of the United States, especially with reference to the possibilities of increasing and extending the trade of the United States with foreign countries; political economy; elements of international, commercial, and maritime law."

It is especially interesting to notice that in case of the appointment of a Consul to a country like China, in which the United States exercises extra-territorial jurisdiction, the examination must include the principles of common law, the rules of evidence ,and the trial of civil and criminal cases.

The following general rules have been laid down by the Government:

1. "The examinations will be the same for all grades and will be to determine a candidate's eligibility for appointment in the consular service, irrespective of the grade for which he may have been designated for exam-

ination and without regard to any particular office for which he may be selected.

2. "The examinations will consist of an oral and a written one, the two counting equally. The object of the oral examination will be to determine the candidate's business ability, alertness, general contemporary information, and natural fitness for the service, including moral, mental, and physical qualifications, character, address, and general education and good command of English. In this part of the examination the applications previously filed will be given due weight by the Board of Examiners, especially as evidence of the applicant's business experience and ability. The written examination will include those subjects mentioned in the executive order, to wit, at least one modern language other than English, French, German, or Spanish; the natural, industrial, and commercial resources and the commerce of the United States, especially with reference to possibilities of increasing and extending the foreign trade of the United States; political economy; and the elements of international, commercial, and maritime law. It will likewise include American history, government, and institutions; political and commercial geography; arithmetic (as used in commercial statistics, tariff calculations, exchange, accounts, etc.); the modern history, since 1850, of Europe, Latin America, and the Far East, with particular attention to political, commercial, and economic tendencies. In the written examination, composition, grammar, punctuation, spelling, and writing will be given attention.

3. "To become eligible for appointment, except as stu-

dent interpreter, in a country where the United States exercises extra-territorial jurisdiction, the applicant must pass the examination outlined above but supplemented by questions to determine his knowledge of the fundamental principles of common law, the rules of evidence, and the trial of civil and criminal cases.

4. "The examinations to be given candidates for appointment as student interpreters will follow the same course as in the case of other consular officers, provided, however, that no one will be examined for admission to the consular service as a student interpreter who is not between the ages of 19 and 26, inclusive, and unmarried; and, provided further, that upon appointment, each student interpreter shall sign an agreement to continue in the service so long as his services may be required within a period of five years.

5. "Upon the conclusion of the examinations the names of the candidates who shall have attained upon the whole examination an average mark of not less than 80, as required by the executive order, will be certified by the Board to the Secretary of State as eligible for appointment in the Consular Service, and the successful candidates will be informed that this has been done.

6. "The names of candidates will remain on the eligible list for two years, except in the case of such candidates as shall within that period be appointed, or as shall withdraw their names, and of candidates holding subordinate positions in the Consular Service, when eligibility shall not expire until appointment to consular rank or until separation from the service. Candidates whose names have thus been dropped from the eligible list will

not again be eligible for appointment unless upon fresh application, designation anew for examination, and the successful passing of such second examination."

Foreign trade advisers.—Before concluding our discussion of the consular service, mention should be made of the Foreign Trade Advisers, in the Department of State. The office of Foreign Trade Advisers may be said to be the American end of the consular service. It is the function of this Division of the State Department to

1. Supervise the general commercial work of the foreign Consuls.

2. Handle all correspondence of a commercial nature, with consular representatives of the United States abroad.

3. Organize the commercial information it receives so that it may be available when desired.

4. Transmit trade inquiries and commercial data received from consuls to the Bureau of Foreign and Domestic Commerce. From this data, the Bureau of Foreign and Domestic Commerce issues its little daily newspaper, the *Daily Commerce Reports.*

5. Negotiate with foreign governments on matters requiring diplomatic knowledge or action.

Criticism of the efficiency of the foreign trade activity of both the Bureau of Foreign and Domestic Commerce and the Consular Service has been made in recent years by men whose opinions carry weight. The following are the recommendations of a committee, headed by W. W. Nichols of the Allis Chalmers Manufacturing Co., presented to the American Manufacturers Export Association. These opinions are given for what they are worth, not only because they are the expression of a responsible body of American business men, but especially because they embody constructive ideas. Regarding the consular service, the report makes nine suggestions:

"First.—Proper civil service regulations to apply to the entire diplomatic and consular systems, with the single exception of ambassadors and ministers, because they are the personal representatives abroad of the Administration.

"Second.—In order to remove these systems from all partisan political interference a competent central diplomatic staff, consisting of five members, with the Secretary of State as chairman ex-officio, should be created, to hold office during good behavior, removable only by a three-quarter vote of the Senate on the presentation of charges by the President.

"Third.—All appointments within the diplomatic and consular services to be made by this central diplomatic staff under rules to be prescribed.

"Fourth.—The first members of the central diplomatic staff to be appointed by the President, by and with the consent of the Senate, and from the past and present diplomatic service, e.g., ambassadors, ministers, secretaries or assistant secretaries of State. Vacancies caused by death or retirement to be filled by the President as hereafter provided.

"Fifth.—Permanently attached to each embassy or legation will be a first secretary of said embassy or legation, who will act as the first assistant to the ambassador or minister, as the case may be. The tenure of such office may be life or until retirement for age. Appointments to this position to be made only from under-secretaries. First secretaries will be eligible to membership in the central diplomatic staff, and particularly to appointments as ambassadors or ministers.

"Sixth.—Under secretaries (in their order, second secretary, third secretary, etc.), as their name implies, serve as assistants to the first secretary of the embassy or legation. They may be transferred from one post to another at any time by the central diplomatic staff but should be transferred at least once every three years. Under secretarial appointment to be made from consuls or consuls general.

"Seventh.—The consular service to be constituted as at present, except for substantial increases in salaries. In order that consuls may be eligible to appointment to the diplomatic service their opportunities should be considerably enlarged so as to acquaint them with political as well as commercial matters. Consuls to be appointed only from members of the junior service.

"Eighth.—The junior service to be the educational institution for a diplomatic career. The young applicant, who enlists for a period of years, should be required to pass a severe examination in the essentials of international law, history, economics, and politics. He must speak English, French and one other language. In determining his qualifications his health, energy, character and personality shall be considered. Members of the junior service act as private secretaries to ambassadors, ministers, first and under secretaries; or they may be assigned to special work by the central diplomatic staff. Before appointment as consuls, they should spend one year in the State Department, one year in the Department of Commerce, attached to the Bureau of Foreign and Domestic Commerce,and one year in travel from consulate to consulate, primarily to study procedure, subject to the direction of the diplomatic staff and the Department of Commerce.

"Ninth.—In addition to attractive salaries, abundant provision should be made for the living expenses of consuls and diplomats, as a rule the United States should purchase and maintain its own appropriate official residences."

