CHAPTER - VII

MERCANTILE MARINE POLICIES OF IMPORTANT MARITIME COUNTRIES

An attempt has been made in this chapter to study the mercantile marine policies of some of the important maritime countries like U.S.A., Britain and Japan with a view to drawing upon their experiences in developing merchant shipping. These countries had have very rich experience in evolving shipping policies suited to their needs, in their distinctive historical contexts. They have not only developed a formidable mercantile marine but have also given a lead in shipping matters; from time to time to others. A special reference has also been made to the post-war shipping policy of Argentina, where experiment of developing a public sector in shipping is being tried.
Early Mercantile Policy and the Passing of the First Navigation Act

The beginning of the English Merchant Marine can be traced to days of Alfred the Great, who set himself to revive, the art of shipbuilding. "He commanded long ships to be built to oppose the esks, they were full nigh twice as long as the others, some had sixty oares and some has more, they were both swifter and steadier and also higher than others. They were shapen neither like the Frisian, nor the Danish but so as it seemd to him, they would be most efficient". ¹ This was as early as A.D.897.

During the reign of Richard II the commercial policy took a definite trend, and showed the first sign of the mercantile system which was to come into existence in the subsequent times. "It was a policy of encouraging native shipping, it favoured native merchants and subsequently artisans in opposition to aliens, and at the possible expense of consumers, there were deliberate endeavours to encourage the agricultural interest and especially the corn growers; part of this new scheme was to attract the importation of bullion for the accumulation of of treasure...."²

². Ibi,p.338.
It marked the beginnings of the policy which was later on embodied in corn laws, the Navigation laws, and of the deliberate manipulation of commerce with the object of procuring bullion. However, the English merchants who were becoming politically powerful during this period (A.D. 1377-1399) so as to exert pressure on the commercial policies of the Government were anxious to obtain a firm footing in foreign trade and demanded that encouragement should be given to English shipping. This resulted in passing of the first Navigation Act in 1381.

Henry V devoted himself to the improvement of English ships, in imitation of the large vessels of the Genoese.

"Three ships of unwanted size were turned out from the docks at Southampton and were called respectively the "Trinity, the Grace de Diec and the "Holy Ghost........" ¹ Private merchants, who received substantial encouragement showed great enterprise in constructing and owning large ships. It was during this time (A.D. 1445) that large ships of 900 tons capable of holding two hundred passengers, first appeared in English water and went on regular voyages. These improvements in shipbuilding enabled Englishmen to send out fleets that were fit to be employed in voyages of discovery under the Tudors.

Encouragement to Shipping under Tudors:

Development of shipping was one of the important ingredients of the mercantile policy followed by Tudors during A.D. 1485 - 1558. The object of this policy was to regulate all commerce and industry so that the power of England relatively to other

¹. Ibid.
nations might be promoted. It was thought at that time that power depended on (a) the accumulation of treasure, (b) the development of shipping and (c) the maintenance of an effective population.

"The accumulation of treasure in a country which has no mines depends on the proper management of commerce, (a) making regulations for the flow of the precious metals and the exchanges, or (b) by making regulations for the export and import of commodities. In this view the volume of transactions is much less important as a sign of prosperity than the nature of the trade that is being carried on.

A strong navy was obviously a great means for defence and for this purpose it was desirable to encourage the employment of English ships; hence we have the whole series of Navigation Acts, while attention was also directed to measures for procuring the materials for shipbuilding and necessary naval stores. It was also felt to be a matter of first importance that we should encourage the fishing trade, as it was the best school for seamen.

Subject to the restrictions about the kind of trade and its bearing on treasure, the increase of the volume of trade was important as it not only gave a larger sum in customs but also stimulated the development of shipping. Hence there was a preference for distant trade over coasting trade, as it gave more employment to ships, while the commodities of distant

1. Ibid, pp.426-427.
lands were often things that could be reproduced at home. The end in view was power, this was furthered by attention to treasure, shipping and population; while these objects could only be attained by the careful regulation of industry and tillage. Such in brief is the rationale of the so-called Mercantile system, which had been gradually coming into operation since the time of Richard II, and which survived with much vigour in some of its part till Cobden and Bright completed a revolution in English policy (A.D. 1846).

**Navigation Policy Under Henry VII:**

The navigation policy which had began under Richard II was fitfully maintained by Henry VII (A.D. 1485-1509) who according to Sir Francis Bacon, "could not endure to see trade sick". In response to complaints of decay of shipping and the lack of employment for mariners, the traders with Gascony were compelled to import their wine and wood in English ships manned with English sailors. The King was personally in favour of this policy, for he rarely granted exemptions, though the sale of licences to use foreign ships would have been an easy source of revenue. He passed the Navigation laws which protected English vessels, strengthened the royal navy by building two most powerful ships, Regent and Sovereign, established a naval dock at Port Smouth and entered into commercial treaties with Spain and Holland. In 1540 a comprehensive Act was passed for "the maintenance of the Navy". This Act gave a clear statement of the

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1. Ibid, pp.426-427.
commercial and political objectives of Navigation Acts. It recognised the importance of an adequate merchant navy for the commercial intercourse and defence of the country surrounded by sea from all sides. The freights were strictly defined for goods of various sorts from different ports; inducements were offered to aliens to make use of English ships and arrangements were made for the publication in Lombard Street of notice of the sailings of ships.

Protection to Shipping under Henry VIII:

The protection of merchant shipping also engaged the attention of King Henry VIII; when war broke out between France and Spain which was assisted by England. An attempt was made by the two monarchs jointly to organise a regular fleet to keep a watch over the seas.

The conditions of the coasts and harbours of England exposed the ships to many serious risks and Henry VIII took steps towards reducing losses arising out of those dangers. A body was established which had general supervision over coasts and harbours, and special attention was given to the requirement of particular localities. There was a very large outlay for making piers at Dover and Scarborough and Parliament intervened to prevent the harbours of Devonshire and Cornwall from being injured by operations of the miners. Similarly provision was made for the ruined condition of Rye and Winchelsea in 1548. Henry VIII also attempted to establish a naval arsenal, which was to be settled at Deptford. He was determined on having a well equipped fleet. After destruction of Regent his great ship of 1000 tons, by fire, he contrived the Grace de Dieu which was of still larger
dimensions and he needed an arsenal for building and fitting his ships. When it was realised that the Royal as well as the mercantile navy could not be well manned unless there were a number of able-bodied sailors from whom mariners might be drawn, and fishing trades offered a convenient and inexpensive, as well as thorough school of seamanship. Therefore in 1543 parliament enacted a suitable measure for encouraging the fishing trade by promoting the general consumption of fish.

The traditional policy of encouraging English shipping particularly in the wine trade, was to some extent discarded under Edward VI, possibly because of the navy of England was very much reduced at that time and it did not suffice to serve the trade. During the reign of Elizabeth however, measures were adopted to restore the old rule and at the same time to increase the custom revenue. "It was asserted that foreign powers had retaliated on England by enforcing a strict navigation policy of their own and a remedy was provided by charging the custom due from aliens in the case of those subjects who shipped goods in foreign bottoms. Thus the differential rate was in favour of the employment of English ships but since foreign ships could be used if the higher rate was paid, there was less danger of reducing the volume of trade and thus of affecting the custom revenue; or of provoking retaliation. The Merchants of the staple and the Merchant Adventurers were exempted from the operation of this Act at the time of their regular shippings. A few years later however the more stringent policy was adopted again in regard to the Gascony trade and the use of foreign ships in the wine trade with England was forbidden".  

Encouragement to Fishing Trade during the Reign of Elizabeth.

In the times of Elizabeth, efforts to develop the English naval power were mainly directed to the encouragement of subsidiary callings, and especially of the fishing trade. Fish caught by English men in their own ships could be exported without the payment of customs or any tax. Restrictions were also placed on the recruitment of fishermen in the navy. Fishermen were not allowed to serve as solders but only as mariners.

Tightening of the Navigation Laws under Cromwell and subsequent rulers:

The policy of encouraging native shipping as a security for the country and the means of bringing in wealth which had engaged attention since the time of Richard II, was embodied in a very strict form by the Rump parliament. "During this time of unstable Government in England, seeds were planted of a colonial policy which was henceforth to dominate imperial relations. It was then that England entered upon the period of commercial rivalaries, and wars. The Cromwellian Government determined to wrest the control of the carrying trade from the Dutch and the Navigation Act of 1651 and the first Dutch war were the results". 1

The situation was perpetuated by the Navigation Act of 1660. James I directed a commission to inquire into the manner in which the laws were being worked in 1622 and Charles I

insisted that they should be more vigorously executed with special reference to the Baltic trade in 1629. "What was special about the Acts of the Rump and the Restoration Parliament was that they were not only Acts for encouraging English commerce but for striking a blow at Holland .... The Dutch at this time almost monopolised the carrying trade from distant lands and between different countries of Europe, and the navigation Act was intended to get the portion of the trade which concerned England out of their hands. It forebade importation or exportation of goods between Asia, Africa, and America and England, except in English ships that were manned with English crews, and thus it secured that the whole trade between England and the plantations as well as levant trade and the East India trade fell into the hands of the Englishmen. The Act of 1660 was even more sweeping than that of 1651, as it insisted that the shipping should be English-built as well as owned by Englishmen, and it prohibited aliens from being merchants or factors in our plantations, admirals and governors of the plantations were enjoined strictly to use every endeavour to enforce the Act and drive out the Dutch from taking any part in (our) colonial trade .... Another clause of these Acts excluded the Dutch from carrying trade between England and the Mediterranean ports, since goods of foreign growth and manufacture were only to be imported in English ships English-built and English-manned; and they might not be brought from Dutch depots, but directly from the countries which produced them ------ Where
can be no doubt that this Act was in many ways prejudicial to commerce and to the colonies. English shipping was not sufficient at first to carry on the whole of English trade and as a consequence of the great demand, the cost of shipbuilding was said to increase enormously so as to render some established trade unprofitable, while the plantations and even English producers, were restricted in their dealings and unable to obtain the best market for some of their products, but these disadvantages were clearly understood by the men who passed the Acts, and who believed that the benefit to the power of the country would far outweigh the immediate inconvenience of any individual.¹ Thus colonisation seemed to offer to the countries of Western Europe in general and England in particular, a way of escape from the supposed disadvantage of unfavourable balance of trade. The colonies might either produce the commodities which had otherwise to be imported from a foreign country, such as naval stores; or send to mother country some staple goods such as tobacco or sugar which could be reexported to foreign countries and thus might give it a firmer position in their markets. It was for this reason that the English navigation Act of 1660 enumerated certain commodities which had to be sent in the first instance to England. These commodities were principally, sugar, tobacco, indigo and ginger. England was to be the country of entrepot trade in these goods.

In 1662 a standing commission was appointed by the King to inquire into and to advise on the state of trade. Among many

¹ Ibid, p.112.
things to be considered by the commission, special attention was to be given to the maintenance of shipping, as a principal means to advance the honour, strength, safety and profit of the Kingdom.

The Shipping Policy Under the Direct Parliamentary Control:

The shipping policy pursued, under direct parliamentary control (1689-1776) had the following objects in view:

(a) Besides endeavouring to encourage shipping by means of the Navigation Acts the legislators of the time paid considerable attention to the supplies of materials for building ships. The English statesmen in 1755, to obtain their own supplies offered bounties for importing pitch, tar, hemp, terpentine, masts and spars from American plantations. Bounties were also given to those who built ships capable of good defence.

(b) Considerable attention was also given to the position of seamen, especially with the view of inducing them to serve in the Royal Navy.

(c) Public attention was also directed to the dangerous nature of the coasts and the authorities of Trinity House took in hand the erection of a light house on the Eddystone. Lights were also erected and landmarks and buoys placed, so as to facilitate navigation.

A good deal of attention was given to the improvement of harbours and ports like, Dover, Bridlington, Ramsgate, Milford, Haven, etc.

It was also found that the charts of the west and northwest coast of Britain and Ireland were very imperfect and a statute was passed in 1741 for surveying them more completely.

Attention was also paid to navigation on the high seas.
It was at this time that the facilities were devised for reimbursing those who incurred losses at sea. Loans on bottomry had served the purpose of marine insurance during the Middle Ages and in the 15th century the practice of premium insurance became common and a considerable number of people were engaged in this occupation in London in 1574. It was the famous coffee-house of Mr. Edward Lloyd where in 1779 a general form of marine insurance policy was drawn up to serve as a model for marine insurance business all over the world. The immense increase in the risks of loss which British shipping ran during the recent wars, rendered it necessary for all shipowners to protect themselves by insuring and caused a very rapid expansion of the underwriters' business.

