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CHARACTERISTICS OF TARIFF FREIGHT RATES IN THE SHIPPING BUSINESS

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1. FREIGHT CHARGES IN FREE COMPETITION AND TARIFF FREIGHT RATES

The transport service is offered in two forms. In some cases, it is offered in a special form in conformity with the requirements of customers, while in other cases, it is offered in a general form, at more or less regular intervals, in accordance with the plans previously laid down by the suppliers of the service. The price of the transport service, viz., freight charges, is consequently of two kinds. One kind of freight charges is fixed by consultation and bargaining between the supplier and the customer in regard to individual cases of transport, while the other kind is unilaterally fixed by the supplier with due regard to the kind of transport service offered and the kind of goods to be transported, to be applied to all shippers indiscriminately and for a considerable length of time. The former may be called freight charges in free competition, because they are fixed simply by the law of demand and supply in free competition, and the latter is called tariff freight rates as they are indicated for one unit weight or size (i. e., 1 ton, 1 picul, 100 lbs, 10 cubic feet) of the goods for transport and are given in a tabular form. The table itself which gives the freight charges in such a way is simply called a tariff.

Means of land transportation are remarkably developed, and most of them are managed on a large scale, on a systematical plan, so the charges for land transportation are mostly given as tariff rates. Only in land transportation of very limited dimensions, such as is carried on by individuals,—in a service, which, consisting largely of manual labour, is offered by persons who are labourers rather than entrepreneurs,—freight charges in free competition are still adopted.

As people very often have occasions for personally observing, in making use of means of conveyance, that freight charges, that is, one of the special kinds of price mentioned before, is unilaterally fixed by the supplier of the service and shown in a table, they may be led to conclude that prices expressed in the form of tariff rates are peculiar to the transportation business, or at least that it is only in exceptional cases that such forms of price-fixing are adopted in other kinds of enterprise than transportation. In my view, however, this conclusion is altogether in the wrong galley. There are many articles the prices of which are given in tariff forms, the most conspicuous example being the prices of monopoly goods. A closer study will reveal that the retail prices of many kinds of commodities—industrial goods in particular—belong, in substance, to the same category. It is hardly necessary to say that they are tariff prices, in fact as well as in name, that are shown in price lists or in catalogues. Such being the case, the study of tariff rates does not necessarily mean a research into any special prices adopted for a particular business. The present article aims simply at a study in those prices which are specific in that they refer to the transport service. It is an attempt to show, through the study of the prices of the transport service, one phase of how prices are generally fixed.

It is not, however, the purpose of this article to discuss tariff rates in all their bearings. My attention will be confined to the consideration of the conditions under which shipping freight charges assume the character of tariff rates and what features, compared with the general tariff rates, are deemed the special characteristics of the tariff rates of the shipping business.

As everybody knows, the railway freight charges now ruling are tariff rates. Under the present regulations governing the freight charges of the State-owned railways, goods for transport are divided into two kinds, ordinary and extraordinary, and ordinary goods are subdivided into five grades—from No. 1 to No. 5. In reference to the manner of handling them, they are divided into *koguchi atsukai* (goods in small lots), *kashikiri atsukai* (goods for reserved cars), and *tokushu atsukai* (goods for special treatment). In the tariff are shown the rates by ordinary trains for *koguchi atsukai* and *kashikiri atsukai*, according to the number of miles covered in transportation, under the system of sections, which progressively increase in length as the distance increases. The rates by express trains are fixed at 150 per cent. of the rates by ordinary trains, while special rates are provided for extraordinary goods. The rates for goods requiring special treatment are to be fixed separately.

These rates differ from freight charges in free competition, such as have already been described, in three respects. In the first place, whereas freight charges in free competition are fixed in respect to individual cases, according to the circumstances ruling at the time, tariff freight rates are in general application to the transport service of a similar form repeatedly operating. Secondly, whereas in freight charges in free competition, different amounts are, as a general rule, charged for even transport service of the same kind, as circumstances alter, since freight charges in free competition are those which are so fixed as fo apply to each individual case in accordance with the circumstances ruling at the time, tariff freight rates remain unchanged for some length of time, though the period of their enforcement is not definitely fixed. Thirdly, whereas freight charges in free competition exist when competition is going on among suppliers of transport service, tariff freight rates can exist only when such competition has been checked or has ceased to exist.

There exist such points of difference between freight charges in free competition and tariff freight rates as above stated. As I have already pointed out, tariff rates are generally enforced in railways, but in the shipping business, freight charges in free competition and tariff freight rates rule side by side. The freight charges for liners come, as a rule, under the latter, while those for tramp steamers under the former. As it is possible that a competition of certain dimensions may arise between liners and tramps, and that the scope of this competition may be either enlarged or reduced according to circumstances, tariff rates ruling in the liner business are not exactly the same as those adopted in the railway business.

Let me, first, explain why the freight charges for tramp steamers cannot be quoted in tariff, despite the fact that tariff rates are ruling for regular steamers.