Recommendations regarding the Commerce Bureau follow:

"First.—To the present forces of commercial attachés and trade commissioners there be added a number of high salaried commercial attachés to be stationed at the principal trade centers of the world, to the following extent:

3 at	$12,000	$36,000
4 at	10,000	40,000
5 at	7,500	37,500
10 at	6,000	60,000
		$173,000

"This will permit the employment of men comparable in ability to those similarly employed by private corporations and offer a line of promotion to junior trade commissioners and commercial attachés drawing smaller salaries.

"Second.—Post allowances for all commercial attachés should be materially increased. Such allowances for the above positions should be:

At an annual expenditure of

3	offices	$25,000	$75,000
4	"	15,000	60,000
5	"	10,000	50,000
10	"	5,000	50,000
			$235,000

"This appropriation would provide proper offices abroad with necessary clerical assistance. At present there is practically no such provision for our few commercial attachés and trade commissioners.

"Third.—To make available to American manufacturers trade information gathered abroad, it will be necessary to increase salaries in the Washington administrative office and to enlarge its staff. Editing, interpreting, classifying, printing and distributing trade information is an essential part of the work of the Bureau, and for its proper performance an estimated sum of $91,500 must be added to present appropriations on this account.

"Fourth.—Finally, it must be obvious that similar attention should be given to the selection, education and preliminary training of the personnel of the Bureau of Foreign and Domestic Commerce as your committee has already recommended for the diplomacy and consular services."

III

United States Tariff Commission.—The creation of the United States Tariff Commission by the law of September 8, 1916, was in response to a sentiment that future legislation on the tariff and other commercial matters should be based on information, impartially and scientifically compiled, instead of on the old log-rolling methods of party politics. Students of our tariff-making are pretty generally agreed that in the highly technical matter of making tariff schedules, what is needed emphatically is more "light, less heat." The creation of the commission is a step toward government by experts, and is in line with our policy in dealing with the problems of the railroads, shipping, and banking.

The duties of the Commission, as stated by the law of 1916, are as follows:

1. To investigate the administration of the customs laws of the United States.

2. To investigate the fiscal and industrial effect of the customs laws on this country.

3. To analyze the relation between rates on raw, partly finished and finished products.

4. To investigate the effect of the various methods of levying the tariff, such as "ad valorem and specific duties, and compound specific and ad valorem duties."

5. To study the classification of articles in the various tariff schedules.

6. To investigate the "tariff relations between the United States and foreign countries, commercial treaties, preferential provisions, economic alliances, the effect of export bounties and preferential transportation rates, the volume of importation compared with domestic production and consumption, and conditions, causes, and effects relating to competition of foreign industries with those of the United States, including dumping and cost of production."

7. To keep available for the use of the President, the Ways and Means Committee of the House, and the Finance Committee of the Senate when they request it, all information at the command of the Commission.

8. To make investigations at the request of the President, Ways and Means Committee and Finance Committee.

9. To report to Congress on the first Monday of December of each year on the methods used, scope of reports and investigations and expenses incurred.

An advisory body.—It is clear that the Commission is not an administrative body like the Interstate Commerce Commission, which has rate making power, but is merely an advisory body.

Study of the reports of the Commission.—Probably the best way of understanding the importance of the Tariff Commission, its functions, and the type of investigations carried on, is by studying from its annual reports the things which it has accomplished.

Sixteen days after the organization of the Commission, which took place on April 1, 1917, its first report was submitted to the Ways and Means Committee. This report dealt with the fiscal aspects of what is known as the "interim period." The "interim period" is the time elapsing from the date of the introduction of a tariff measure in the House, till it receives the approval of the President and becomes a law. It is obvious that in anticipation of higher duties and higher internal taxes, an abnormal importation or an abnormal withdrawal of goods from bonded warehouses will develop in the interim period, thus depriving the government of revenue. The most effective method of dealing with this situation, in the opinion of the Commission, is requiring bonds for the payment of such increased duties as may be levied and that these bonds be required from some fixed date preceding final enactment.

Codified laws.—The Commission has prepared and submitted to the Ways and Means Committee a report recommending a codification of the Customs Laws of the United States. As pointed out by the Commission, our administrative laws go back to the 18th century, and contain many duplications, contradictions, and a phraseology which is ambiguous. As the result of a conference with representatives of the Treasury Department, the Tariff Commission prepared a statement of the laws as they stand in one column, and the proposed revision in another. A plan so constructive, and apparently so necessary, must meet with general approval.

Report on free zones.—The Commission, at the request of the Chairman of the Ways and Means Committee, made an investigation of the free port problem. The report presents an analysis of foreign experience with free ports, and the probable effect of these, if permitted in the United States. As a result of this investigation, a bill has been introduced into Congress authorizing the creation of certain ports as free zones.

Tariff catalogue.—Probably the most important technical work of the Tariff Commission is its preparation of an elaborate "tariff catalogue." The purpose of these catalogues is to organize and classify all possible information regarding the importation, exportation, comparative costs of production and conditions of competition of products listed in our tariff schedules. This is a task of great difficulty, not only in collecting the original data, but in keeping the records up to date. However, it was largely for compiling such information and making it available that the Commission was created. Every facility, therefore, should be given the Commission to accomplish this work.

Tariff catalogue on steel rails.—An idea of the detail into which the Tariff Commission has gone in compiling this tariff catalogue can be formed by examining the data it has furnished on the subject of one item, steel rails. The following is a condensed description of the method used and scope of the report:

I. General Information.

1. Description: Rails are rolled shapes for carrying and guiding the wheels of railroad cars. They are rolled to conform to standard specifications. The standard length when shipped is 30 to 33 feet, although they are rolled to 120 feet or more.

2. Kind of rails:

a. Heavy: Rails of this class figure most prominently in international trade. The standard weights are 85 to 90 pounds, although on some roads the weight is as low as 65 pounds or as high as 125 pounds.

b. Light Rails: Usually manufactured out of old heavy rails. Used in mines and factories.

c. High T Rails: The annual production of about 200,000 tons is used for street railway purposes.

d. Manganese Rails: Being experimented with for use on curves. Rails of this type are subject to a higher tariff under the French tariff law of 1910.

e. Bessemer. Rails of this type are for the bulk of foreign production, and enter most largely into international commerce.

f. Open Hearth: The open hearth rails have come into more general use in the United States within recent years.

II. Domestic Production.

1. Quantity: Production in the United States before the War was about double that of our nearest competitor —Germany.

2. Process of manufacture and industrial integration.

a. Rails are a rolled product. Heated steel is passed between two or more sets of rolls which compress the material to the shape desired.

b. Regarding labor costs, the commissioner of Corporations estimated that according to the records of the United States Steel Corporation in 1910 the direct labor cost was 6 to 9 per cent of the total.

c. On account of the large investment required in the manufacture of steel rails there are few companies engaged in their production. The United States Steel Corporation alone produces 50% to 60% of the country's output.

d. Materials used in manufacture. In general, the United States is self sufficient, as regards the materials which are necessary to the manufacture of steel rails. Ferromanganese has been imported in large quantities from Russia, Cuba, Brazil and British India.

e. Regions of production, distributing agencies and markets.