**The Role of Mercantile System and Navigation laws in Promoting British Shipping and Naval Supremacy:**

The foregoing account clearly reveal that it was largely under the mercantile system that English statesmen desired to develop shipping and industry and under that policy the mercantile marine increased, so as to rule the waves and England became the workshop of the world. And it was during 1776 to 1815 that England began to reap the fruits of that maritime supremacy which she had fostered so carefully. As the result of the Navigation Acts, remaining in force for a period of two centuries was that by 1847 no produce from Asia, Africa or America could be imported into U.K. or Europe in any ships, except in British bottoms. Her superiority on the sea had enabled England to maintain her footing both in America and India and to destroy the French power in West and East.
During this long struggle her mercantile marine provided the sinews of war from sources which Napoleonic failed to reach. During the American war too, a fatal blow was inflicted on Holland as a commercial power and England came to inherit the colonial possessions of both her former rivals, while she also obtained access to territory like the Brazil, which had been previously closed to her shipping. During those times "it was a life and death struggle; but English shipping and English industry had rendered her powerful enough to struggle with success". The pace of development of her mercantile marine was further accelerated by the acquisition of monopoly power in the rich lands of Canada and India under the treaty which concluded the Seven Years war in 1763. Add to this the fruits of the naval victory of Trafalgar and we find the English naval and merchant fleets supreme in all the seas during the early years of the 19th century. Britain, thus, came to dominate, between 1860 and 1914 all the oceans of the world, showing her flag in all ports in all maritime countries and all the trade routes of the world. Spain in the 16th, Holland in 17th and France, in the 18th centuries were Britain's principal rivals, who, adopted the same methods and weapons to dominate the world's trade routes. On by one, they were all eliminated. Britain, thanks to the Navigation laws. Thus by the time the Navigation laws were repealed in 1849 under the laissez faire regime, the English merchant marine had grown so fully that natural growth was then most

1 Ibid, p.508.
suited to its further development as shown by the following figures:

<table>
<thead>
<tr>
<th>Year</th>
<th>Total net tonnage (Sail and steam)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1850</td>
<td>3,565,133</td>
</tr>
<tr>
<td>1860</td>
<td>4,653,687</td>
</tr>
<tr>
<td>1870</td>
<td>5,690,783</td>
</tr>
<tr>
<td>1880</td>
<td>6,574,513</td>
</tr>
<tr>
<td>1890</td>
<td>7,798,538</td>
</tr>
<tr>
<td>1900</td>
<td>9,304,108</td>
</tr>
<tr>
<td>1910</td>
<td>11,556,663</td>
</tr>
<tr>
<td>1920</td>
<td>12,119,891</td>
</tr>
</tbody>
</table>

Sources: Minutes of evidence recorded by the Indian Mercantile Marine Committee, 1924, p. 163.

Repeal of the Navigation Laws and the Era of Free Trade:

Direct and Indirect Subsidies to Shipping:

The Whig Government of 1848 had a strong mandate for free trade and the Navigation laws were considered a tangled mass of antiquated restraints upon free commerce. The Navigation laws were repealed in 1849. Subject to reservation of the coasting trade to British vessels and subject to the proviso intended to secure reciprocity where by if prohibitions or restrictions were imposed on British ships by other countries, the privileges of the ships of those countries in British ports might be restricted. The reservation of the coastal trade was removed in 1854 and a so called era of free trade was ushered in. Once however, England had obtained the virtual mastery of shipping business, it was easy for British politicians and economists to regard such aids and stimulus as her own Navigation was
provided in the past, to be unnecessary for her and objectionable if imitated by others. However, mail subsidies and other forms of direct and indirect aid to English shipping continued. The British Government which was not plagued with unequal shipping costs, in those days, began to stimulate its merchant navy by discriminating custom duties. In 1837 she began the payment of cash subsidies for the maintenance of regular shipping services over routes important to the Empire. "By 1860 the British Government was disbursing no less than a million pounds annually on mail contracts. The Wilson Line, one of our oldest 'short sea' companies, received a mail contract for Baltic ports. In 1852 the African steamship Company was founded with a monthly contract to the West African Colonies. In 1856 the Allan Line of sailing ships turned over to steam on the Quebec service with similar assistance and in 1857 the Union Steamship Company, precursor of the modern Union Castle, was given the monthly mails to the Cape. Finally, in the Far East the East India Company had been eliminated and by 1860 the P. & O. was carrying the mails all the way from London to Alexandria, Bombay, Calcutta, Colombo, Singapore, Hong Kong and Sydney. In twenty-three years the little coasting concern, for which Arthur Anderson had obtained with so much difficulty the first mail contract to Gibraltar, had developed into a fleet of no less than fifty-five regular ocean-going liners. The steam Packet had paved the way for the steamship".

The British Mail ship subsidies, at the time of the select Committee (1901) amounted to £756,500 a year, but that sum did not include the new contract for £150,000 a year agreed upon with the Cunard Company. Admiralty subsidies amounted to £770,131 a year. Of British mail subsidies, £25,000 was paid annually to the South-Eastern and Chatham Railway for the carriage of mails, twice daily, between Dover and Calais, and Calais and Dover. For one half as much service, and without having the weekly Indian mail to carry, the French mail received a subsidy of £10,000 a year. The P. & O. received the largest subsidies in the kingdom. They were paid £330,000 annually for a weekly service to Bombay, a fortnightly to Shanghai, and a fortnightly service to Australia. The Orient Line, for fortnightly service to Australia, received £35,000 a year. The Canadian Pacific Railway, for the conveyance of mails, troops, and stores from Halifax or Quebec, via Vancouver to Hong-Kong, had £60,000 annually. The Royal Mail fortnightly West Indian service had subsidy of £80,000 a year. The Union-Castle Company received £135,000 for carrying the mails from Southampton to Table Bay once weekly. The British India Steam Navigation Company received £9,000 a year for a monthly service between Zanzibar and Aden. In granting British subsidies, the objects held in view were speed and regularity of postal service and Admiralty requirements for the call of steamers in time of war or need. Trade interests were not separately considered except in the case of the £40,000 annual subsidy for West India Service to Jamaica, which was an outcome of the recommendations of the West India Royal Commission of 1896-97, and was established to encourage the
the fruit trade of those islands.¹

By 1909-1910 the British Government was giving several types of subsidies and aid as shown below:

<table>
<thead>
<tr>
<th>No.</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Subsidies and mail pay (British Postmaster-General)</td>
<td>664,090</td>
</tr>
<tr>
<td>2.</td>
<td>Cunard Admiralty subvention.</td>
<td>145,800</td>
</tr>
<tr>
<td>3.</td>
<td>Royal Naval Reserve (1909-10)</td>
<td>356,724</td>
</tr>
<tr>
<td>4.</td>
<td>Canadian subsidies and mail pay (1910)</td>
<td>316,360</td>
</tr>
<tr>
<td>5.</td>
<td>Fisheries bounties (1909)</td>
<td>32,000</td>
</tr>
<tr>
<td>6.</td>
<td>Australian New Zealand subsidies (1909)</td>
<td>252,720</td>
</tr>
<tr>
<td>7.</td>
<td>Cape Colony subsidy (1909)</td>
<td>131,382</td>
</tr>
<tr>
<td>8.</td>
<td>Jamaica subsidy (1909)</td>
<td>38,800</td>
</tr>
</tbody>
</table>

| Total £ | 1,937,876 |

The Admiralty subventions were the payments made by the Admiralty, to secure the right to obtain mercantile ships for use in time of war. But the terms bounties, and subsidies, were used for payments made for some kind of service received by the Government, e.g. the carriage of the mails, provision of cable communications, maintenance of national defence, encouragement of trade etc.

"During the forty years preceding the war of 1914 the overseas trade of the world had not only multiplied many times in volume but had become a complex and closely integrated...

¹ Based on Ships and Shipping, Vol. II, Chapt. XXXIV by Benjamin Taylor, published by Thomas Nelson and Sons, pp. 246-47.

mechanism, profoundly affecting civilised life. British financiers, merchants and industrialists had taken a leading part in that development. And the British mercantile marine was doubly the product of the period, for not only was the steam-propelled ship itself primarily a product of British engineering enterprise, but British-owned tonnage had fully kept pace with the increasing demands of world trade. A vast fleet of British tramps sailed outwards with cargoes of British coal and returned with cargoes of ore or grain or sugar or cotton or rice. British cargo liners served the miscellaneous import and export trade, not only of the United Kingdom, but of the world, with regular services to every major port of the five continents. The great migratory flow of European peasantry to the new lands of the world was still unchecked, and British ships carried them. Reared on this assured trade, the great British passenger lines were unsurpassed by any and challenged only by the German. Taking all three types together, the British mercantile marine of 1914 still represented over 40 per cent of the total mercantile tonnage of the world. British officers, engineers and seamen had established at least a reputation which was unrivalled for sound navigation, technical skill and loyal service.¹

"According to a report made by a Board of Trade Committee in 1918, before world war I, half of the world's trade was carried in British ocean-going ships which used to collect

¹. British Shipping by R.H. Thornton, p.80.
an invisible tribute of something like £.100 million to £.150 million per annum.

Further, substantial financial assistance was given by the State to British shipping during the period between the two world wars. "Under the loan Guarantee Act, 1921-26 approximately $ 96,258,810 was loaned for vessel construction, and the average interest rate was 5% which was 1% below market rate. Loans guaranteed by the British Government for vessel construction in Northern Ireland totalled approximately $110,000,000 from 1922 to 1940 at 3% to 5% rate." \(^1\)

Under the Trade facilities Act, up to the end of 1929, a sum of about £.29 millions had been granted for shipbuilding in Britain, whether for British or for foreign use. Some of the guarantees were on account of Norwegian, Italian, Brazilian and Rumanian ships being constructed in Great Britain which were potential competitors in the world trade. In addition a further £.11 millions were guaranteed under Northern Ireland legislation. A merger between the Cunard and the White Star Companies, was provided for in an agreement of 1933 between the two companies and the Treasury. With a view to ensuring the completion of the "Queen Mary", by the new combine, the Treasury undertook to make advances not exceeding £.3 millions secured by issues of debentures stock. It also undertook to promote legislation that would inter alia enable the Government to advance to the Merger company the cost (not exceeding £.5 million) of new ships.

\(^1\) Indian Shipping, April, 1955, p.17.
The Agreement of 1933 was implemented by an Act of 1934, which empowered the Treasury to advance to the Cunard-White Star Merger sums up to £9.5 millions for purposes of constructing one or more large capital ships for the North Atlantic shipping trade and of providing working capital for the merger company.

These ships were to serve as auxiliary cruisers in times of war and in World War II they effectually did so. The aid to Royal Navy was both substantial and invaluable.

In order to help British Tramp shipping the British Government decided that a subsidy not exceeding £2 millions should be granted under the British Shipping (Assistance) Act of 1935.

Indirect Government assistance to shipping was provided for in the British Shipping (Assistance) Bill of 1939 e.g. facilities for the building of general trading vessels by means of loans not exceeding £10 millions, and by grants not exceeding £500,000 a year for five years. Financial help exceeding £320,000 was actually given for the building of ships in 1939-40, and it was only the outbreak of war that stopped the free flow of this direct cash aid. Liner services were helped to meet subsidised foreign competition by grants, loans, guarantees etc. up to a maximum of £10 millions.

Besides this financial assistance the President of the Board of Trade announced that -

"The Government will continue to take all possible steps to promote the interests of British shipping in connection with trade negotiations and other discussions with foreign governments."
In a Memorandum issued on 6th August, 1940 in London it was announced by the British Government that -

The progress of legislation was interrupted by the outbreak of the war (World War II) the necessity, however, of maintaining the British Mercantile Marine in adequate strength, and in a position of full competitive efficiency is recognised, no less strongly by the Government today. They will therefore, keep this question constantly in mind as one which will be necessary to ask parliament to deal with in due course. ¹

So high is the recognition given to the importance of a merchant marine and its basic industry in peace as well as in war, that even under the stress of the last war, the British Government considered "The Merchant Navy as a vital national interest and will remain so in peace time as it is in war". ²

On another occasion British Minister declared,

"Our Merchant Navy must be at least as large as before, the war, and so much larger as British enterprise and efficiency can make it, in a world from which we hope artificial obstacles to trade will have been removed..." ³

"This country must - I ask the committee to observe the word 'must' - continue to serve the world with a large and efficient merchant marine. The word 'must' is fundamental." ⁴

In 1959, the British Government appointed a small committee to consider the proposals made by the Cunard Co.

1, 2, 3, 4, & 5. Ibid, pp.26-28.
to replace Queen Elizabeth (83,673 GRT) and 'Queen Mary' (81,237 GRT) (both launched more than 20 years ago) operating on transatlantic passenger services. The Committee, in June 1960 recommended that a 75,000 ton liner, to maintain British express services across the Atlantic, should be built with Government assistance in the form of a substantial loan.

It is claimed that unlike shipping companies in many countries, the U.K. shipowners receive no subsidies or other direct financial assistance from the Government. However, the British Government felt that the U.K. shipping industry was faced with severe competition in a world market, especially from ships sailing under 'flag of convenience' with small tax liabilities and that they found it increasingly difficult to build up finance for the replacement of ships. In 1956 the shipping industry was the only industry allowed to retain the 20% investment allowance in respect of taxation which was withdrawn from the industry generally (but restored in 1959). The allowance was raised to 40% in 1957 for capital expenditure on the construction of new ships.