The marine transport service by regular liners takes the form of voyages repeatedly made by steamers between definite commercial ports. In other words, many transport services of the same kind constantly operate almost regularly. It is, therefore, possible to fix definite rates for general application for these transport services of the same kind. On the other hand, tramps operate wherever there is demand for service, instead of being put on any regular line, and as the transport service to which they are put differs on each voyage, rates must of necessity be fixed each time. Tariff freight rates can be effectually enforced only where many transport services of the same kind are repeated at regular intervals. Otherwise, they will be quite meaningless. It, therefore, follows that as the number of the same transport services increases and such services take place with greater regularity, there are more chances of tariff rates being enforced. From this point of view also, the freight charges of regular liners have the making of the tariff rates, while those for tramps lack the requisite qualifications as such. As already noted, tariff rates come into being only where they can be maintained for a certain period of time. They cease to be tariff rates in effect, if they are subject to frequent changes. In order to ensure against changes or at least to prevent their frequent alterations, it is necessary that suppliers of the marine transport service should be in a position to maintain their freight policy unaffected by the freight policy of their rivals. In other words, they must occupy a monopolistic position. Otherwise, their tariff rates, no matter how perfect in form, will have to be altered under the weight of competition pari passu with the freight rates quoted by their rivals. As I had occasion to describe in a previous Number, the monopoly in marine transportation cannot be secured except by means of a cartel, especially called a Conference, which is formed by liner companies, and cannot be organised among the tramp owners. This is the chief reason why the rates for tramps cannot be quoted in tariff.

2. RAILWAY FREIGHT RATES AND SHIPPING FREIGHT RATES

Thus, in the shipping business, both tariff freight rates and freight charges in free competition are enforced side by side, the one in the tramp business and the other in the liner business, though equally representing the price of shipping transport service. It is, however, only a recent occurrence in the long history of shipping freight rates—and accordingly the tariff itself—came into existence as shipping freight. In this respect, shipping tariff rates present a contrast to railway freight rates, which were tariff almost from the beginning.

In railway transportation, the route is artificially constructed so as to suit the running of trains, and this line, together with its concomitants and trains, constitute the whole organism. By the activity of this organism, railway transportation is effected. Such being the case, railway transportation necessarily forms a certain fixed system, and is conducted under unified management. It, therefore, follows that although there is a difference in the distance over which the goods are transported, the form of transport is all the same. This makes the charge of transportation eminently fit for presentation in the form of tariff freight rates.

Not so with the marine transport service. It has for its theatre of activity a natural and a very free ocean, which ships can traverse by whatever course or courses they choose. They are by no means compelled to take any fixed route such as we see in the railway service. From the technical point of view, therefore, a ship is not tied down to any one systematic action. Its action is guided by economic reasons only. In other words, common carriers make their ships take a voyage from one port to another, according to the state of sea trade, with the result that the distribution of ships on all lines accord with the prosperity or decline of the trade on these lines. In such circumstances, the movement of ships lacks regularity and the transport service can take no fixed form, the result being that it is impossible to adopt tariff freight rates. This state of things had ruled in the shipping service up to the latter part of the nineteenth century, when, what with a big increase in the production of goods and the opening up of new markets, there appeared a somewhat regular movement of goods on the principal lines of the world. Even at the present time, however, the major part of the world shipping is composed by tramps, which operate under the same conditions as those prevailing in former days.

Viewed from the point of view of the conditions which make the beginning of enterprise, the railway business has been provided, from the very start with many factors which enable the tariff freight rates to be enforced. The railway business needs a considerable sum of fixed capital, which is locked up in land, and consequently it will not be started except in the districts where it is confidently expected that a reasonably large number of passengers and large quantities of goods can be secured for transport to ensure the running of trains at regular intervals. In this respect, it may be said that the same conditions govern the inauguration of a railway enterprise as govern the formulation of tariff rates. In the shipping business, in its most common form of enterprise, capital is needed in regard to ships only, and, as compared with the railway business, a much smaller capital suffices. Moreover, as these ships can be put on any steamship line, the opening of the business is not necessarily dependent upon the regularity of the movements of many passengers and large quantities of goods on a line. Thus, it will be seen that the shipping business is not necessarily governed by the same conditions as are required for the enforcement of tariff rates.

Such being the case, in the history of shipping tariff freight rates were not adopted in this business for a long time, despite the fact that they have been enforced in the railway business almost from the start. As already mentioned, towards the end of the nineteenth century, as a consequence of the development of the sea trade of manufactured goods, the system of transporting goods belonging to different shippers by particular contract came into vogue, besides that of the transportation of bulky cargoes by charter-party. About the same time, the regular and constant movements of goods on the seas between Europe and the Far East, and between Europe and America in all seasons of the year sprang up, and in order to meet this new form of demand, shipping movements were put into a fixed system, chiefly for economic reasons, bringing transport on regular lines into being.

In the liner business, the same conditions rule as in the railway business, in that it is conducted under a systematic organisation and at regular intervals for the interests of the shippers generally, and also in that it owes its existence to the constant movements of large cargoes. Thus, it is provided with two conditions requisite for the forming of tariff rates. So long, however, as it lacks the third requisite, namely, a monopoly of some form, tariff freight rates can not be realised.