(1) The principal regions of production in the United

States center around Chicago, Pittsburgh and Birmingham, Ala. The Pittsburgh price is the basic price for quotation purposes.

(2) The agencies of distribution for export trade are dealers or export merchants. The Steel Corporation sells to its own subsidiary, the United States Steel Products Company, which acts as an export merchant.

f. Domestic consumption. Production far exceeds consumption, leaving a balance for export. In 1917, our net exports amounted to more than 500,000 tons.

g. Exports.

(1) In recent years the exports of steel rails from the United States varied from 9 to 19 per cent of our domestic production.

(2) The chief foreign markets for steel rails have been Cuba, Mexico, Canada, Brazil, Argentina, Japan, and Australia.

III. History of the Industry.

1. First manufacture in United States in 1844.

2. Development of the industry during the Civil War period, due to (a) tariff, (b) railroad demand.

3. Bessemer Process displaces the iron rail with the steel rail.

4. 1906, the year of maximum output: about 4,000,000 tons.

IV. Foreign Production.

1. Germany, our nearest competitor, produced 1,000,000 tons per year.

2. Great Britain very close to Germany.

3. France and Russia produced one half million tons.

V. Imports.

1. Before the War, our imports varied from 3,000 to 55,000 tons. The average amounted to about 1 per cent of our domestic production.

2. Most of our imports came from Germany and Canada.

3. Amount of duty, 1909-1913, varied from $15,000 to $25,000.

VI. Prices. 1. United States:

Year	Price
1867	$166.00 (currency) per gross ton.
1885	28.52
1887	37.08
1898	17.62
1900	32.29
1901-1916	28.00
1918	55.00
In England:	
1910	26.57
1911	27.63
1912-14	30.00
1916	53.09

VII. Tariff History.

1. 1870. First mention of steel rail bars. Duty of $28 per gross ton.

2. 1872-75. Reduction of 10 per cent.

3. 1875-83. Back to the basis of $28 per ton.

4. 1883. $17 per ton duty on all steel rails made in part of steel weighing more than 25 pounds per yard.

On other weight rails the duty varied from $15.68 to $20.16.

5. 1890. All railroad bars assessed a duty of $13.44 per ton.

6. 1894 and 1897. Tariff cut in half, approximately.

7. 1909. Previous rates cut in half.

8. 1913. Placed on free list.

Effect: Canadian imports increased from a few hundred tons in 1912-13 to 50,000 tons in 1915-16. The coming of the War prevented the normal operations of free trade. However, importation of steel rails in 1917 amounted to 14,000 tons.

VIII. Tariff Questions Involved.

1. The manufacture of steel rails is independent of the tariff.

2. Where transportation expenses are great, as in the case of selling steel rails on the Pacific Coast, foreign steel rails may be cheaper than our domestic product. On the basis of the 1918 rail rates and prices, the transportation charge would increase the cost of steel rails to the San Franciscan consumer about $28.00 per gross ton, or 50 per cent.

3. Canada has an anti-dumping tax on "iron and steel, rolled, drawn or polished when the difference between the fair market value and the selling price of such iron and steel to the importer in Canada exceeds 5 per cent of their fair market value."

4. Objection is generally made concerning the system of classifying the light and heavy rails together, due to the different material from which they are made.

IX. Competitive Conditions.

1. Foreign and domestic mill prices are stated in the report.

2. Export prices and dumping are discussed.

3. Export bounties: mostly in the form of reduced railroad rates or reduced prices on raw material for steel, if it is to be sold abroad.

4. Cost of production: the conclusion of the Commission is that the mill costs abroad were not materially lower than similar costs in the United States.

5 Transportation conditions. Ocean rates from Europe to our Pacific Coast are considerably less than rail rates from Pittsburg, Chicago or Alabama. Although the total imports of foreign steel rails is small in comparison with our domestic production, yet 45 per cent of these imports, in 1910, came through our Pacific ports.

X. Statistical Tables:

1. Production of rails in the United States.
2. Production of steel rails in foreign countries.
3. Imports of rails by foreign countries.
4. Revenue derived from rail importation.
5. Prices of rails at Pennsylvania mills.
6. Prices of rails at mills in England.
7. Rates of duty in tariff acts since 1870.
8. Production of rails according to kind: open hearth, Bessemer, rerolled, electric, iron.
9. Production of rails by weight.
10. Production of rails by the United States Steel Corporation and independents (1902-10-16.)
11. Geographical distribution of rail mills.

12. Foreign tariffs on rails: France, Germany, Italy, Japan, Chile, Canada.

XII. Bibliography.

Importance of the work of the Tariff Commission.—As stated before, this summary of the Tariff Commission's report on steel rails is given to show the thoroughness of the investigation which is undertaken by this comparatively new government agency. Multiply a report of this kind by the number of items listed in our tariff schedule, and we have a conception of the task confronting the Commission. And besides the largeness of the undertaking from the standpoint of quantity and work, the impression is gained of the importance of gathering together such pertinent data before intelligent legislation is possible on matters of commercial policy.

Other reports and hand books of the Tariff Commission include the following:

Sugar Production, Imports and Competitive Conditions.
Minor Acids.
Heavy Chemicals.
Cotton Goods.
Cotton Yarns.
Agricultural Products.
Free Zones.
Reciprocity and Commercial Treaties.
Preferential Tariffs within the British Empire.
French Colonial Tariffs.
German Colonial Tariffs.
Japan:
  Trade during the War.
  The Tariff System of
  Industrial Development of, prior to and during the War.

China:
  Tariff.
  Trade Report.
Silk and Manufactures of Silk.
The Button Industry.
The Surgical Instrument Industry.
The Glass Industry as affected by the War.
The Brush Industry.

"In addition to these handbooks, the Commission has published reports upon the chemical industry, which are in part an outgrowth of the Tariff Information Catalogue, and in part are issued for independent reasons. A preliminary report upon the dyestuff situation in the textile industries has been issued: and more important, a census of the production of dyes and coal-tar chemicals was issued in September, 1918."

Other government agencies.—A summary of the purpose and the activities of the Tariff Commission is convincing evidence of its necessity and importance in helping to enlighten public opinion on the technical phases of our commercial policy.

The work of the United States Shipping Board has been briefly discussed in a previous chapter, although, as an important branch of the Federal Government, its functions might have been analyzed in this chapter which deals with the relations of the Government at Washington to our foreign trade problems.

IV

Bureau of Markets.—In view of the importance of agricultural products in our export trade, a statement should be made regarding the work of the Bureau of Markets in the Department of Agriculture. Of special interest to us, is the work of the Division of Foreign Market Investigations.

The following list of investigations is planned by the Division, and presents an idea of the practical value and broad scope of its policy:

I. **General Investigations.**

1. The supply of agricultural products in foreign markets and the export surplus in the principal foreign countries with which the United States competes.