The Navigation Laws of the 16th and the 17th centuries may be non-existent now, the colonial system of the 18th century has virtually disappeared, but the spirit that moved Cromwell is not dead. Even to-day, no non-Britisher can own a part or whole of a British ship, nor claim a share of the subsidies or loans that British shipbuilders enjoy.
MERCANTILE MARINE POLICY OF JAPAN

Up to the middle of the 19th century the people of Japan led dormant and self-contented life, secluded from the outside world. In 1792 and again in 1804 Russians approached the Japanese coast and demanded of the Shogunate to open ports for trade between the two countries. This was followed by the frequent visits of British and American warships to the Japanese coast urging the authorities to throw open the country to foreign commerce. The King of Holland also advised the Tokugawa Government of not maintaining seclusion and isolation from other nations. Ultimately, the pursuasions of the American squadron commander Perry seemed to have the desired effect on the Tokugawa Shogunate and the country was thrown open to foreign commerce. The prohibition on the construction of large-sized ships was repealed by a proclamation. "Hitherto, the building of large-sized ships has been prohibited by law, but the present situation demands their construction; so that the lords of various clans are hereby permitted to build large-sized vessels". ¹

End of Commercial Isolation and Encouragement to Shipping

Shipbuilding:

This happened in 1853 and the shipping trade of Japan which had been underforced inactivity for more than two

¹ Minutes of Evidence recorded by the Indian Mercantile Marine Committee 1924. p.692.
centuries, was given an opportunity for untrammelled growth and development. Simultaneously with the issue of the proclamation lifting the ban on the construction of large-sized vessels, the creation of an efficient merchant marine was advocated enthusiastically in the country. In 1854, the sun-flag was decided upon as the flag of the Japanese ships and the shipbuilding was activated under the patronage of various clans and the Government. In 1859, the "okugawa Government concluded provisional commercial treaties with the U.S.A., U.K., Russia, France and Holland. In 1861, under the regime of Bunkyu, the construction of ships was encouraged in a wider scope and permission was granted to the people at large not only for the building of large-sized vessels, but also for free navigation along the coast and in the adjacent seas. Moreover, the authorities supplied to those who were in experienced in marine navigation with experienced sailors and pilots. Subsequently the prohibition on making cruises to foreign countries was repealed which signified the complete abolition of the law for closing the country to foreign intercourse promulgated in the era of Kwanyei. "As a consequence of this new departure in the marine policy of the okugawa Government, lords of clans and enterprising merchants built or purchased from abroad ships of different sizes and, in 1867, foreign style steamships and sailings ships owned by the Shogunate and those by various clans numbered 44 and 194 respectively. Of these, one steamship and 20 sailing-ships were constructed at home. In short, the encouragement given to the construction of large vessels by the Shogunate in its last days
was derived from a necessity for national defence, but it is indubitable that, by so doing, the Tokugawa Government, called into existence an embryonic fleet of ships which has since grown to the present great merchant marine of Japan.¹

Protection and Development of Mercantile Marine under the Meiji Government:

After the restoration of Meiji, the new Government which made the progress of the country in every field of activity, it did not neglect the development of merchant ships. In 1868, the Bureau of Domestic Affairs was established in the office of the Supreme Council, for the control of land and sea communications and traffic, post stations and harbour-entrances. This was the first office for the administration of the mercantile marine ever instituted by the Meiji Government. In the same year the imposition of a tax on all ships in Japan was decided upon and every ship had to be marked by a Government brand for the purpose of taxation since ships without the brand were not permitted to operate. In 1869, a proclamation was issued to the people at large, encouraging the purchase of foreign ships. In the following year the Government publicly announced its intention of extending sufficient protection to the Japanese owners of foreign-style vessels. At the same time the authorities published the merchant marine regulations. Thus the Meiji Government laid the foundation for the protection and development of the Japanese mercantile marine.

The Mitsui Bishi Co. was one of the first shipping concerns in Japan to achieve any measure of success. It was

¹Ibid. p.692.
formed in 1873 from the wreckage of the two other shipping companies founded in 1869 and 1871 respectively. The Mitsu Bishi company commenced by operating between Tokyo, Osaka and Kochi in competition with another company, the Nippon Yubin Joki. In 1877 the Japanese expedition to Formosa took place, and the Japanese Government was compelled to buy 13 steamers for transportation of troops. The Mitsu Bishi company placed its fleet at the disposal of the government, purchased ten other vessels for transport and also undertook to man the Government vessels.

**Beginning of direct State aid to Shipping:**

The Japanese Government profiting by the experience gained from the overseas transportation carried out during the Formosa Campaign, which concluded in 1878, and acting on the recommendations made by Okubo Toshimatsu, the then Minister of Home Affairs, decided on the policy for the Japanese mercantile marine that the seaborne trade should be entirely entrusted to private concerns and also that State aid should be granted to foster its development. In consideration of Mitsu Bishi’s services in 1877, the Government handed over to that company 13 vessels purchased in 1877, and concluded an agreement with it, providing that the government would grant a postal subvention of Yen 250,000 annually for the Shanghai and coastwise services operated by that company and the annual subsidy of Yen 15,000 for the training of seamen. This marked the beginning of the Japanese government’s determination on a policy of subsidies to encourage and maintain its mercantile
These subsidies were to be granted for 15 years and the following conditions were to be observed by the Mitsu Bishi Co.

1. The Government to have power to requisition the company's vessels at any time.
2. The company to engage in the Shanghai and coast wise trade.
3. The company to carry mails free of cost.

During the same year the Japanese government handed over free of cost to the Mitsu Bishi company 12 more ships from another shipping concern that came to grief early in the year. In 1875, the company after severe but successful competition urged the government to buy out the American interest in the Shanghai-Yokohama trade. The Government acted upon this request and acquired 4 vessels aggregating 7844 tons and warehouses in Shanghai and Yokohama. Later these vessels were handed over to the Mitsu Bishi company. Again when the Saigo rebellion broke out, the company was ordered to carry out the transportation of troops and military supplies and served Government for a period of about 8 months in 1877. The company obtained 700,000 yen from the Government on account of the scarcity of available bottoms and purchased from foreign shipowners 10 vessels at 10,80,000 Yen making up the balance of 380,000 Yen from its own funds. During the next few years the company devoted its energy to the adjustment and betterment of its foreign and domestic services, with the result that remarkable progress and prosperity were attained. But complaints began gradually to be raised against the company for its monopoly of Japan's shipping trade until the government resolved to aid the establishment of
another company styled as Kyodo Unyn, a semi-official concern established in 1882. Shortly afterwards, however, competition began between the Mitsu Bishi company and the newly organised company and it became so severe that at last arrangements were made for the amalgamation of the two rival concerns in 1885. Thus the Nippon Yusen Kaisha was born and it was controlled by the government which guaranteed an annual 8% dividend and in return appointed the company's directors, made the company into a limited liability concern, reserved to itself the right of inspection of the company's ships and the right of requisitioning any of the company's vessels at any time. Moreover, it had to carry mails free, to train its seamen and to submit to Government approval all financial schemes. In 1887 the Government withdrew its guarantee of 8% dividend and replaced it by an annual subsidy of Yen 880,000 for 15 years.

With the development of Japanese railways there was an increase in the shipping trade and between 1889 and 1893 the Shanghai-Vladivostok line and the Kobe-Manila line were opened; the Korean and North China lines were developed and in 1893 the Kobe-Bombay line was inaugurated in conjunction with Messrs. Tatas & Co. The Nippon Yusen Kaisha at the end of 1893 had reduced the number of its steamers from 58 to 47, but increased its tonnage from 68,724 to 69,454. In the same year the company became a public concern and Government control was greatly reduced.
Effects of Sino-Japanese War:

At the time of the outbreak of Sino-Japanese war (1894–1895), the vessels possessed by the Japanese Mercantile Marine aggregated no more than 110,000 gross tons. But the war gave a remarkable impetus to the shipping industry and after its termination a period of rapid development and expansion ensued.

The Japanese nation, thanks to the bitter experience of the war, felt more keenly than ever before the urgent necessity of further developing the merchant marine and that, in order to cope up with international competition the Government should extend protection and encouragement to the shipping industry. This popular opinion gave rise to the representation to the Imperial Diet and Government's proposals concrete plans.

Initiation of Navigation Bounty and Subsidy Laws:

In March 1896, the Navigation Bounty Law and shipbuilding Bounty law were promulgated and put into force together with the provisions for Mail contracts for special services. In March 1909, the Navigation Bounty Law was abolished and in its place, the Ocean Navigation subsidy Law was promulgated. During the world I, as many ships were built as shown by the table below:

The number and tonnage of ships of 1000 tons gross and upwards built in Japan during the war:

<table>
<thead>
<tr>
<th>Year</th>
<th>No.</th>
<th>Tonnage</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1914</td>
<td>16</td>
<td>78,000</td>
<td>100</td>
</tr>
<tr>
<td>1915</td>
<td>8</td>
<td>49,000</td>
<td>63</td>
</tr>
<tr>
<td>1916</td>
<td>39</td>
<td>140,000</td>
<td>180</td>
</tr>
</tbody>
</table>
During the World War I, so many ships were built in Japan and shipbuilders made such profits that the subsidy was withdrawn and the shipbuilding Bounty Law was annulled and a system of indirect aid was adopted for the shipbuilding industry by amending the custom Tariff Law in 1921 under which the exemption from import duties of foreign construction materials was granted.

**Navigation Bounty Law of 1896:**

Some essential points of the Navigation Bounty Law of 1896 are given below:

(a) Navigation bounty was granted to vessels owned by Japanese subjects.

(b) Vessels eligible for the bounty should be of over 1,000 tons gross, under 15 years old, with a maximum speed of over 10 miles an hour.

(c) Foreign-built vessels were generally not eligible for the navigation bounty.

(d) Vessels receiving the navigation bounty should take on board a certain number of apprentices.

(e) Non-Japanese subjects were not generally allowed to be employed as officers on board vessels receiving the navigation bounty.

(f) Vessels receiving the navigation bounty, generally must not be sold, chartered, exchanged, donated, or mortgaged.

<table>
<thead>
<tr>
<th>Year</th>
<th>Vessels</th>
<th>Tons</th>
<th>Apprentices</th>
</tr>
</thead>
<tbody>
<tr>
<td>1917</td>
<td>70</td>
<td>307,000</td>
<td>394</td>
</tr>
<tr>
<td>1918</td>
<td>199</td>
<td>520,000</td>
<td>667</td>
</tr>
<tr>
<td>1919</td>
<td>134</td>
<td>618,000</td>
<td>792</td>
</tr>
</tbody>
</table>

Source: The Minutes of Evidence recorded by the Indian Mercantile Marine Committee, 1924, p. 702.
to other than Japanese subjects.

**Provision of the Navigation Subsidy Law of 1909:**

The provision of the ocean Navigation subsidy Law of 1909 were more or less, on the similar lines of those of the Navigation Bounty Law of 1896. This law showed a marked preference for bigger vessels with higher speed, in granting subsidies. Besides, it provided that foreign-built vessels must not be operated on subsidised lines except those entered on the Japanese register within a period of five years after construction and those approved by the Minister of the Department of Communications. The amount of the subsidy for the foreign-built vessels is half that granted to home-built ones.

**The Subsidy System:**

The subsidy system in Japan in operation at that time can be divided into three categories as follows:

1. **Ocean Navigation Subsidy system** as was then in force under the then existing law on the San Francisco and the South American (East and West Coast) lines.

2. **Postal Subvention System** as mail contracts on the European and the North American (Seattle) and the Australian lines.


The postal Subvention system came in operation in 1909 and proved to be the most effective measures for promoting foreign trade and shipping industry. As a general principle all Japanese steamship companies, maintaining regular services were given an equal chance of competing for mail contracts,
but generally the contracts for certain specified services was made between the Government and the companies concerned by mutual agreement. No mail contracts were made with non-Japanese companies.

Certain conditions were imposed on the companies, for the contracts of carrying mails, as to the route, ports of call, number, tonnage and speed of the vessels employed, number of voyage, accommodation for mails carried number of apprentices taken on board for training equipment and facilities on shore, employees in both steamers and offices, requisition of the vessels, etc.

The system of giving postal subventions as a policy was actually adopted in 1921, though some of the lines like Nippon Yusen Kaisha received it, in place of the subsidy in 1910.

The Navigation subsidy under 1896 Law did not place any limit to any specified routes, but the navigation subsidy to Ocean services in 1910 restricted grant of subsidy to the following routes:

1. European route
2. North American route
3. South American route
4. Australian route.

For the purpose of giving subsidies certain lines were selected on these routes. The reasons for such restriction and for selecting such lines were partly based on trade conditions and partly because, the treasury did not permit more money to be given that would be required for other lines. For example the Japan-Brazil line was free service but considering its
importance to the Japanese emigrants, it was considered most desirable to aid the line even though it was more than what the treasury could afford. Again the granting of special subventions to particular lines was chiefly from the consideration that though some of the lines did not pay if the vessels required by the Government be used, the destinations of such line being within Japanese territory, State aid was considered necessary to cover the loss sustained.

The remarkable strides made by the Japanese shipping since 1873 to 1933 can be seen from the following table:

Increase in Tonnage (G.R.T.) of Ships in Japan

<table>
<thead>
<tr>
<th>Year</th>
<th>Steamships</th>
<th>Sailing Vessels</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>(For Russo war) 1873</td>
<td>26,000</td>
<td>8,000</td>
<td>34,000</td>
</tr>
<tr>
<td>1875</td>
<td>42,000</td>
<td>9,000</td>
<td>51,000</td>
</tr>
<tr>
<td>1894</td>
<td>96,520</td>
<td>45,000</td>
<td>141,000</td>
</tr>
<tr>
<td>(War with China) 1895</td>
<td>154,454</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>1903</td>
<td>662,986</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>(War with Russia) 1904</td>
<td>797,000</td>
<td>327,000</td>
<td>11,24,000</td>
</tr>
<tr>
<td>1905</td>
<td>939,462</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>1906</td>
<td>1,116,945</td>
<td>N.A.</td>
<td>N.A.</td>
</tr>
<tr>
<td>1913</td>
<td>1,528,000</td>
<td>828,000</td>
<td>23,56,000</td>
</tr>
<tr>
<td>1918</td>
<td>2,337,000</td>
<td>1,260,000</td>
<td>35,97,000</td>
</tr>
<tr>
<td>(First World War) 1919</td>
<td>2,870,000</td>
<td>1,351,000</td>
<td>42,21,000</td>
</tr>
<tr>
<td>1930</td>
<td>3,968,000</td>
<td>1,355,100</td>
<td>53,23,700</td>
</tr>
<tr>
<td>1931</td>
<td>3,974,100</td>
<td>1,324,500</td>
<td>5,308,600</td>
</tr>
<tr>
<td>1932</td>
<td>3,938,300</td>
<td>1,309,600</td>
<td>5,247,900</td>
</tr>
<tr>
<td>1933</td>
<td>3,832,000</td>
<td>1,307,000</td>
<td>5,139,000</td>
</tr>
</tbody>
</table>

This remarkable progress can be attributed to the fact that Japan has an advantageous geographical situation, being an island country. The change from an agricultural to an industrial country and the consequent rapid development of foreign trade had encouraged Japanese shipping to a great extent during that period. "Nevertheless (a) the Government's subsidies and encouragement policy (b) frequent outbreaks of war (c) cheap labour are regarded as the important direct causes."

After the war with China, the Government adopted an extensive shipping policy in 1895 in order to cope with the post-war development of industries and foreign trade. The Navigation Law of March 1896 referred to earlier granted general subsidies to all owners of steamers engaged in service conforming with the provisions of the law, which was modelled on the French subsidy system. This law was designed both to protect and to encourage the shipbuilding industry at home. Soon after the law came into force, several new ocean lines were opened by various firms, the main routes of which were as follows:

- **European Line (Yokohama-London-Antwerp via Suez).** By Nippon Yusen Kaisha.
- **South American Line.** By Nippon Yusen Kaisha.
- **North American Line (Yokohama-Seattle).** By Nippon Yusen Kaisha.
- **Australian Line (Yokohama-San Francisco).** By Toyo Kisen Kaisha (Est. 1896).
- **Yangtse River Line (Osaka-Various ports along the Yangtse river in China).** By Osaka Shosen Kaisha.

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1 The Industry and Trade of Japan, by Uyahara, pp. 184-185.
Thus, the principal lines to the Western and Eastern continents were established with the aid of the Government and shipping transport started its activity. On the advent of the war (1904-1905) with Russia, as in the case of the previous war, great demands were made on sea transport, which resulted in a heavy importation of ships, and also stimulation of the home shipbuilding industry. Therefore, despite the loss of ships during the war, the gross tonnage \(^1\) was considerably increased.

After the war several new lines were opened in addition to the principal ones already established.

The Nisshin Kisen Kaisha (China-Japan Steamship Co., Ltd.) was established in 1907, for the purpose of operating all lines along the Yangtze River and various ports in Central China.

The Japanese shipping was again greatly stimulated on the advent of the first world war, which caused a rapid rise in freightage, chartering cost, and price of ships. The gross tonnage of ships commandeered by the Allied Governments for military transport totalled approximately 23,000,000 tons.

The German submarine attack and other causes connected with the War accounted for a loss of about 11,855,000 tons. For these reasons the tonnage and number of ships during the War available for commercial use were greatly decreased, and the pre-war shipping routes were seriously disorganised soon after

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1. Number and Tonnage of Steamships before and after the war with Russia (1904-05) Refer page.44.
the War commenced. It was therefore quite natural that freightage and charteage should rise to a great extent. As a consequence, an unprecedented boom occurred in Japanese shipping circles, and the ocean routes were rapidly extended to almost all parts of the world.

Meantime, the Government not only paid great attention to the development of Japanese shipping, but also strengthened the Navigation Encouragement Act, for the purpose of securing a solid foundation for future shipping competition. As a result several new fixed lines were established with the aid of the Government during the War. At the same time, shipping companies operated many lines on their own account without the Government subsidies.

This remarkable development was attained through the Government's positive policy of encouragement and the enormous activity of shipping companies, which was, of course, stimulated by war-time activity. Thus, Japanese ships greatly increased in number as well as in gross tonnage which stood at 47,710 and 4,221,000 GRT respectively at the end of 1919.

At the end of the war, there followed the world economic depression, and the shipping in Japan suffered considerably, owing to the rapid fall of freightage, chartering cost and price of ships, the reasons for which may be enumerated as follows:

(a) Completion of foreign ships which were under construction during the war.

1. Refer page 44.
(b) Foreign countries' reorganisation of shipping transport which was disturbed during the war.

(c) Release of ships on war service.

Thus, owing to the adverse state of shipping, which was made worse by the rapid decrease of freights, the shipowners found themselves in great financial difficulties, which caused many of them to go into liquidation. For instance, the Nippon Yusen Kaisha, only managed to show a profit of Yen 2,990,000 (27 per cent of the total paid-up capital) on the balance sheet of 1913. This sum included a Government subsidy of yen 2,433,200. But at the height of the war boom at the end of 1918 an enormous profit was realised, corresponding roughly to 215 per cent of the paid-up capital. Soon after the war, the business of the company underwent an unfavourable change, and the percentage of profit fell to 9 per cent and even that could not have been attained if the Government subsidy, income from other sources and miscellaneous items and also from reserve fund had not been taken into account. It was therefore clear that without these extra incomes the direct revenue from shipping business would not have covered the expenses of the year during the post-war depression period. We might observe the same fact in the balance sheet of the Osaka Shosen Kaisha and the Toyo Kisen Kaisha. The above three were commonly regarded as the nearly subsidised companies in Japan at that time.

In early days of Japanese shipping industry, it was rather difficult for private shipping companies to develop their business, though they were encouraged by the Government
with considerable amount of subsidies. It was, the outbreak of wars, that gave them opportunities of overcoming difficulties as shown by the foregoing account. These wars helped indirectly the Japanese shipping in two ways. In the first place it was generally found on the outbreak of every war that the ships which private companies, possessed were inadequate either in number or in construction, to meet the requirements arising out of national emergencies. Consequently the Government adopted the policy of subsidy for encouraging an industry of national importance. In the second place, the rise of freightage and charterage during the wars resulted in improved financial stability and owing to the war time high profits and expansion of new routes, the spirit of enterprise of private companies was stimulated. This was demonstrated in a remarkable manner during the World War I, when considerable expansion of shipping tonnage was recorded as shown by the table appearing on page 44.

However, it should be noted here, that the protective policy followed by the Japanese Government was of basic importance in the matter of shipping industry. The navigation encouragement policy as detailed earlier, falls into two divisions. The period from 1896 to 1909 was one of general protection, and from 1910 onwards, subsidies were granted on the basis of particular routes.

The Japanese Government also paid great attention to the education of mariners. During the earlier part of the Meiji era almost all ships flying the Japanese flag were foreign built and manned by foreigners. However, nautical education was promptly improved, and the number of Japanese seamen
and officers showed a gradual increase.

**Government Policy with regard to The Japanese Shipbuilding Industry:**

The original ships of Japan were known as Junks and both in construction and size they were utterly unsuited for ocean service. The shipbuilding industry remained absolutely undeveloped, inspite of the suitable geographical position, because for more than 300 years, Japan followed a policy of national isolation and stringent restrictions were imposed by the Shogunate government upon shipbuilding and travelling. The Japanese were then forbidden to leave their own country and no boats above 50 tons in capacity were permitted to be built.

After 1854, these restrictions were relaxed and Shogunate Government encouraged the building of large-sized vessels of models after the design of Western schooners. Early in 1870 the Government promulgated regulations for shipping and instructed the people in the building of Western models. "At this time, however, Japanese shipbuilding works were naturally unable to meet the constantly increasing requirements due to the sudden expansion of the country's maritime business, so that all larger crafts were brought from foreign ship-yards. Although the number of foreign built steamers fell below that of home-built vessels after 1876, their tonnage continued to be much larger until 1878. Meantime, the Government issued a decree in 1876 prohibiting the building of ships of the Japanese type of a capacity of 520 Koki and upwards, so as to encourage the building of the large Western type steamers. Few private concerns were established, but the work was
actually carried on by the Government up to 1880. During this period the number of homebuilt vessels gradually increased, but the average tonnage of steam vessels in 1880 hardly exceeded 80 tons.

Establishment of Private Shipbuilding Yards:

As the maritime business gradually developed, shipyards under private ownership were established. For instance, the Osaka Tekkosho Co. (Osaka Iron works Co.) was formed in 1881, and the Ono Zosensho Co. (Ono Shipyard Co.) in 1883. In 1884 and 1885, the Government handed over the management of the Nagasaki Shipyard and the Kobe Shipyard & which were under Government control, to the Mitsubishi Co. and the Kawasaki Co. respectively. At the same time the other two Government shipyards, viz., Urga and Ishikawa, changed hands, and shipbuilding in Japan which has been entirely under State management before 1880, was transferred to private enterprise from that year.

The Shipbuilding Encouragement Act:

In 1894, when the Japanese-Chinese war broke out, the Japanese shipyards were not, then, sufficiently developed to cope up with the wartime demand except for repair work. The businessmen connected with the industry made an appeal to the Government to formulate an adequate policy for the encouragement and protection of the shipbuilding industry after the war. This resulted in the passing of the shipbuilding encouragement Act in 1876.

Greatly encouraged by this Act, several new shipbuilding
companies were established. The Hakodate Dockyard company, the
Inoshima Dockyard Company and the Toda shipbuilding company
were formed. However, actually this Act was not very successful,
as the number of ships built during 1896-99 was fewer than
expected, and companies showed a big deficit yearly, despite
the Government subsidies, while the majority of ocean-boats
required by Japan were still supplied by foreign shipyards.
The Government, therefore, decided to amend the shipbuilding
encouragement Act, promulgated in March 1896 to foster home
shipbuilding industry. The main amendment was that a full
navigation subsidy was to be granted to home-built ships and
as against only a half to foreign-built ones.

Soon after the amendment came into force, in October 1899,
the industry took a prosperous turn, and the number and tonnage
of home-built ships increased rapidly, due, of course, to the
adequate assistance given by the amendment of the Act.

It is noteworthy that the shipbuilding industry during
this period showed remarkable progress in skill and technique.
For instance, the Hitachi Maru, which was built in 1898 by the
Mitsubishi Nagasaki Company was considered at that time an
epoch-making product of the Japanese industry, not only in
respect of the tonnage, which was 6172 tons — the largest
displacement ever constructed in Japan — but also of her
first-class workmanship, which was readily recognised to be
equal to that of boats of any other shipbuilding country.
Effects of War on Shipbuilding:

During the Japanese–Russian war (1904–1905) a number of ships had to be purchased by the Government from abroad and further shortage of ships was met by chartering of foreign vessels. The war time demand for ships encouraged shipbuilding companies to expand their works and increase their capital and brought about considerable development after 1908 in the shipbuilding industry, shown in the table at the end. "Of the many things which the war brought out in the industry the most noticeable was the remarkable work turned out by private companies who had never before been engaged in the construction of any warships except torpedo boats. They built destroyers, gunboats and cruisers of great speed and size. As to mercantile vessels, the Tamha Maru (7460 tons) which had the highest tonnage recorded, and the Nikko Maru, of 17.7 knots, were representative of those built before the war. After 1903, however, the construction of big ships was rapidly taking place, and the Tano Maru and Chiy X Maru were representative of the post-war production, both being 13,500 tons and running 20 knots, with complete structure and up-to-date accommodation which compared quite favourably with the productions of European countries. In 1909 the Navigation Encouragement Act was replaced by the Ocean Service Subvention Act, under which ships subsidised were limited to steel steamships with a gross tonnage of not less than 3000 tons and a speed of not less than 12 knots, which aimed undoubtedly at the encouragement of the construction of large vessels with higher speed". 1

1. Ibid, pp. 158–159.
During the World War I the Japanese shipbuilding industry experienced an unprecedented boom. “Before the war the number of shipbuilding works equipped for the construction of ships of not less than 1000 tons was no more than six, with 26,000 workers. But during the period of the war the number of works was multiplied by nine and the number of workers by four, and all other parts of the industry made correspondingly rapid strides.

As a consequence the total tonnage of ships built during the war reached surprisingly high figures every year, rising from 190,000 tons in 1916, to 697,000 tons in 1918. It is also noteworthy that the percentage of steamships and sailing-boats showed a remarkable change, that of the former jumping to 90 per cent. In 1918, as against only 54 per cent before the war. Thus it is obvious that the average tonnage of ships built during the war I was much higher than the pre-war figure, the main reason for this being undoubtedly the development and expansion of Japanese shipping and navigation, which extended not only to the Eastern seas but to every port of the world.

The sudden increase during the last two years (1917-1918) was largely due to the war-time orders from America under the agreement by which America supplied the material and Japan built the ships. During these years forty-five ships (tonnage 394,100) were exported to America at a cost of yen 150,105,000. This alone shows that the shipbuilding industry in Japan has rapidly progressed and has reached the standard of other shipbuilding countries.”

1. Ibi, pp. 160-61.
Construction of Naval Ships:

However, after the war, a depression set in the industry but was aided by construction orders from the Japanese Navy, which was, then, working on a new plan of the navy fleet. Besides, under the shipping subsidy Act, with a view to improving the speed and other seaworthy characteristics of Japan's maritime fleet, ships of 100,000 tons of old tonnage were to be scrapped and some 200,000 tons of new vessels to be constructed in order to replace them, within three years ending March 1935, if the shipping companies desired to obtain the subsidy. Therefore, orders for new ships were placed. This gave the necessary boosting to the sagging conditions of the industry on account of depression. Moreover the Japanese Navy awarded building contracts for its replenishment programme during 1935-36.

Arrangement of Finance for Shipbuilding:

Though it was recognised that accommodation of funds on the security of ships on ship building materials was a basic necessity to the shipowners and shipbuilders, it was not possible to obtain financial accommodation in Japan of those days due to the prevailing belief and habit of overestimating the perils of sea. However, during World War I when a phenomenal boom was experienced by shipping as well as shipbuilding industries, the shipowners on Osaka and Kobe petitioned the Government for establishing a marine bank and also for granting a state subsidy to it in 1917 as stated earlier. The Government approved the idea after due examination and entrusted the Industrial Bank of Japan with the management of that bank as
the additional business. The industrial Bank of Japan increased its capital and took over the new bank as one of its collateral undertaking.