2. The consumption and consumptive demands in the principal importing countries.

3. The market preference as to kinds of products and the requirements as to grading, packing, and branding.

4. The channels of trade through which the products pass and the business practices involved.

5. The methods and costs of marketing both American and foreign products.

6. Methods of financing export trade in agricultural products.

7. The export, forwarding, storage, transportation, and insuring of agricultural products.

8. The economic conditions influencing the marketing of American agricultural products in foreign countries.

9. Trade opportunities for American agricultural products.

10. An investigation of the methods of forwarding agricultural products to overseas countries and of the steps which must be taken by the shippers in securing space and arranging for shipments.

11. The methods of steamships in loading and discharging cargoes and in adjudicating and settling claims for damage.

12. Collection of information as to ocean freight rates on the various agricultural products both from the United States and from foreign countries to the principal foreign markets.

13. A study of marine insurance for agricultural products as to the extent of risks assumed, the rates charged and the possibility of securing insurance to cover risks heretofore not covered.

II. **Special Studies.**—Besides general investigations as described above, the Division proposes to make specific studies of agricultural products entering our foreign trade. As an example, it proposes to investigate the livestock and meat situation along the following lines:

1. Continuation of the survey of the livestock situation in Europe as to the supply and possible demands upon America during the readjustment period, giving assistance to American breeders and exporters in supplying the demands. Two experts, representing the Bureau of Markets and the Bureau of Animal Industry, were sent to Europe recently for an extensive investigation of the livestock, meat and dairy situation.

2. The dissemination among European importers and breeders of information relative to the American live stock industry as to sources of supply of the various breeds, and other information which may be of help to them in making purchases in America. Information is now being assembled for this purpose.

3. The accumulation and dissemination of information relative to world trade in livestock and the position of the American industry in the trade.

4. A survey of the extent to which Europe may require importation of meat and meat products during the next few years until the European herds may be increased to normal.

5. Periodical surveys of the meat supply and market situation throughout the world.

In dealing with American producers, the Bureau is aiming to stimulate an interest in export trade in the following ways:

1. The organization and dissemination of useful information among producers, their organizations, and exporters, relative to foreign markets, trade opportunities, trade mediums, methods of marketing, and the other subjects investigated.

2. The encouragement of special production and approved methods of grading, packing and branding to meet peculiar foreign demands.

3. The encouragement of foreign marketing organizations among exporters of agricultural products under the provisions of the Webb-Pomerene Act, with assistance to exporters in forming such associations. (See *Reports on Foreign Markets for Agricultural Products.*)

Redfield's criticism.—Any examination of the foreign trade activities of the Federal Government at Washington seems to bear out the conclusion of the former Secretary of Commerce, W. C. Redfield, in his 1919 report:

"Any review of the commercial work of the Government must show that the absence of organization is its most conspicuous feature. There is an excess of organizations; too little system. Numerous bodies exist, functioning more or less in the same field or with direct action therein, each independent, without coordination, without liaison, without the obligation on the part of any of them to inform the others. In short, there exists in our public commercial organization very much the same condition that existed in the Allied Armies before unity of command was secured. It would not be questioned that before that time the commanders of the Allied and Associated Forces were sincere, competent, and devoted men. Each, in his own separate sphere, was doing his best and trying to support his allies as fully as he could. The difficulty was, of course, that the spheres were separate. Just so it is in our government commercial organization. Different bodies composed of able and earnest men, function separately on commercial subjects at home and abroad, without mutual plan, without frequent consultation, and often in entire ignorance of what the others are doing."

The lack of coordination is evident when it is seen that the following governmental agencies are working more or less independently of each other in influencing our foreign trade relations:

1. Department of Commerce, especially through the Bureau of Foreign and Domestic Commerce, whose general function we have described.

2. The War Finance Corporation, which was authorized to lend its credit "in order to promote commerce with foreign nations."

3. The Federal Reserve Board whose supervision over our banking structure, by its very nature, touches our foreign trade vitally.

4. The Interstate Commerce Commission and the

Shipping Board, which by their powers over conditions of transportation, affect directly our foreign trade.

5. The Federal Trade Commission which by its powers of regulations and investigations, deals with many problems of foreign commerce.

6. The United States Tariff Commission.

7. The International High Commission, which has to do with such matters as regulations governing commercial travelers, port charges, consular invoices, etc.

8. The Department of State, which formulates commercial treaties and controls the consular service.

9. The Department of Agriculture, operating through the Division of Markets.

Apparently some sort of coordination and cooperation between these various agencies should be affected. The suggestion of Mr. Redfield, regarding the strengthening of the Department of Commerce offers a constructive solution:

"Again let it be emphasized that the relations between these various bodies are not frictional, but cordial. The men comprising the various groups are friends. They realize they are working to a common end. I repeat, the question is not one of individuals, but one of organization. There can be no clear cut commercial policy carried out by separate bodies in the commercial field that do not interfunction. Any industrial organization composed as is the commercial organization of the government would fail, for the seeds of decay are planted in the very separateness of the component parts. It is not urged that these bodies should cease to be or that their functions should be altered. There are separate duties belonging to each, although many of those duties lie in a common field with the Department of Commerce.

"It is, however, strongly urged that each and every one of these separate services should be linked formally to that Department which alone the law charges with the duty to foster, promote, and develop the foreign and domestic commerce of the country.

"Is there sound reason why there should not be a representative of the Department of Commerce upon the War Finance Corporation, upon the Federal Reserve Board, upon the Federal Trade Commission, upon the Shipping Board, upon the Interstate Commerce Commission, or upon the Railroad Administration? If such reason exists, what is it? On the other hand, is it the public purpose and intent that the Department charged to "foster, promote, and develop the foreign and domestic commerce" of the country should do it only in part, subject to the kindly and unintentional, but nevertheless real, competition and control of others charged with different duties, indeed, but so acting as in some measure to perform or to control the performance of this work?

"Very clearly either the Department of Commerce should be so organized as to perform its important function effectively or it should not. If it should not do so then the organic law dictating its functions should be modified, and it should cease to be in name what it is hardly in fact, the Department of Commerce. Or, on the other hand, it should be recognized that it is really the center of commercial organization on the part of the Government, and as such these various independent bodies should be so headed up into it that the world of commerce and the business man may know there is one head for commerce as there is one for agriculture, as there is one for war, as there is one for the Navy, and not a congeries of unrelated parts which operate, indeed, in personal harmony and peace, but without those effective results which alone can come from systematic and unified effort."

CHAPTER XXV

FOREIGN TRADE PROMOTION

Activity within recent years in promoting our foreign trade by organizations not connected with the Government, is one of the significant developments of our commercial life. American business institutions, interested in the expansion of the overseas commerce of the United States are determined that no stone shall be left unturned in making practical efforts toward establishing permanent foreign trade connections. In this effort to supplement the work of the Government, our great international banks, commercial organizations and chambers of commerce, have vied with each other in stimulating interest, supplying information and making introductions which are basic influences calculated to build up for the future an increasing volume of foreign trade.