**Marine Insurance:**

Soon after the outbreak of the World War I, the Japanese Government adopted a policy of bearing the risks for shipping and the cargoes it carried in view of the necessity of stabilizing the sea-borne trade against the menace and attack of the enemy warships. In 1914 the Government enacted the war marine insurance compensation law which provided that in case a Japanese insurance company or a similar foreign company in Japan, bears war risks for Japanese ships or the cargo carried by them at an insurance rate lower than that specified by the Japanese Government, a compensation corresponding to 80% of the loss would be paid to the company by the Government. Later on, as the sphere and degree of risks extended and increased along with the progress of the war, which inflated the outlay from the Japanese treasury the Government abolished the above mentioned law and published the war re-insurance law, providing that the Government re-insurance against risks borne by a Japanese insurance company for a Japanese ship or cargo at 95% of the specified rate respectively and against those borne by a foreign marine insurance underwriter at 85%. Thus, the Government was able not only to lessen the burden of the national Treasury but also to do away with the baneful practice than prevalent in the Japanese marine insurance circles, of applying to foreign marine insurance underwriters for re-insurance. This practice was largely on account of the
meagre financial resources at the command of the Japanese companies.

Shipping in the Post-War II period:

Japan's shipping has made rapid progress during the post-war (World War II) period and in the wake of the country's economic rehabilitation and consequent rapid growth of her international trade. The Government of Japan has taken active measures to achieve the goal of a rapid increase in tonnage by launching planned shipbuilding programmes and extending to the shipowners such facilities as long term loans at low interest rates, tax concessions like special depreciation, operational subsidies and various other aids of fiscal incentives. Particular attention has been paid to the liner and cross trades, which have expanded considerably. "The liner services maintained by the national operators accounted for over 89 trips per month during the year 1961 as against the prewar peak of 67 trips per month maintained during 1937. Nevertheless, it is considered that there is still considerable scope for further expansion, as in the same routes foreign liners services account for 141.5 trips per month". The Japanese services have to meet severe competition from the more efficient foreign operators and increasing activities of the "outsiders" in the overseas trades has caused great concern both, to the shipowners as well as the Government. The Japanese Government

therefore have been following a policy of strict control over starting of new services, reinforcement of existing services on making any changes in the ports of call by Japanese lines. This is done with a view to rationalising the services of the Japanese shipping companies and making their working more efficient by avoiding any wasteful competition among themselves.

"The Japanese fleet had grown to a little over 6 million tons in 1941 (the year Japan entered the war) but had been reduced to 1,380,000 tons in 1946 ... Japanese tonnage reached the level of 6.3 million tons in June 1960 ... (and) she now occupies the fifth place among the leading shipowning countries of the world". ¹

This remarkable result is largely on account of the various measures adopted by the Japanese Government to assist the industry. The chief measures taken by the Government in the postwar period were:

(a) appropriation of funds necessary for aiding shipowners to build ocean-going ships,
(b) revival of interest differential subsidy,
(c) expanding the scope of cross-trade shipping aids and emigration shipping aids,
(d) help in the replacement of aged main engines and
(e) guidance in the matter of autonomous rationalisation efforts of the shipping companies.

Under the interest differential subsidy, the interest differentials are for making up for the high rate of interests charged on loans advanced by the City Banks and the Japan

Development Bank. The later is the Government institution for extending loans for development of industries. "The city Bank loans carry an interest of 9.125 per cent of which 1.99 per cent is subsidised by the Government and the Development Bank loans carry an interest of 6.5 per cent of which 1.5 per cent is subsidised". ¹

The Government of Japan continued to respond to the needs of her shipping and shipbuilding industries, as in the past, and the interest subsidy was initiated in 1953, to reduce the burden of Japanese shipowners from high interest rates on their shipbuilding loans. However, this subsidy was suspended four years later on the ground that the freight markets had improved. The subsidy was revived in 1959-60 and is applicable to loans advanced by city banks.

A cross-trade navigation subsidy system was set up in 1959, in order to induce shipowners to route their vessels to cross-trade waters. Under this scheme the firms receive subsidies in proportion to the volume of cargo they carry over cross-trade routes.

"Not only have the interest-differential subsidies on shipping loans, suspended since 1957 have been revived with an allocation of 954,000,000 Yen (about $1.2 crores) but the cross-trade subsidy ... has been increased from 460 million in 1959-60 to 700 million Yen (about 93 lakhs) in 1960-61 of this, 10,000,000 Yen are for seamen's welfare facilities overseas. Hamburg will be the first place where accommodation

facilities for Japanese seamen will be provided.

A further allocation has been the grant of 77,800,000 Yen for the South American emigration route granted by Osaka Shōsen Kaisha.

Although both the cross-trade subsidy and emigration allocation are considered by Japanese shipowners to fall far short of the requirements of the industry, they are however, taken to indicate the future trend of Japan's shipping subsidies.

The shipbuilding programme for 1960-61 has been fixed. According to this programme, loans amounting to 13,426,000,000 Yen will be obtained from the Japan Development Bank for the construction of 175,000 G.R.T. of ocean-going ships. Public finance funds are to be furnished at an 80 per cent ratio for cargo liners and 50 per cent for tankers and tramps, as in fiscal year 1959-60. The 1960-61 programme includes the construction of three fast cargo-liners (developing speeds of 19 knots or over); encouragement of the scrap-and-build system for tramps and tankers without raising the proportion of public finance loans for them.

Public finance loans amounting to 1,00,000,000 Yen are to be prepared for replacement of main engines (reciprocating or turbine engines with diesels). This will enable Japan's entire merchant fleet to be qualitatively improved and economically overhauled. In recent years this replacement has been effected for more than 100 ships. During the 1960-61 fiscal year replacement is to be carried out by public finance loans on a systematic basis.

The building programme and engine replacement together
call for 14,500,000,000 Yen in loans from the Japan Development Bank during 1960-61. ¹

The amounts of subsidies given to Japanese shipping during fiscal year 1962 were as follows:

<table>
<thead>
<tr>
<th>Subsidy Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest subsidy</td>
<td>950,000,000 (estimated)</td>
</tr>
<tr>
<td>Cross trade subsidy</td>
<td>460,000,000</td>
</tr>
<tr>
<td>Emigrant ship subsidy</td>
<td>128,000,000</td>
</tr>
<tr>
<td>Total</td>
<td>1,538,000,000</td>
</tr>
</tbody>
</table>

The Japanese Shipowners' Association has stated that the Government is likely to appropriate 11,300 million Yen (about Rs. 16 crores) in the budget for 1963-64 for subsidies to shipping companies and to continue assistance to the shipping industry at that level for the next five years. ²

Moreover, the Government of Japan has already initiated legislation for rationalising the shipping business with a view to reducing the financial strain. This is expected to come in effect very soon. Under the proposed scheme of rationalisation, all Japanese shipping firms will be grouped with a major shipping company as the nucleus of each group, which will have 1,000,000 D.W.T. or more under its control. The Government aid will be given only to such groups. The idea is to bring about an economy in the cost of shore personnel employed, increase the administrative efficiency, economise the routing of ships and streamline the mechanism of cargo-booking.

"The mercantile marine policy of the United States Government, has been changed from time to time, and has not always been directed towards the accomplishment of the same purpose". Before the first World War, the U.S. Mercantile Marine was largely confined to service, on the coast, inland lakes and rivers; and for many years shipping legislation was closely associated with the Government's policy regarding domestic trade and industry. It fell, even, short of the minimum requirements for serving as naval auxiliary in the event of War. In fact, during War, the merchant ships served as the only American navy. It fell short to keep open the trade routes, ensure supplies and convey carriers of indispensable munitions, food or other requirements to maintain the civil life in the country. However, U.S.A. was not so dependent on foreign commerce to maintain the national economy in times of War as Great Britain was, and so her relative neglect of the merchant navy continued until this serious handicap was discovered in the First World War. Besides, the growing need for foreign markets for American products gradually directed the attention of the U.S. Government to the need for a deep-sea merchant marine and after 1914, the First World War created a demand for additional ocean tonnage even in the well organised ocean-carrying trade between the U.S.A. and Europe. "The wholesale destruction of

Early Policy of Shipping Protection:

While it is true that prior to First World War, the U.S. Merchant fleet was practically insignificant so far as its role in the overseas trade was concerned, the U.S. Government did make attempts to protect and promote the development of shipping. The first attempt made in this direction was the passing of the first federal tariff law, the Act of 1789, which gave protection to shipping by providing that imports in American vessels should receive a discount of 10 per cent. below the general import duties. This Act gave maximum protection to shipping engaged in the trade between the U.S.A. and the Orient. It imposed an import duty ranging from 6 to 20 cents per pound on tea imported directly from India or China in American bottoms, while duty of 15 to 45 cents per pound was imposed on tea imported into United States in foreign vessels. All other Oriental products imported in foreign vessels were required to pay a duty of 12½ per cent ad valorem, which was nearly double the rate levied on imports delivered in American vessels. Similar provisions were incorporated in various laws enacted upto 1850.²

1. Ibid. p.498.
Besides, such discriminating import duties, the early tariff laws aided American Shipping by imposing discriminating tonnage charges against foreign vessels. The Act of 1789, also provided, six cents tonnage tax on vessels built and owned in the U.S.A. and on foreign built vessels owned by American citizens, on vessels partly or wholly owned by foreigners 30 cents and on all other vessels 50 cents. The Act of 1804 levied a light-money tax of 50 cents per ton on foreign vessels. This rate was advanced to £1.50 a ton in 1812.

Radical Shift in the Policy:

In 1815, there was a radical shift in the policy when the U.S. Congress provided that discriminating duties in favour of American Ships should no longer apply in the direct trade between the U.S.A. and those foreign countries that agreed to discontinue all discriminations against American vessels. The policy of discriminating duties was practically abandoned in 1828. The abandonment of protection to shipping was largely based on the belief of the U.S. Congress that the American marine engaged in the foreign trade had reached a position of such strength that it no longer required the protection in forms of discriminating import and tonnage duties. In fact, it was believed that it could effectively compete against ships of foreign countries. Some members of the Congress believed that the abandonment of shipping protection would in its turn, cause the removal of foreign discrimination and thereby would benefit American Shipping. There was also modification in the general tariff policy, which accorded less importance to Shipping. The tariff Act of 1818 gave protection to American industries.
Thus the interest in the promotion of domestic trade and industry diverted the public attention from the foreign trade and the mercantile marine. The results of this policy were seen reflected on the development of its mercantile marine. The relative proportion of the value of foreign trade carried in American vessels gradually fell from 89 per cent in 1800 to 66.5 per cent in 1860, but the aggregate registered tonnage in the foreign trade increased from 8,24,000 tons gross in 1815 to 2,494,000 tons in 1861. During and after the Civil War, the registered tonnage of the merchant marine declined steadily until 1911, in part, because of the governmental policy that prevailed. However, in accordance with the law of 1845, mail subsidies were given to certain existing shipping lines and also for the establishment of new ones. The total amounts paid in such subsidies during 1845-58 were about $14,500,000. This measure promoted the construction of several large steamships and the establishment of a number of important lines. After 1873, no direct shipping subsidies were authorised by the U.S. Government, until 1891, when a mail contract Act was enacted. However, the amounts authorised by this statute were too small to stimulate the growth of the U.S. mercantile marine. However, the Government of U.S. negotiated trade reciprocity treaties with a number of countries— with Canada in 1855, with Hawaii Island in 1876, and with Cuba in 1903, and many reciprocal trade agreements were entered into under the McKinlay Act of 1890 and the Dingley Tariff Act of 1897. All these were a form of

1. Ibid, p.500.
indirect aid to shipping, since they brought about the abondement of discriminating import duties and tonnage taxes in foreign countries and paved the way for a larger foreign trade. Besides, large sums were annually spent by the U.S. Government for the improvement of rivers and harbours promoting the safety of navigation and for developing the foreign trade.

While the Government tried to assist American Shipping in various ways, its actions also retarded the growth of the merchant fleet. Until 1912, American registration was denied to foreign built ships. The ships built in American yards were costlier than those built in Great Britain. Under the circumstances, it was difficult for American built vessels to compete with those built abroad and the increase in the American Shipping tonnage to that extent was discouraged.

The laws and rules of the U.S. concerning the measurement of ships burdened American vessels, in that, the net registered tonnage was greater than for British vessels of the same dimensions. Since the laws provided the net tonnage in excess of that assigned to similar British ships, the American vessels had to pay higher tonnage taxes and other ship charges. As against this, the Act of 1817, the coastwise traffic along the seaborad and on the Great Lakes was open only to American vessels. Moreover, the vessels plying in these spheres were also exempted from the payment of tonnage taxes, and the ships engaged purely in the demestic trade were not subject to the compulsory statepilotage laws to which vessels in the foreign trade were required to submit.
The American Shipbuilding industry was helped in four ways between 1875 and 1910:

(1) The registry statutes barred foreign-built ships from American registry.

(2) The reservation of coastwise and Great Lake shipping to American built ships did much to promote the shipbuilding industry.

(3) The U.S. Congress gave shipbuilders the advantage of permitting them to import duty-free foreign materials used in construction and repairs of the vessels.

(4) Most Government vessels were built in private shipyards under direct orders of the Government.

The merchant marine policy of the United States during this period was on the whole liberal, but so far as the foreign trade and registered marine were concerned, it was not a direct and positive policy. Foreign competitors gradually secured the share of the general ocean carrying trade of the World that had formerly been conducted in American vessels, and at times became the carriers of nine-tenths of the foreign commerce of the United States.

The Shipping Act of 1916:

The outbreak of the World War I, in 1914, gave rise to an acute need for ocean tonnage. Pressure was brought on the U.S. Government to purchase and operate ships and the Shipping Act of 1916 made it possible as an emergency measure.

The Shipping Act of 1916 was the first United States Statute to embody a general mercantile marine policy and the foundation upon which the super-structure of the subsequent legislations for the government promotion and regulation of

1. Ibid, p.505.
American Shipping upon the high seas was built. The statute originated in an investigation into shipping combinations made by the Committee on Merchant Marine and Fisheries in 1912. The investigation was broad-based enough to cover government regulation of ocean carriers. During the year 1915-16, when it became probable that the U.S. would become involved in the world war, the U.S. Congress authorised, under the provisions of the shipping Bill, which resulted in the Act of 1916 to requisition, construct or purchase vessels and to operate them. The President was to function through a shipping Board which was authorised to form "one or more corporations for the purchase, construction, equipment, lease, charter, maintenance and operation of merchant vessels in the commerce of the United States". This resulted in the creation of the Emergency Fleet Corporation with a capital of $50 million through which the shipping Board functioned, during the emergency created by the War. The Board was originally intended as a regulatory and advisory body, but when the U.S. entered into the War, the Board took up the operation of a fleet of merchant ships acquired for war purposes. "Indeed, when the Armistice came, the Government was in the midst of a large ship construction programme which was curtailed as much as possible, but which had to be carried out in parts, with the result that the ships, acquired during the War and constructed during and after the War gave the Government possession of more than 12,000,000 tons gross of ships consisting mostly of standardised and hastily constructed freight vessels of about 12 knots' speed". ¹ The shipping Board, therefore,

¹. Ibid,
decided to establish freight line from the major ports of the U.S. to different parts of the world. The Emergency Fleet Corporation subsequently came to be known as the Merchant Fleet Corporation, operated only some of the lines, while most of them were entrusted to private companies, which operated them under the agreements and were protected against loss. Later on, the lines which were profitable were sold off to private companies and others were operated at a loss and the Shipping Board met the deficits from annual congressional appropriations.

In 1926, the Shipping Board reported to the U.S. Senate their conviction that, without additional legislation for direct and indirect Federal aid, a privately owned mercantile marine could not be established. A new Merchant Marine Act, known as the Jones-White Act of 1928 opened the way for further aid to American shipping operators. The Merchant Marine Act of 1928 was adopted, "to further develop an American Merchant Marine, to assure its permanence in the transportation of the foreign trade of the U.S." The provisions of this Act increased the loan funds, at the disposal of the shipping Board to aid private owners in securing, the construction of new vessels and the improvement of existing vessels, for $125,000,000 - the amount authorized by the Merchant Marine Act of 1920 - to $2,50,000,000. The liberal amount of loans from this fund and the mail contracts authorized by this Act, brought about the addition of a large number of high type vessels to the American Merchant Marine. The construction loan provisions of Acts of 1920 and 1928 and the subventions or subsidies that were be given to a large number of American lines for the carriage of ocean mail and for other services that were required of the lines thus aided, had
been of much help to the merchant marine at a time when such help was greatly needed to enable lines under the American flag to compete with those of foreign registry.

"In March 1930, provision was made to increase the existing mail subsidy of $659,000 paid to the U.S. Lines to $3.6 million. Some 34 mail contracts opened or concluded in 1929 amounting to $17.4 millions brought the total yearly payments to private operators to $21 million."  

One purpose of the Merchant Marine Act of 1920 was to expedite the sale of Government-owned ships and the retirements of the Government from the shipping business. But the provisions of Act of 1928, probably wanted the reversal of that trend. It gave the shipping Board additional power to remodel and improve vessels, owned by the Government, and was directed to present to Congress from time to time recommendations setting forth what new vessels were required for permanent operation under the flag of the U.S. in the foreign trade, in order that Congress might provide funds for construction and replacement.

The Act of 1928, appeared to indicate a return to a policy of keeping the Government, indefinitely, in the shipping business, but the decline in the foreign trade on account of the economic depression, increase in tonnage and the decreasing public revenue created a definite public sentiment against Government ownership and operations of vessels. The Shipping Board was under considerable pressure to dispose off its vessels.

and sell its operating lines as soon as possible. On account of business depression and idle tonnage, the Board was not able to dispense off its vessels and services as quickly as the public desired with the result that the Board became unpopular. Partly on account of its unpopularity and partly to reduce the expenses of the Government, its functions and duties were taken over by the Department of Commerce in 1933.

Shipping Policy Under the Roosevelt Administration:

The entire shipping policy of the U.S. Government was overhauled by the Roosevelt Administration which passed the Merchant Marine Act of 1936. The basic policy of that Act is stated below:

"It is necessary for the national defence and development of its foreign and domestic commerce that the United States shall have a merchant marine

(a) Sufficient to carry its domestic water-borne commerce and a substantial portion of the water-borne export and import foreign commerce of the United States, and to provide shipping service on all routes essential for maintaining the flow of such domestic and foreign water-borne commerce at all time;

(b) capable of serving as a naval and military auxiliary in times of war or national emergency;

(c) Owned and operated under the United States flag by citizens of the United States in so far as may be practicable; and

(d) composed of the best equipped, safest, and most suitable types of vessels, constructed in the United States, and manned with a trained and efficient citizen personnel."
It is hereby declared to be the policy of the United States to foster the development and encourage the maintenance of such a merchant marine.¹

Regarding subsidies to American Shipping, the provisions of the Act were largely based on the report prepared by Mr. Henry H. Meissm, then serving as Director of the Shipping Board Bureau of the Department of Commerce. His recommendations were as follows:

1. Memorandum of I.H.M.S.O.A., 1949, p. 23

(1) The present system of linking subsidies with the carrying of mail should be abandoned, and in its place specific subsidies granted for the maintenance of essential services should be given. Such subsidies should not be extended to lines in the protected trade.

(2) Subsidy contracts should be based on the differentials in building and operation costs; should be sufficiently flexible to permit of equitable readjustments as changes in conditions occur, and should provide for necessary replacements.

(3) Subsidies should be divided into four classifications:
   (a) Construction differential subsidy;
   (b) Operating differential subsidy;
   (c) Trade penetration subsidy;
   (d) Other conditions bearing on the issue, such as foreign subsidies etc.

(4) Money for subsidies should be appropriated from general treasury funds and not, as at present, provided indirectly through some other department of the Government.
(5) Subsidies should not be granted to more than one line competing in the same trade route without the business volume justified it. We, of course, would not wish to limit sound competition, but destructing competition should not be aided through subsidies.

(6) The preceding proposals contemplate uniform cost information at all times available to the Government, and regulatory power over subsidised lines or construction companies.

(7) **Administration of Subsidies:**

Subsidies to be recommended through a joint committee of experts, representing government departments having a direct interest in the development of the merchant marine. It is suggested that a representative of the Department of Commerce, State treasury, and navy departments would effectively coordinate the Government's interest. The actual administration of each subsidy contract once entered into however, should rest in the department of commerce.¹

The act of 1936, dissolved the shipping Board Merchant Fleet Corporation and created the United States Maritime Commission to study, perfect and adopt a long range programme of replacements and additions to the American mercantile marine, so as to create an adequate and well balanced merchant fleet. This commission was also empowered to regulate the future of the American Shipping industry. It was authorised to grant substantial differential construction subsidy for the building of new vessels.

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¹ Transportation by Water, By Johnson, Hughner, and Henry. p. 514.
in America, and differential operating subsidy for enabling the American citizens to run their ships in the foreign commerce of their country. Even if a ship is built in the United States to the order of the foreign shipowner, the differential subsidy will be payable to make good to the American builder the difference in cost of construction in America, and in any other country where the ship would otherwise have been built.

The basic idea of such a provision is to enable the shipbuilding industry to continue despite the much higher cost of construction in the States, and at the same time enable to compete on equal terms with the foreign builders. The same applies to the subsidy in respect of operating costs, which helps the shipping industry as such to continue in a competitive world, despite the higher U.S. Costs of operation. This is not sheer waste in an over-rich land. It is a result of a deliberate, calculated long-range policy of keeping vital industries alive in the States, without impairing American standards, so that in the days of need, it may safeguard the country's very existence.

The differential subsidy for operation from 1st July 1937 to 31st October 1938 cost the U.S. over 12 million dollars. In 1937, the Commission submitted a report, known as the economic survey of the American Merchant Marine. According to the report of the Commission, the expenditure of public funds to maintain a foreign going fleet could be justified only on two grounds:

(1) the importance of shipping as a factor in foreign commerce; and

(2) The relationship between vessels and national defence.
The Survey disclosed that there were between 12 and 13 million deadweight tons of ocean-going shipping in the American merchant marine at that time. When the United States entered the War, the fleet's capacity was about 11 million tons. The Maritime Commission had, however, inaugurated in 1939 a long-range programme to build 500 vessels in the ensuing decade. This programme was first doubled during the War and was subsequently increased to building a colossal tonnage of ships in the States. According to the report of the Maritime Commission for the period ended June 30, 1945, 5377 vessels of a deadweight tonnage of over 52 million tons were constructed during the war. This unprecedented output of new ships at the cost of the State is the most powerful weapon, which the United States has got to enable its shipping to attain a dominant place in the carriage of the world trade in the future. 1

The Merchant Marine Act, 1936, created an independent agency, the U.S. Maritime Commission, to handle U.S. Merchant Marine regulation and promotion. During World War II, the War Shipping Administration, was set up as a separate agency, but headed by Chairman of the U.S. Maritime Commission and using much of the Commission's personnel, to operate the ships under U.S. Control for War purposes. The W.S.A. was dissolved in 1946 and its functions transferred to the U.S. Maritime Commission. The Merchant Ship Sales Act of 1946 provided for sale of Government-owned ships and established the National Defence Reserve

Fleet. In 1950, the Commission was split into two closely related agencies, i.e., the Federal Maritime Board and the Maritime Administration, and placed once again under the U.S. Department of Commerce.

**Regulatory Activities of the Federal Maritime Board:**

The Federal Maritime Board performs regulatory activities concerning rates, services, classifications, and tariffs of common carriers by water engaged in foreign commerce and persons engaged in forwarding or furnishing wharfage, dock warehouse, and terminal facilities to such common carriers.

**Subsidy Contracts:**

The Federal Maritime Board makes investigations and determinations antecedent to the award of, and awards ship construction and ship operating differential subsidy contracts.

**Charters:**

The Federal Maritime Board also makes findings as to the necessity of the charter of Government owned, warbuilt, dry-cargo vessels prior to their charter by the Maritime Administration.

**The Maritime Administration:**

The Maritime Administration carries out its functions under delegations of authority from the secretary of Commerce. The Maritime Administrator is also the Chairman of the Federal Maritime Board, and much of the personnel of the Administration also serves the Board.
Trade Routes:
The Maritime Administration investigates and determines essential ocean routes and services. Such determinations are required in connection with operating differential subsidy contract for only operators serving 'Essential U.S. Foreign Trade Routes' may receive subsidy.

Ship Building:
The administration recommends to the Federal Maritime Board, construction - and operating - differential subsidies, based on the relative costs of constructing and operating ships in the United States and in foreign countries.

Ship Operations:
During national emergencies, it requisitions or procures American-owned ships for operation or charter, and charters Government-owned ships to American operators. It operates Government-owned and controlled ships, through private operators, in military and national interests programmes when sufficient privately owned shipping is not available.

Reserve Fleets:
It maintains national defence reserve fleets in which 2,000 ships are anchored at 8 fleet sites, and preserves in Administration warehouses equipment required for activation of reserve fleet ships. It maintains in a standby condition war-built Government shipyards and maintains and leases for commercial operation Government-owned marine terminals.
Research:

It carries on development and research programmes into new and improved ship designs, cargo handling, safety and navigation features of ships.¹

The U.S. Government Aid to Shipping:

The U.S. Government helps the shipping industry in a number of ways, direct and indirect. The Chief form of aid is by way of subsidies of two types:

(1) Construction subsidy;

(2) Operating-differential subsidy.

Indirect aids to U.S. Shipping take the form of Government insurance of ship construction loans and mortgages; direct mortgage assistance, trade-in-allowances tax benefits, cargo preference etc. Each one of these are outlined below:

Construction subsidy:

The shipping laws provide two methods of paying the construction subsidy. Under the first one, the Government awards the construction contract to the lowbid American Shipyard and pays to the Yard the full contract price of the ship. The ship is then sold by the Government, to the American operator at a price equal to the estimated foreign construction cost of the ship. Under the second method, the operator and the Government enter into a contract with the ship builder under which the Government pays to the shipbuilder the sum of the construction-differential and national defense allowances, with the operator paying the

balance of the domestic construction cost of the vessel. The Government simultaneously contracts with the operator as to the conditions under which the U.S. payments will be made to the shipyards.

However, the construction-differential subsidies are given on the following conditions:

1. The proposed ship will be operated in and meet the requirements of the foreign commerce of the U.S.
2. The proposed ship is satisfactory from an operating and engineering standpoint;
3. The applicant possesses the financial ability to operate the prospective ship;
4. Congress has appropriated funds to cover the cost to be borne by the Government;
5. The ship may be readily converted to a naval or military auxiliary.