American banks promote trade.—Perhaps no institutions have displayed such foresight or such insight into the trend of economic forces and the unusual opportunities opened to American business interests in foreign markets as our larger banks, which may truly be called "international."

The following may be regarded as the salient features of the plans and policies of our more important American banks by which our foreign trade interests are being promoted:

1. **Introduce buyers and sellers.**—Acting not as an agent of either party but as friends to both, the banks are in a position to bring buyers and sellers together.

This opportunity to serve the foreign and American clientele of the bank comes as a result of connections which our metropolitan banks must have abroad and throughout the United States. Foreign buyers visiting the United States will naturally depend on the American banks with which they have had business dealings, for information and advice with reference to firms in this country which might be in a position to fill orders. This advice and information may also be solicited from banks through correspondence from prospective foreign buyers. By acting in this way as a go-between, for foreign and American houses, until introductions are made, the bank is in a strategic position to initiate trade relations.

2. **Supply information.**—Many of our banks are in a position to furnish information on the following:

(a) Credit standing of American and foreign business houses.

(b) Market opportunities in specific lines.

(c) The methods and technique of handling the paper work, or documentation, involved in financing and making shipments.

(d) Customs and tariff regulations of foreign markets.

(e) General economic conditions of foreign markets.

3. **Public literature.**—The publication of pamphlets, magazines, and general trade literature, designed to acquaint American business interests with the technical trading problems and also the general economic, political and social conditions of foreign markets, is a banking service which should lay the basis of greater foreign trade development.

In speaking of the banking service to foreign trade no mention has been made in this chapter of the service of banks in negotiating bills of exchange, making collections, investing American funds abroad, facilitating direct dollar exchange, etc. The consideration of these important functions of banks, without which foreign trade would be practically impossible, is not made at this time because they are discussed in detail elsewhere in this volume.

Foreign Trade Council.—The work of the Foreign Trade Council has attracted much attention since its organization in 1914 as a leading factor in foreign trade promotion. The Council was organized at the first foreign trade convention held under the auspices of the American Manufacturers' Export Association, the American Asiatic Association and the Pan-American Society of the United States.

The object sought in calling the convention, and in forming the Council, was the education of public sentiment in the United States regarding the necessity of "removing all doubt of the legality of cooperation among exporters, for the development of a merchant marine, reorganization of the Bureau of Foreign and Domestic Commerce and the increased efficiency of the diplomatic and consular services."

Personnel.—The personnel of the Foreign Trade Council is selected from the members of the Foreign Trade Convention. The resolution of the first convention provided "that the President of the Convention appoint a Council to be nationally representative in character and to be composed of thirty members (later increased to seventy-five), to be known as the National Foreign Trade Council."

Function.—The function of the Foreign Trade Council is to serve as "a national committee for the welfare of overseas commerce. It aims to focus the attention of many groups on matters of public policy which have to do with foreign trade." The purpose of the Council is largely educational. It proposes in this way to stimulate a progressive attitude on the part of American business interests toward foreign trade opportunities.

Annual Foreign Trade Convention.—In carrying out these broad aims, one of the most effective means has been the annual foreign trade convention, under the direction of the Council. This is one convention which gives its entire attention to the subject of foreign trade. The proceedings which are published contain an important body of information and opinion which is valuable to all students of our foreign trade problems.

Conferences.—During the war period the Council participated in conferences called for the purpose of discussing policies which the unusual emergency demanded. One of the earliest conferences in which the Council participated was called by the Secretary of the Treasury to meet in Washington, August 14, 1914. At this conference the Administration decided on the policy of admitting foreign built ships to American registry.

Conferences between the Council, exporters, importers, and the Federal Reserve Board facilitated the development of dollar exchange, particularly in our trade with Latin America.

Legislation.—The influence of the Council was directed toward securing the enactment of the Webb Law authorizing the formation of export combinations which would not come under the ban of the Sherman Anti-Trust Act.

Literature.—Besides holding conventions, influencing legislation and cooperating with government departments and administrative boards, the Council publishes an extensive literature. Its most important literature is the bound volumes of the proceedings of the annual foreign trade conventions. In addition to this, miscellaneous pamphlets are issued on subjects of current interest. The topics of a few pamphlets suggest the nature of their contents: "Foreign Trade in Winning the War," "A Bargaining Tariff," "A New American Merchant Marine," "World Conditions After the War," "Ocean Shipping," and "Commercial Possibilities of Dutch East Indies."

It is the public character of its policy, the high grade of its personnel, and the practical results it has already accomplished in educating the public which indicate the Council's present and future position of importance in shaping our commercial programs.

Philadelphia Museum.—The Philadelphia Commercial Museum, through its Foreign Trade Bureau, is an important agency for the promotion of the overseas commerce of the United States. The institution is under the direction of a Board of Trustees, composed of business men of Philadelphia, appointed for life, and as ex-officio members, the Governor of the State of Pennsylvania, and the Mayor of the City of Philadelphia.

The activity of the Bureau of Foreign Trade is not local in character, but is conducted in the interest of the whole United States.

Library.—The Bureau aims to be a general clearing house of information on all questions pertaining to export trade. To accomplish this aim it maintains a library of commercial literature which is in many respects the most complete of its kind in this country. Here are to be found 50,000 volumes dealing with the trade, commerce and industries of foreign countries and the laws and regulations affecting the international commerce of the world. Practically everything in the way of trade publications, statistical reports, foreign trade directories, gazettes, foreign year books, etc., are on file and available to business men interested in this subject. In addition to this general literature, the Bureau of Foreign Trade has accumulated special data secured through its own agents and correspondents abroad, and through investigations carried on by members of its own staff.

Credit information.—The Bureau keeps on file lists of foreign buyers, with a statement of the credit standing of each.

Additional service in foreign trade promotion is rendered by its equipment to translate correspondence, circulars and catalogues into and from any modern foreign language. The publications of the Bureau are the *Commercial American* (English) *American Commercial* (Spanish), and the *Weekly Export Bulletin.* So important is the promotion work of the Museum that a more detailed statement of how it operates in a practical way is worth while.

Just how the Philadelphia Commercial Museum can function in aiding American exporters may be illustrated by taking one example presented by the Museum.

Locating a foreign market.—Supposing a manufacturer of shoes in Massachusetts has so developed his plant that, to keep his machinery running at full capacity, he must seek a wider market to absorb his surplus. He has heard much talk of our developing foreign markets, and especially the trade opportunities which are opening up in South America. He may have in mind that Argentina is the market which would be best adapted for his product. But his information is vague and indefinite. Before he can proceed further, he must get specific information on the shoe market in Argentina, and the chances he would have in selling shoes in this market.

It is at this point that the Foreign Trade Bureau of the Museum has its opportunity to function. On receipt of a letter from the shoe manufacturer the Bureau proceeds to examine the boot and shoe market in Argentina.

Trade statistics.—Probably the first thing which the Bureau will investigate is the statistics of boot and shoe importation into Argentina. These statistics will show the total importation, the quality of the shoes required by this market and the source of importation. They may show that the shoes are coming from France or England, or from some competitor in this country.

Trade lists—Credit data.—Assuming that these facts convince the manufacturer in a general way that he has a reasonable chance of developing a market for his shoes in Argentina, the next thing for him to do is to get in touch with the trade. The Bureau is in a position to furnish lists of retailers and wholesalers in Argentina, with credit data on each brought up to date. Such information as addresses, the lines of goods handled, foreign connections and financial responsibility are invaluable to the American exporter in entering foreign trade.

Translation.—With these lists before him, the shoe manufacturer will probably make several selections of possible buyers. He will proceed to draft letters in English which can be forwarded to the Bureau for translation into Spanish. These letters in Spanish will be returned to the manufacturer for his signature. Likewise, replies from South America may be submitted to the Bureau for translation into English.

Locating agencies.—The question will soon arise, in the course of developing trade relations, whether agencies should or should not be located in Argentina. On this important question, the Bureau should be in a position to suggest reputable firms, and indicate the territory over which they should have control.

With regard to inquiries, from foreign houses, asking that an order be placed on open account, or thirty day credit, the manufacturer can appeal to the Bureau, which has a credit rating of many foreign firms, for advice on the credit risk in each case. With this information before him, the exporter can act with intelligence in adopting a credit policy.

This statement of methods and facilities outlines in a general way how the Foreign Trade Bureau of the Philadelphia Commercial Museum can be made virtually the manufacturer's own export department. The Bureau answers queries as to customs duties and regulations, consular invoices, commercial travelers' licenses, trademark regulations, methods of packing, shipping and handling goods, transportation routes and rates, insurance, credits and collections—in fact all the practical and pertinent details a business man must have concerning any foreign market in which he wishes to introduce his goods or to extend his sales.

Foreign American Chambers of Commerce.—The establishment of various foreign-American chambers of commerce, such as the American-Russian Chamber, French-American Chamber, the American Chamber of Commerce for Brazil, the Italian Chamber of Commerce in New York, the Spanish Chamber of Commerce in New York, and many others which might be mentioned, is designated to promote trade relations with particular markets. The actual way in which these various chambers of commerce promote our foreign commercial relations can be best studied by presenting the general features of some of the policies followed by these bodies.

Trade promotion activities of the Italian Chamber of Commerce.—The Italian Chamber of Commerce in New York presents the following trade promotion activities which it attempts to carry out:

1.—The Italian Chamber of Commerce in New York supplies Italian and American merchants and manufacturers with names of the most important trading firms in the United States and Italy, who may be interested in trade exchanges between the two countries.

2.—It supplies Italian and American manufacturers and merchants with names of reliable parties who may act as their agents in the United States or in Italy.

3. It appoints a committee of experts, whenever requested, in case of commercial disputes.

4. It acts as a guide to its members in the selection of legal advisers and attorneys as the case may require, to represent and protect the members' individual or collective interests in Italy or in the United States.

5.—It secures information regarding moral, financial and business standing of firms with which any of the members should desire to entertain business relations, and regarding customs regulations, rates of duty, transportation, etc., in Italy and in the United States.

6.—It acts as arbitrator, or appoints arbitration committees in case of commercial disputes whenever a member so desires in order to protect his own legitimate interests.

7.—It endeavors to promote and increase the introduction of Italian products in the United States and of American products in Italy.

8.—It supplies members with financial information and statistics as they may request.

9.—It conducts a translation bureau in order to facilitate correspondence and interpretation of contracts and other commercial matters, concerning the Italian-American trade.

10.—It investigates and compiles reports regarding stocks, real estate, mines, inventions, etc., for which capital subscriptions are solicited by officers of corporations, stock, loan or money brokers, promoters, agents, etc.

11.—It defends the rights and protects the interests of its members both in Italy and in the United States, against any unfair treatment on the part of custom house, railroads, steamship lines, etc.

12.—It supplies its members with proper introductions to merchants, manufacturers, commercial associations and public authorities, whenever possible.

13.—It issues notices of auctions and public contracts.

14.—It certifies commercial signatures, issues certificates, declarations, etc., of commercial nature.

15.—It gives its support to individual and collective efforts tending to increase the trade or to improve trade conditions between Italy and the United States.

16.—It sends to all its members, regularly, the *Rivista Commerciale,* weekly, which is its official organ, published in Italian and in English, carrying the advertising of the leading firms in the Italian-American trade.

American Chamber of Commerce for Brazil.—The American Chamber of Commerce for Brazil in a recent bulletin has showed its activity in the repeal of certain objectionable Brazilian legislation which would have reacted against the development of Brazilian-American trade. The statement of the bulletin, dated September 30, 1919, indicates the nature of this achievement:

"A cablegram just received from the Chamber in Rio de Janeiro brings the welcome news that the Chamber's fight against the adoption of the objectionable Brazilian Consular Invoice Rule had been successful. The American Chamber has been putting forth every effort since the rule was adopted to have it annulled. Their struggle was rewarded by the announcement of the Minister for Brazil that the objectionable ruling was revoked."

Brazilian Chamber improves invoice forms.—The Consular Invoice Ruling which would have proved a serious obstacle in our trade relations with Brazil was known as Article 120, of the Brazilian Budget. It provided that consular invoices must "contain a clear definition of goods shipped instead of general terms used in the past. Upon the adoption of the rule, general designations of merchandise, such as cotton goods, china-ware not specified, chemical products, not specified, etc., would be prohibited. Penalties were established for failure to insert detailed specifications on merchandise listed on Brazilian consular invoices. The exporter, in listing cotton goods, for example, would be obliged to describe the textile as "white," or "stamped," or "dyed," etc., giving weight and value for each quality. In the case of china-ware, it would be necessary to specify whether the article is for table service, for laboratory, etc. In exporting chemicals it would be necessary to specify each product by its scientific or commercial designation. It was required that the materials composing the article or entering into its manufacture be specified. In the case of textiles it would have been necessary to state the name of fibres or materials which entered into its fabrication, such as cotton, silks, linen, etc. In short the requirements of the proposed rule would have placed so great a burden on the American exporters that it would have discouraged firms in developing their business with Brazil.

"The Chamber further announces that it has entered into an arbitration agreement with the Associacao Commercial to arbitrate any disputes between American manufacturers and Brazilian merchants."