The construction subsidy also helped the huge replacement programme for the ships built during the war, and in the immediate post-war period. "From 1946, through 1955, 298 ships were built in U.S. shipyards, of which 184 were for U.S. registry.\text{(Besides)} In 1949, the U.S. privately owned fleet consisted of about 1138 ships of which two-thirds were war-built ships purchased from the Government. About 2000 war built ships were laid-up in the Government's reserve fleet.\text{... By December 31st 1955, it appeared that 84 percent of the privately owned U.S. fleet in the foreign trade and almost all of the reserve fleet ships would reach the age of 20 years or more by 1964-65. This threatened block obsolescence and the need for replacing}
the fleet with fast and efficient ships required special efforts by the Government to stipulate long range ship building replacement programmes. The 14 operating - differential subsidy contracts in effect provide for the replacement of some 299 ships by 1975 at a total estimated cost of over 4,500 million dollars. There are applications for operating-differential subsidy contracts; pending from eight steamship companies, which would have to replace another 112 ships if the subsidies were gathered. Replacement of these ships will require the Government to pay up to half the cost of the ships, plus the cost of the national defence features... The Merchant Shipping Act of 1936 forbids the payment of operating - differential subsidy on any ship over the statutory age, except under special circumstances. Thus a subsidised operator who wishes to obtain or continue a contract for operating-differential subsidy payments must agree to replace his ships to a regular basis as they become overage. Operating-Differential Subsidy:

One of the most important forms of aid provided to the American merchant marine is operating-differential subsidy, under which the Government pays the difference between cost of operating a U.S. vessel and the cost of operating the same type of vessel in the same service under competitive foreign flags. The subsidy may be paid only to an operator who agrees to provide service on a route which has been considered by the Government

to be essential to the foreign trade of U.S. Subsidy payments are made for the difference in the costs of wages, subsistence of officers and crew, insurance, and maintenance and repairs. No subsidy is paid for overheads or administrative costs, cargo handling or terminal costs, fuel, passengers food costs etc. The cost of each eligible item for subsidy is worked out for the operation of each voyage and is carefully checked by the Government accountants. "Information is obtained on the cost of parallel items of expenses incurred by foreign companies operating similar ships on the same trade routes. The U.S. and the foreign costs are compared to obtain the difference in percentage of U.S. costs. The differentials are weighed by the degree of competition of each foreign flag on the particular route. Negative differentials are applied as offsets against positive differentials to arrive at a composite weighed differential subsidy rate for each item." 1

The operator who receives a subsidy must agree to accept the following conditions:

1. Ibid, p.10.
(6) He must limit the payment of profits or dividend to not in excess of 10 percent of his capital necessarily employed.

(7) He must retain earned profits in excess of 10 percent for a 10 year accounting period. At the end of the period, he must repay to the Government, half of all profits in excess of 10 percent; up to the full amount of the subsidy received.

(8) Except with special permission of the Government, he may not operate unsubsidized lines, nor act as agent or broker for or operate foreign flag vessels competing with U.S. flag vessels in essential services.

"During the calendar years 1947 through 1959, the actual difference between subsidizable expenses of U.S. vessels and their foreign competitors amounted to 1200/- million dollars. Of this amount 187 million has been or may be 'recaptured' by the Government. Accordingly, for the 13 year period, the net subsidy actually payable is estimated at 1000 million dollars or an average of 78 million dollars annually. This net subsidy is approximately 24 percent of the $ 4,200 million direct costs of operating the ships of the subsidized operator.

Of 959 U.S. flag ships in active service, at the beginning of 1960, more than half (about 526 ships) were operating in foreign trade, and of these 305, or more were subsidized. If the subsidy programme were discontinued, many of the ships would probably have to be laid up or transferred to foreign ownership, depriving U.S. not only of the ships but also the managerial and technical skills required to operate an adequate American Merchant Marine".

1. Ibid, p.10.
In order to encourage use of private funds for financing ship construction, the Merchant Marine Act of 1936, under which, less than 10 million of private ship mortgages were insured by the Government, was amended in 1954 and 1956. The amended law authorises the Government, to insure construction loans equal to 75% of the construction cost of all types of vessels documented under the laws of the U.S. When the vessel is completed, the Government may insure a mortgage not exceeding 87½% of the actual cost of construction; a vessel of not less than 3500 gross tons and 14 knots speed. On vessels not satisfying these specifications, or on vessels built with construction subsidy, the maximum mortgage insurance must not exceed 75% of the actual cost.

Direct Mortgage Assistance:

Direct Mortgage aid to shipbuilding is also provided under the provisions of the Merchant Marine Act. The Government may contract for the construction of a ship, and then sell it to the operator for 25% down, taking a mortgage on the balance of the purchase price, which would be paid back in regular instalments over the statutory life of the vessel.

"This type of aid has the disadvantage of requiring large appropriations by congress to cover Government, financing in a field which can be better served by financing through private banks and lending institutions. The statutory charge of 3½% on the Government mortgage may be less than the Government, itself must pay to borrow money. The use of mortgage insurance provision of the act are, therefore, preferred by the Government, as a way of helping to finance new shipbuilding apart from construction.
subsidy payments.¹

Trade-in Allowance:

Under the Merchant Marine Act of 1936, provision is made for an operator to trade in to the Government, an obsolete vessel in exchange for an allowance of credit on the purchase price of a new ship. This allowance is not paid directly to the owner of the obsolete vessel, but is applied to the cash payment required of the owner if the Government constructs a new vessel for sale to the owner; or paid for the account of the owner, to the shipbuilder constructing a new vessel under a private financing arrangement.

Tax Benefits:

Operating subsidy contracts require the operators to maintain two special funds:

(a) A capital Reserve Fund, for new ships, in which they should deposit an amount representing the depreciation on their subsidised ships.

(b) A special Reserve Fund in which they must deposit profits of their subsidised operations in excess of 10% of capital necessarily employed, for meeting possible future operating losses or financing new constructions.

These funds are not subject to current tax charges, as long as the funds are utilised for the afore mentioned purposes.

Cargo Preference:

According to the cargo preference Act, P.L. 664, at least half of U.S. Government, financed cargoes, must be transported in

¹. Ibid, p.10.
U.S. Flag ships. Moreover, all U.S. exports purchased with Government loans must be carried in U.S. Flag ships. These restrictions however do not apply to purely commercial transactions. However, "traffic subject to cargo preference (therefore) comprises only a small portion of total U.S. foreign commerce. In 1957, about 10% of the exports and 1.3 percent of imports were affected. Nevertheless, it is important to the U.S. Flag ships. In 1955-57, Government financed programmes provided 20% of all outbound cargoes carried by U.S. Flag liners and 66% of all outbound cargoes carried by U.S. Flag tramps. Without Cargo preference, U.S. Flag tramps ships would be put out of business and American liners would lose a substantial share of their business.

National Defence Features:

In the declaration policy of the Merchant Marine Act, 1936, it is provided that U.S. Merchant Marine shall be capable of serving as a naval and military auxiliary in time of war or National emergency. Therefore, the plans and specifications for merchant ships to be built for Government account or the private account with Government aid are submitted to the Secretary of the Navy for approval; and may request the inclusion of certain features considered to be essential to the utilisation of the ships as naval auxiliaries, such as increased speed to out run submarines, additional heavy-lift gear to handle heavy weapons, roll-on-roll off capacity for quick loading of wheeled and tracked vehicles, increased evaporator capacity to supply extra water for troops, duplicate controls etc. If in the opinion of the Federal Maritime Board, these additional features are in excess
of the commercial requirements, the Government may agree to pay for the additional cost of the items as National Defence Features. However, if the operator uses any of them in normal commercial operations, he has to pay the Government for the use of such equipment.
Argentina, inspite of its extensive foreign trade, had a negligible ocean going merchant marine up to the First World War. However, at the time of the Second World War its shipping tonnage has expanded rapidly and reached a figure of 1.2 million G.R.T. in the middle of 1962. This rapid progress was on account of the direct interest taken by the Government for the development of the Merchant Marine. One remarkable feature in this respect is the creation of the State Merchant Fleet in 1941 to operate in the overseas trade. This fleet was created under the difficult circumstances.

"The First World War found Argentina without a merchant marine. Numerous efforts were then made to build up at the very time when it was impossible to buy ships or to have them built. Indeed, Argentine merchant vessels were "disappearing," as tempting bids were made from abroad for the few vessels which the country then owned. With the end of the war, the agitation in favour of a national merchant marine died down and Argentina reverted to the shortsighted policy of allowing foreign ships to carry all its exports trade. Matters were allowed to drift until the outbreak of the Second World War. The consequences of the lack of foresight soon became evident; there were enormous shortages in external trade while crops piled up in the warehouses only to be used later for fuel. The serious prospect that confronted the country provided the impetus that led to the acquisition of a national merchant marine, as was the case.
in other American countries, a number of ships belonging to belligerent powers were immobilized in Argentine ports. The Argentine Government lost no time in entering into contract with the representatives of Italy in Argentina, and the subsequent negotiations resulted in the formation of the nucleus of the present State Merchant Fleet when sixteen Italian vessels began to sail under the Argentine flag. They were later joined by other ships including three German, four Danish, three French and one Romanian. After the war ended, many of the ships had to be returned to their original owners, but the State Merchant Fleet had already placed orders for the construction of modern vessels meeting all the needs of the country's trade, in particular refrigerator ships which play such a vital part in transporting perishable products.¹

Private enterprise, in particular the Doedro group, was acquired by the State in 1949 and came under the Ministry of Transport made a major contribution, to the State Merchant Fleet. All the ships acquired at that time, together with the ships ordered by the Argentine Institute for the Promotion of Trade from British shipyards and the immigrant ships built in Holland, were assigned to the two State corporations — the FANU (Flota Argentina de Navegacion de Ultramar) (Argentine Overseas Shipping Fleet) and the FANP (Flota Argentina de Navegacion Fluvial) (Argentine River Shipping Fleet) — which, like the State Merchant Fleet, are under the control of the Ministry of Transport. As a

result, with these vessels aid the fleet of tankers and cargo boats of Yacimientos Petrolíferos Fiscales (which is under the control of the Ministry of Industry and Trade) the State owned 75 per cent of the tonnage of the Argentine Merchant marine, excluding the River Transport Administration in 1959.

The overseas merchant marine was created because Argentina had insufficient ships of its own. The River Transport Administration, on the other hand, was set up as a consequence of the overloading of the railways and the shortages experienced by road transport during the war years. As a result of these two factors, goods piled up at the railway stations and on the wharves when an effort was made to divert some of the traffic to river transport which was at that time insufficient to meet the accumulated demand for the transport of goods.

"The initiative was taken by the Ministry of Public works, which established a River Service using craft belonging to the former National Directorate of Navigation and Ports. Orders were, however, immediately placed for the construction of a number of barges in local shipyards and Argentine technicians made a study of river transport methods in the United States. As a result of this study, orders were placed in the United States for the construction of powerful modern tugs and special barges. Pusher two boats were also introduced for the first time on Argentine rivers, with excellent results despite the prognostications of failure". ¹ Thus the River Transport Administration is the worthy counter part on the Argentina

¹. Ibid, p.36.
rivers, of the State merchant Fleet on the oceans of the world.

Before the establishment of the State Merchant Fleet in 1941 Argentine ships carried only a negligible proportion of the country's foreign trade. With the establishment of the Fleet, the proportion began to rise, the increase being the more striking in view of the decline in imports and exports during the war years. At the end of the war, Argentine foreign trade again rose substantially and, although the fleet had to return many of its ships to their original owners, new ships acquired by the fleet and by various private enterprise came into service. "Thus the port statistics show that, whereas in 1937 Argentine ships carried 1.6 per cent of the country's foreign trade, in 1950 Argentine ocean-going ships carried 15.9 per cent of the tonnage imported and 15.8 per cent of the tonnage exported." 1

In the past the foreign trade agreements signed by the Argentina contained no provisions regarding the carriage of the goods covered by the agreements since the country had no ships of her own, they would have to be carried entirely in foreign bottoms. With the development of its merchant marine the Argentina Government now include provisions regarding Argentine ships in trade agreements. The clauses regarding the participation of the Argentine merchant marine in the carriage of the goods to be exchanged take various forms but all are designed to assure Argentine ships a share in keeping with the size of the country's foreign trade and of its merchant marine.

The Argentine shipbuilding industry could not develop at the same rate as the merchant fleet, mainly because of the

1. Ibid, pp. 36-37.
extremely rapid growth of the latter. However, the Argentine shipyards have been building a number of tankers for the Yacimientos Petrolíferos Fiscales and by converting a French transatlantic liner into a large cargo vessel. The first-Five Year Plan contained a number of provisions designed to promote the shipbuilding industry in Argentina with the maximum participation of private enterprise. The problem has given rise to serious concern not only because the lack of a ship-building industry in keeping with the size of the merchant navy is an anomaly which might have very dangerous consequences but also because it results in a considerable expenditure of foreign currency.
A NEW REFLECTIONS ON THE MERCHANTILE MARINE

POLICIES OF DIFFERENT COUNTRIES

The foregoing account of the mercantile marine policies of some of the important maritime countries makes an exceedingly fascinating reading in as much as that it clearly reveals the interplay of certain definite forces that contributed to the development of the mercantile marine. The countries selected for study have evolved their own distinctive pattern of development of the shipping industry. However, there appears to be a considerable amount of uniformity in the approach and attitude of the State in the formulation of the mercantile marine, policies of the respective countries. The most outstanding feature is the active role of the state whose fostering care was largely responsible for the development of shipping. In fact, in Britain and Japan the State very closely aligned itself with the shipping and mercantile interests. The close association of shipping interests and the government policy can be traced back to the period when the mercantile and carrying functions were combined into one general operation and were undertaken by the same commercial interest. Ancient traders who were engaged extensively in overseas commerce usually owned the vessels which carried their goods. Although they often transported for others, they employed their vessels primarily in their own trade. The ownership of merchant vessels was looked upon as an inevitable accomplishment of the seaborne trade.

"Furthermore in cities like Venice and Genoa and in the towns
of the Hanseatic League vessels engaged in overseas trade were an important part of the community's capital and as such their increase and protection were vital objects of state policy.1

The geographical position of a country was the basic factor involving the state into the affairs of its mercantile marine managed largely by the private trading interests. Countries with extensive sea-borne trade and particularly the island countries like Britain and Japan had no alternative but to establish commercial and social contacts with other countries only through the seas. As we have seen in the case of Japan that as soon as the isolation of the country was broken, in 1853, its commercial intercourse with other countries went on increasing, so much so that its foreign commerce became more vital to the economy of the country. Similar is the case of Britain whose foreign trade is of paramount importance for the development and expansion of her industries and the living standards of her population. Under the circumstances, it became increasingly important for the state to protect and foster the development of the foreign trade and therefore the mercantile marine of the country. "The spirit of nationalism which spread over Europe during the sixteenth, seventeenth and eighteenth centuries was characterized by a broader and more inclusive trade policy than had prevailed in the smaller maritime city-states of ancient and mediaeval times. This policy, known on its economic side as mercantilism, was shaped to meet the real or supposed needs of

Shipping was one of several industries requiring the fostering care of national authority. The theory that national wealth is increased by promoting exports and limiting imports had as a corollary the principle that goods imported into a country or exported there from should go as far as possible in vessels flying the national flag. Hence we have the whole series of the Navigation Acts passed in Britain with meticulous care and almost the fantastic zeal particularly under the Cromwellian regime. These navigation acts and similar regulatory measures passed by other maritime countries show has persistence of the idea that a merchant marine is vital to national commerce and power.