The work of the Italian and Brazilian Chambers at New York has been mentioned to illustrate the general function of all similar organizations. Taken in connection with other trade promotion agencies, they are helping to form valuable trade connections between the United States and all parts of the world. What these two Chambers of Commerce aim to do in the promotion of the trade interests of their countries suggests how American Chambers of Commerce in foreign countries can promote the commerce of the United States.

National Association of Manufacturers.—Among the important foreign trade promotion agencies, the work of the National Association of Manufacturers stands out very prominently. The following statement of the extensive work of the Foreign Trade Department presents a comprehensive idea of the facilities offered to American business men who wish to expand their overseas commerce.

The National Association of Manufacturers was organized in 1895 for the purpose of developing our foreign and domestic trade. It has a membership comprising manufacturers of all classes of goods in every state of the Union.

The Association carries on direct investigations into trade conditions in foreign countries. As a result of this practical foreign contact, the Association has a service department which puts it in a position to help those who are interested in foreign trade.

According to the testimony of a German student of economic affairs, "there is no general association of manufacturers in Germany whose work equals the work for the promotion of foreign trade of the National Association of Manufacturers of the United States."

"In the offices of the Foreign Trade Department are records, reports and data of all kinds relative to various phases of foreign trade, which information has been collected through a period of years and is constantly being increased. In addition to the large number of inquiries which it daily receives from manufacturers for information, advice or suggestions with respect to foreign trade problems, the Foreign Trade Department also receives daily a very large number of inquiries from firms in all parts of the world who are seeking connections with American manufacturers. Foreign business men visiting the United States, also call at the offices of the National Association of Manufacturers in order to be advised regarding domestic trade conditions and sources of supply." (*Report of the Association.*)

The Foreign Trade Department is divided into various divisions and bureaus as follows:

1. Latin American Trade Division.

2. Far Eastern Division.

3. Russian Division.

4. Compilation Bureau, whose object is to furnish names of importers, exporters, dealers and agents, commission houses, etc., in all parts of the world.

5. Credits Bureau.

6. Trade-Marks Bureau, which advises on the registrations of trade-marks in foreign countries.

7. Translation Bureau. This bureau translates letters from and into all commercial languages and undertakes also the translation of technical papers, catalogues, etc.

8. General Information Bureau.

The Association issues periodicals and other literature for the information and benefit of those interested in world trade. Among these publications are:

1. A monthly magazine for circulation in the United States, a section of which is devoted to foreign trade and financial matters.

2. Four monthly magazines printed respectively in English, Spanish, French and Portuguese for circulation in foreign countries.

3. A volume issued periodically in six languages and used by importers and dealers abroad as a guide to manufacturers of all classes of products in the United States.

4. A confidential bulletin issued semi-monthly to keep export managers and others in charge of export departments posted on changes in regulations or other phases of export trade, and affording reputable business houses abroad the means of having their inquiries for American products brought directly to the attention of American manufacturers of their goods.

5. Special foreign trade bulletins and pamphlets giving information regarding the commerce and trade possibilities of various countries.

American Manufacturers' Export Association.—The work of the American Manufacturers' Export Association is significant, both because of the nature of the organization and because, also, it was partly responsible for the calling of the first National Foreign Trade Convention in 1914 and the creation of the Foreign Trade Council.

The Association is a non-profit, cooperative association, and aims to give its members, interested in foreign trade, the facilities which are outlined by the Association as follows:

1. **Banking.**—Foreign collections and other financial matters pertaining to the export business of members receive particular attention by certain New York banks through an arrangement with the Association.

Its officers were invited to assist in forming the plans of the National City Bank of New York, which resulted in the establishing of branch houses in South America, Cuba, etc. Daily exchange rates, and other financial particulars, are furnished to members upon request.

2. **Forwarding shipments.**—Members of the Association will be supplied by representative shipping concerns in New York City with free information on questions which may demand expert judgment and advice, and special shipping arrangements may be made with these concerns by application to the Association.

3. **Credit information.**—Every member of the Association is privileged to ask and receive gratis a number of credit reports on foreign firms and individuals.

4. **Foreign patents and trade-marks.**—A list of patent and trade-mark agents in foreign countries is on file, and the Association is able to secure rates for its members with a New York firm on all its business of this nature which may be placed in its hands.

5. **Translations.**—The Association enjoys facilities for translating correspondence, catalogues and other foreign matter for its members.

6. **C.I.F. quotations.**—To many exporters the problem of quoting C.I.F., C. & F., F.A.S., etc., is difficult. Many find it impossible to do so without expenditure of much time and trouble. Through the Association's local connections with shipping interests, C.I.F., and other quotations to any point will be furnished to members upon application.

7. **Employment bureau.**—The Association conducts an employment bureau limited strictly to the export field, and has on file at all times a list of applicants for such positions. Those able to pass examination are recommended for employment.

8. **Agency lists.**—In addition, a registry is maintained of foreign firms and individuals who desire to represent American export manufacturers. These firms are required to submit explicit details and references before their applications are accepted.

9. **Publications.**—Publications are issued weekly and monthly giving the members the benefit of trade information, and expert opinions on foreign trade matters.

American Exporters and Importers Association.—Another important body interested in the promotion of American foreign trade is the American Exporters and Importers Association, which was organized in 1907. A few of the activities gleaned from reports of this organization show the practical nature of its promotion work.

Adjust rates.—According to a report issued by the Association, in 1912 ocean freight rates from New York to the River Plata were exorbitant. The freight committee of the Association was successful in securing an adjustment of rates to conform with those from Liverpool, and in obtaining special rates on certain commodities. This was possible only by concerted action on the part of the exporters.

In 1913, freight rates to Australia were advanced. These advances seemed unjustified. The Association, supported by its members, secured an adjustment of rates to conform with those from Liverpool and London on the same commodities, thereby placing American shippers on the same basis as those operating from abroad to the Australian ports.

Protection of contracts.—"When the war broke out in 1914, numerous problems arose from day to day, with which it was possible to cope only through cooperation by all exporters. Freight contracts made in good faith at lower rates, were repudiated when freight rates were soaring skyward; and it required energetic and earnest work on the part of the Association to obtain protection for the old contracts. Then there arose the various questions of excessive charges for the transmission of cables, transportation, cartage, and war risk insurance. When in 1918 trucking charges became so excessive, the freight committee formulated a schedule of trucking rates which would be fair to the shipper and to the truckman, distributed this schedule among our members, and advised members the names of trucking firms which had agreed to carry freight at such rates."

Time extension on licenses.—The War Trade Committee obtained from the War Trade Board an extension of time on export licenses from ninety days to six months, which was a boon to manufacturers, who were producing under severe handicaps and were frequently unable, even with the utmost effort, to deliver their goods within the prescribed ninety days.

The War Trade Committee was especially busy during the war period. The Government, in its desire to reduce as far as possible the impediments which the war restrictions were placing upon the commerce of the country, frequently invited suggestions and advice from the Association.

Chambers of Commerce.—Chambers of Commerce in our larger cities, in connection with the Chamber of Commerce of the United States, have been very progressive in promoting the foreign trade of the districts they represent.

Foreign trade departments.—Most of the chambers which are interested in foreign trade have a special foreign trade department or bureau. In many cases these foreign trade departments are co-operative offices of the Bureau of Foreign and Domestic Commerce.

Introduce foreign buyers.—The work of these foreign trade departments, as suggested, is to serve the general business community in promoting its foreign trade. One of the most important functions is to get in touch with foreign buyers who are visiting this country and introduce them to the manufacturers, bankers, exporters, etc., of the district. As an example of enterprise in this line the Pittsburgh Chamber of Commerce sends to foreign buyers who visit New York a letter somewhat like the following:

Mr. Foreign Buyer,
New York, N. Y.

Dear Sir:

We have noted your recent arrival in this country from Australia, and beg the privilege of calling your attention to the great Pittsburgh Industrial District.

If your trip is one for pleasure there are many interesting as well as educational sights to be viewed in this, "The Workshop of the World."

If the transaction of business is the purpose of your visit, we would be pleased to place at your disposal the services of this organization. We will secure for you competitive quotations from reputable concerns on any of the commodities manufactured in this district, which include, Raw, Semi-Finished and Finished Iron and Steel Products, Machinery and Tools of all kinds, Railway, Mine, Mill and Plantation Supplies, Building Materials, Electrical Goods, General Hardware, Plate and Window Glass and Glassware, Cork and Food Products, Paints, Varnishes and Chemicals.

We shall be glad to arrange tours of inspection, or interviews with manufacturers of the particular commodities in which you are interested. In fact, if there is any manner in which we can be of service to you for the advancement of our mutual interests, please feel that we are yours to command.

Visit Pittsburgh—it is worth while.

Yours very truly,

Chamber of Commerce of Pittsburgh,
Bureau of Foreign and Domestic Trade,
Manager.

Chamber of Commerce of the United States.—From a statement of D. A. Skinner, assistant secretary of the Chamber of Commerce of the United States, the broad function of the National Chamber in promoting our foreign commerce is condensed:

Federation.—The National Chamber is a federation of commercial organizations, and it also has an individual membership comprising members of its constituent organizations. These individual members receive the regular publications of the Chamber and are entitled to the full services of the organization.

Influence legislation.—Upon the larger aspects of the foreign trade problem the National Chamber has, through its referendum system, enabled the business interests of the country to express their views, thus placing before legislators in definite form the wishes of the manufacturers and exporters engaged in foreign trade. Early in its history, the National Chamber went on record as favoring the extension and improvement of the government trade-promoting agencies, especially the Bureau of Foreign and Domestic Commerce and the consular service. Legislation soon followed giving these services more funds with which to operate. This has resulted in improved and broader assistance to foreign trade interests.

Arbitration.—The arrangement of an arbitration agreement with Argentina merchants, by which international commercial disputes may be expeditiously adjusted in a fair and impartial manner at small cost to the parties concerned, was the forerunner of similar agreements effected or about to be effected with nationally representative commercial organizations in Uruguay, Brazil, and Ecuador. This system of arbitration promises to extend to other fields than Latin America and is a distinct contribution to foreign-trade development.

Direct service.—Direct service to exporters in the membership of the Chamber is provided through a division of the headquarters office in Washington, whose duty is to convey to these interests by letter or otherwise such information as they may have indicated a desire to obtain. This is accomplished through the use of an index of the membership, which classifies the members according to the articles and fields in which they are interested. All members, of course, receive the general bulletins and publications of the Chamber. This special service goes a step farther and places in the hands of individual members the information and data that will meet their particular needs. The facilities of the headquarters are also at the command of the members who request information on foreign trade that may be available in government offices or other sources in Washington.

A general statement has been made in this chapter of the function of some of our most important commercial organizations which are interested in the promotion of our overseas commerce. No attempt has been made to make this list of agencies inclusive. Many of these organizations overlap in their functions, but with an expanding commerce there is probably room for some duplication.

The criticism has been brought against many American foreign trade promotion agencies that their work is too general, that there is a great waste in duplication of function, and that much of the information and service offered could be secured by exporters if they would follow closely the literature furnished by the Bureau of Foreign and Domestic Commerce. Although it would be too sweeping to make a blanket criticism, including such agencies as we have discussed, there are undoubtedly organizations which are unnecessary and superficial.

Tanners' Council.—One of the most significant developments in sound promotion of foreign trade is typified by the Tanners' Council. This is a trade association representing a single industry. It is therefore limited to a comparatively small field, and because of this fact the Council is in a position to render very practical, highly specialized service to American exporters of hides, leather and skins.

In a recent paper prepared by John R. Arnold, chief of the Foreign Trade Bureau of the Council, the work and policy of this organization is set forth in detail. The mention of the most important services which the Council offers to American tanners who are interested in expanding their foreign markets will show the specialized work which is being undertaken.

The Bureau aims to make available to American tanners all definitely practical information which can be furnished by the Government. This may involve independent research into government records for statistical purposes, or it may mean the interpretation of statistics which have already been compiled. The Council may be able to obtain information from the State Department or the Bureau of Foreign and Domestic Commerce and furnish this data to its clients, before the Government has published it. Another way in which the Council cooperates with the Government is in the matter of formulating protests against policies abroad which may injure the trade expansion of American tanners in foreign countries. The Council may suggest to the Bureau of Foreign and Domestic Commerce specific lines of research which may be investigated by the agents of the Government in foreign countries. It is especially noticed that in all of this work, in connection with the Bureau of Foreign and Domestic Commerce, or other departments of the Government, the Council aims to avoid all duplication possible. Its purpose is rather to act as a connecting link between the Government and the tanners of the United States.

The Tanners' Council further acts as a clearing-house of news which will be of interest to the tanners of this country. These news items, statistics, and trade data are gleaned from trade journals published throughout the world.

The most constructive work of the Council consists in its independent work of building up files of credit information on foreign customers of leather goods; its policy of advertising abroad which will give publicity to the work of the Council and to American leather products in general; its devising a cable code for its members; and its research into such matters as mutual credit insurance, displays abroad, and trade-mark protection.

Special mention should be made of the publications of the Council. These consist of a reference handbook relating to the hide and leather industry throughout the world, in three parts, and a publicity journal, *American Leather,* in English, French and Spanish, for distribution abroad to American consuls, chambers of commerce, American branch banks, foreign leather associations, and foreign customers.

The work of the Council is so definite and specific in its aims, and its policy is so carefully thought out, that it presents, in many respects, a model for American trade promotion agencies. It especially emphasizes the possible efficiency of promotion work by agencies interested in special industries.

With the continued development of our banking, shipping, marine insurance and foreign trade promotion agencies of the types which have been described, the United States is assured the technical equipment and the technical information which will lead to a sound expansion of permanent trade connections abroad.

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