The commercial and political ambitions of a country further involved the State in the development of national merchant marine and more so at a time when the merchant fleet also served as the men-of-war. Commercial rivalries and colonization involved the maritime countries of the West particularly, Holland, France and Britain, and Japan in the East, into frequent wars. Naval supremacy and defence of the country, thus became one of the important motives that played an important role in the national policy for the building up of merchant shipping. Naval needs prompted governmental encouragement of merchant shipping as a means for supplying transport and auxiliary cruisers in time of war and as a training school for seamen in time of peace. Subsidies were often conditioned upon the operation of vessels built according to naval specification or approved by naval

1. Ibid.
authority. In more recent time U.S.A. introduced the 'Defence Feature' in the merchant vessels constructed in the American Shipyards for American citizens and the additional cost involved on that account is borne by the State. "This association of ocean transportation and naval needs became especially marked as leading nations acquired oversea possessions or established 'spheres of influence' in the Orient, Africa and other relatively remote regions. The growth of capitalist imperialism during the last half century has also called for the development of national shipping. This imperialism while sometimes showing itself in military conquest, as in the Spanish-American and Boer wars, has been the outcome primarily of an industrial technique demanding extensive markets and new sources of raw material. The development of trade lines along ocean routes to remote markets and sources of needed raw-materials has become in several instances under economic pressure a matter of governmental concern. Where such outlying regions have become colonial possessions, the establishment of regular and frequent communication generally becomes a matter of political policy". 1

During peace time, with the expansion of social intercourse with overseas countries and the resulting expansion of foreign trade, the mercantile marine of a country came to perform increasingly important role and the following function of shipping industry were recognised as fundamental:

(1) The facilitate the transportation of passengers and cargo and to accompany or lead the advancement of foreign trade.

1. Ibid.
(2) To act as a means for the carrying of mails.
(3) To act as a medium of emigration and colonization.
(4) To serve as an organ for the training of seamen.

It is easy to see that a country's merchant marine was required to perform its services in greater and greater degree particularly in the fields with which the State was vitally interested. This provided a common basis on which the relationships of the merchant marine and the State was once and for all firmly established.

The interest of the State in the development of the country's foreign trade was increasing. It became necessary that the foreign trade of a country should be carried on by its own shipping since the shipping, which is international in character is accompanied by keen competition as is the case with the foreign trade. Therefore, the government of the country would not like its country's dependence on foreign shipping lines for transportation of goods and passengers when its own merchant fleet is not adequate for the purpose. Such a dependence is fraught with dire consequences particularly in times of war and critical emergencies. The interests of the State, therefore, in the development of an adequate merchant fleet together with the navy for the defence of the country became more clearly established. Besides the merchant marine is also the forerunner of a country's foreign trade. Moreover in ancient as well as the modern times it is a prevalent impression among businessmen and politicians that the national flag of a ship advertises a country and its products and therefore trade is promoted by aiding national shipping. The countries like
Japan and Britain with their greater dependence on foreign countries and overseas possession (in case of latter) for food supplies and other important raw materials have a vital interest in the maintenance of an adequate national merchant marine which can be relied upon to keep the lanes of traffic and communication open for their goods.

The merchant marine also proved to be a medium for the transmission of mails and the maintenance of an adequate and speedy mail service to and from foreign countries became the matter of concern to the state. Means of communications being vital to the State from political and administrative points of view, maritime country like Britain, was accustomed to use ships owned by the Government for the transportation of foreign mails upto the beginning of the 19th century. But it was not found economical to make use of the ships simply for the carrying of mails, for the sake of rapidity and punctuality. Later on, with the expansion of the seaborne trade, the merchant ships of various countries improved in service and the maritime countries including Britain entrusted the work of the carrying mails to private shipping companies under mail contracts which also became an important means of subsidising the country's merchant marine by the state.

The merchant marine also provided an effective medium of emigration and colonization in which the state was interested, for transplating the surplus population and for augmenting its trade and industrial development. The emigrants wanted to make their passage to distant lands safe and free from any care and annoyance on the ships of their own country and under the
protection of their government. Even after their settlement in foreign lands they were in need of regular shipping service for meeting their kith and kin and for exchanging regular communications with them. The great success attained by Britain in the programme of colonization of overseas countries is partly traceable to the fact that her merchants with their formidable ships constantly sailed between the mother country and the colonies, giving the emigrants and colonials encouragement and also by carrying a large number of passengers by undertaking long and continuous voyages and thus increased the population and augmented the power and influence of their country in those lands. In the North Atlantic lines, which became the home of the world's shipping trade during the 19th century, many European emigrants were conveyed from Europe to the United States. Before the first world war the emigrants that went back and forth between Europe and the United States averaged 2,000,000 a year. It was on the basis of this assured traffic that important passenger services in the Atlantic could be established.

The interests of the State and the mercantile marine also coincided in the their requirements of trained seamen to man the ships for normal trading operations and for operating the warships in times of war. The fishery industry on the shores of the maritime countries provided the required seamen ready to go for service on merchant ships. The merchant ships in their turn provided the trained naval personnel for the State navy. Thus in countries like Britain, Japan, the State not only assisted the development of the shipping industry but also provided considerable assistance to the fisheries which also
became an important source of food supply for the population.

The wisdom and justification of the policy of providing direct and indirect aid to shipping in the countries reviewed earlier lied also in the fact that the industry has proved extremely hazardous.

The methods of subsidizing shipping adopted by the governments of various countries differ according to the state of their domestic affairs or to the time of their adoption. However, they may be roughly classified into direct and indirect protection, and may be further subdivided and explained as follows:

(1) Direct protection signifies the granting of monetary help to shipowners and shipbuilders and it can be classified into 'bounty and subsidy'.

   A. Bounty

   1. Shipbuilding bounty, or monetary help for the repair of ships.

   2. Navigation bounty, or monetary help for fitting up the ships.

   3. Speed bounty.

   B. Subsidy

   1. Navigation service subsidy, or monetary help for the carrying of mails.

   2. Naval subvention.


In indirect protection, monetary help is not given direct to shipowners but the shipping trade is usually protected by the methods such as -
Prohibiting foreign ships to engage in coasting trade; exempting its country's ships from tonnage-duty, harbour-dues and other duties and dues; reimbursing canal-dues paid by its country's ships; imposing a specially favourable railway freight rate on the goods to be carried by its country's ships; remitting import duties on ships and shipbuilding materials; accommodating shipowners with funds for the construction of ships at a low rate or free of interest; adopting a 'Free-ship policy', or to permit the import and registration of foreign-made ships; allowing a monopolistic transportation of government owned goods, troops or emigrants to shipowners of its country; facilitating the accommodation of capital to shipowners of its country by establishing ship mortgage banks; regulating marine insurance premiums by making marine insurance business a Government undertaking, and insuring against risks at sea in a compulsory manner; imposing discriminatory duties on exports and imports of goods so as to encourage the patronage of national ships; giving liberal investment allowances or development rebates and special depreciation allowances; constituting marine development fund by levying special duties on imports and exports and direct contribution of funds by the Government, etc.

The remarkable role the state for the development of the merchant marine of the countries under review, during wars, also constitutes an important aspect of their mercantile marine policies. The most outstanding examples in this respect are provided by Japan, Britain and U.S.A. When these countries were involved in wars the interests of the privately owned mercantile marine and those of the State found an excellent opportunity...
of mutual co-operation. The state requisitioned all merchant ships and took over on itself not only the defence of the country but also the function of maintaining essential supply lines. With the progress of the war the shipbuilding as well as the development of the merchant fleet became the direct responsibility of the government. The demand for ships tremendously increased during wars and the state augmented the fleet of ships by constructing them in the national shipbuilding yards and also at times by purchasing them from foreign countries. With the closure of the war the shipbuilding yards and ships commandeered by the government were handed over back to the private owners as it happened particularly in case of Japan. Every war brought home to the state the importance of shipping and the realisation of its inadequacy with the result that despite the destruction and depletion of the fleet the post-war periods most of these countries was marked by a tremendous upsurge in the shipbuilding activities and the growth of the mercantile marine at a rapid rate. Periodical wars thus provided a powerful stimulus to the allround development of national shipping industry particular when the lessons of war were not lost on the mercantile interests and government of the country. The development of U.S. mercantile marine arose out of the lessons of the First World War. Before that there was relatively little awakening in this regard, in that country whose foreign trade was largely carried by British ships. One of the remarkable developments arising out of the two world wars is the idea of creation of the reserve fleet to be used in national emergencies and future wars. The wars created a tremendous shipbuilding spree in the
U.S. Yards and its tempo increased with the progress of the war operations. With the war suddenly coming to an end there arose the problem of excess tonnage hurriedly built in times of hostility. As an aftermath of war the international trade got thoroughly disorganised and truncated and under the circumstances it became difficult for the U.S. Government to dispose of the surplus tonnage, and it had to keep up the ships in reserve.

During 1926 when Britain was gripped by the coal strike, the foreign trade which was still dependent for carriage on British-ships was very adversely affected. However, the U.S. Government released the ships from its reserve and saved the farmers of wheat and cotton from the situation of tremendous losses. The most of the standardised liberty ships, built by the U.S. Government under the crash war time programme during the world War II are now kept in the reserve fleet at a heavy maintenance expenditure running into millions and millions of dollars. Few of them were sold to maritime countries who were anxious to develop their mercantile marine. Since, the navy plays an important part in meeting the needs of civil as well as military emergencies, this huge expenditure on the reserve fleet is considered as a kind of insurance to cover the sudden demand of ships for supplies and auxiliary services to military operations. The idea of a reserve fleet has assumed greater importance in modern times when civil and war emergencies have a tendency to assume global proportions. Besides, the shipbuilding industry by its nature very often can not cope up with the unexpected demands of the international trade. It is only by drawing upon the ships of the reserve fleet that the situation can be easily
Therefore, it will not be a surprise if the idea of the reserve fleet is adopted on an international scale with the cooperation of the leading maritime countries, in future.

It is now clear from the foregoing analysis that the interest of the State in the development of the national mercantile marine, which was casual in the earlier times (in case of Japan, the State was almost hostile to the development of its merchant fleet in the overseas trade) became more intense with the expansion of the foreign commerce and with the realisation of the need for regular and dependable transportation and communication services with the outside world. The local wars as well as the two world wars brought the direct association of the State with the mercantile marine almost in a dramatic manner. This continuing trend of increasing interest and association of the State ultimately found its culmination in the post war II years in countries like Argentina and India where state sponsored and state managed, shipping corporations have come into existence. With this development the wheel of history seems to have turned a full circle and the wisdom or otherwise of it is still very much an open question.

The study of the mercantile marine policies given in the earlier pages very clearly establishes the fact that the interest of the State in the development of national mercantile marine is quite legitimate. In fact when the role of the State in promoting and protecting the land based industries by protective tariffs has been recognised beyond all doubts, in order to enable domestic producers to compete successfully with
their foreign rivals, the claim of the shipping industry becomes all the more clear for subsidies, countries, reservation of coastal trade and a host of direct and indirect state measures for nurturing its development and improving its competitive position in overseas trade. The methods, forms and the quantum of such help varied from time to time depending upon the stage of development reached by that industry, the needs of the country for defence and for servicing the commercial, political and social intercourse with foreign lands and the state of its domestic affairs. However, in no country, outside the communist world (except in Argentina and India in very recent times) it was thought necessary that the state should become the owner and operator of the national mercantile marine. It is only in times of war, in order to meet the emergency when the fate of the whole nation was at stake that the Governments of various countries involved in hostilities took over on themselves the functions of constructing and operating merchant ships along with the activities of defence. Even then, also the private shipowner and shipbuilders were very actively associated in those activities to meet the war situation. But as soon as the hostilities ended, the ownships and operation of the shipbuilding yards and the merchant ships were entrusted back to private mercantile interests since all these countries very rightly recognised that in peace time, they are best fitted for the job. This is very clearly established by the shipping history of Britain, U.S., Japan and most other maritime countries. In Japan the shipbuilding yards once owned and operated by the Government were handed over to private companies.
In the post first world war period when the Government of U.S.A. itself started operating merchant fleet for some time, it met with a very strong protest from the U.S. Congress who very firmly considered the private shipping companies more suitable for the job with their spirit of enterprise so badly needed for the hazardous shipping ventures. The role of the state in most of these countries is therefore confined to giving adequate financial and other assistance and timely encouragement to privately owned and operated mercantile marine, and it is not considered advisable for the State to go beyond that. In other words the State should nearly act as a catalytic agent promoting the growth of mercantile marine with a fostering care and by watching its state of affairs from a distance and rushing to help whenever demanded by the situation from time to time. It is largely for this reason that State in most maritime countries confined themselves to the development and management of ports, harbours, light houses, training of the seamen, and such other facilities needed by the merchant navy, besides promoting the expansion of the foreign trade by protecting the domestic industrial and trading interests against the competition offered by similar foreign interests. The maritime countries like India and others, anxious to develop their mercantile marine after a long period of stagnation have to learn many valuable lessons from the experiences of these countries.