In railways, as already noted, their construction involves a large amount of capital, and as this capital is locked up in land itself permanently, it is difficult to lay a new rival line where there already exists an established line, not only because it is no easy task to put up the requisite capital but also because much business risk attends the capital invested. So long as the railway service already available is able to answer the needs of the district which it traverses, therefore, there is an effective check on the springing up of a rival enterprise, and so long as this state of things obtains, the railway company concerned can frame and pursue an independent freight policy. The railway business is accordingly generally regarded as a monopolistic enterprise by its very nature. Putting aside the correctness or incorrectness of this view, there are many cases where railways monopolise the business in the circumstances already described. A railway company monopolises the business of its sphere of influence from the outset, for reasons already stated. In this respect also, the railway transport is inherently amenable to tariff rates.

In the shipping business, however, a monopoly cannot be secured so easily as in the railway business, even in regard to liner business to say nothing of the tramp business. In railways, the transport business is conducted by means of the lines built and owned by the party concerned. The lines belong to them exclusively, and no train owned by others is allowed to run on them without their permission. The exclusive possession of the route, therefore, forms the basis of the monopoly of the business in railway enterprises.

In this respect, there is a fundamental difference between the railway business and the shipping business. The liner business has in common with the railway business the fact that the route of transport is fixed, but shipping routes are highways open to the free use of all. Even when one steamship company operates regular steamers on a certain route, another shipping company can put ships of its own on the same route, or it can even run its steamers side by side with those of its rival company. On the high seas, there is no right to any particular way, and consequently a monopoly, which invariably attends such a right, cannot be established. In order to secure a monopoly, the owners of regular steamers must needs have recourse to some artificial means. Until these artificial means succeed, there can be no monopoly even for a liner business. In other words, pending the success of such means, the liner business may well be described as an enterprise open to free competition. Although the liner business has in common with the railway business the fact that it is operated on a fixed route and that it undertakes the transportation, between two fixed points on the route, of goods belonging to different shippers, it is not, like the railway business, inherently adapted for the adoption of tariff rates. Tariff rates cannot be adopted unless competition is restricted, regulated or abolished by some means, so that an artificial monopoly can be established.

3. THE COMPREHENSIVENESS OF THE SHIPPING TARIFF FREIGHT RATES

In marine transportation, tariff freight rates can be adopted with respect to the liner business only when a monopoly has been established. Consequently, the application of tariff freight rates in the shipping business is restricted by the nature of the monopoly which it secures.

As one most remarkable fact, it may be mentioned that whereas any kind of goods carried by railways falls, as a general rule, under one of the classified rates, and there is no article which is excluded from the tariff, the tariff rates for the shipping business are not applicable to all kinds of goods. As already mentioned, tariff freight rates are ill suited for application to the goods carried by tramps; and among the goods carried by liners there are some to which freight charges in free competition are applied and not tariff freight rates. This is because a monopoly secured by a liner company is restrictive in nature. Why is it then restrictive?

As I had occasion to mention previously, the monopoly of business by regular steamers on the principal lines of the world, setting apart local and sectional lines, is secured by means of a Conference, which is a cartel combined by liner companies. This phase of the question was dealt with at length in my article entitled "Shipping Competition and Monopoly," appearing in a previous number of the *Economic Review*. Under the articles of the Conference, rivalry between the liner companies which are members of it, can be restricted, and these companies can be made to operate their lines in accordance with the tariff fixed by agreement, but the owners of tramp steamers cannot be induced to join the Conference, because the liner business is different from the tramp business in nature, and also because the number of those who operate tramps are very numerous. Such being the case, the Conference cannot be entirely free from competition with tramp steamers.

There are three kinds of sea-borne goods. Those which are fit for transport by regular liners; those suited for transport by tramps; and those transportable by either liners or tramps. As regards the first-mentioned two kinds, the goods coming under these categories are carried by liners and tramps respectively as though there were a clear division of work between them, and there is consequently no rivalry between them. It is chiefly in regard to the last-mentioned kind of goods that the Conference has to meet in competition the owners of tramps, whom the Conference is unable to enlist as members. As one means of meeting this competition successfully, the Conference adopts what is called the deferred rebate system. By this means it strives to secure the permanent patronage of shippers for itself. Under this system, liner companies can monopolise such cargoes as might otherwise be transported by tramps as well. With regard to the goods of this class, the Conference can fix tariff rates in the same way as for those which are invariably entrusted to liners for transport, so far as the Conference can extend its monopolistic influence.

It is hardly necessary to say that the degree of monopoly which the liner companies combined in a Conference can exert by means of the deferred rebate system depends on the strength of the rival power of tramps. Just as the freight charges quoted by tramps are fixed in free competition and are subject to constant changes, as already explained, the freight rates for those goods which liners cannot exclusively transport even by dint of the above-mentioned system are subject to constant fluctuations, as they are unavoidably influenced by the freight charges quoted by tramps. They have to be fixed whenever the goods are accepted for transport, and in such circumstances it is impossible to be setteled as tariff freight rates.

The strength of the competition put up by tramps depends largely on the relation of tonnage supplied and that demanded. For instance, liners have only a limited monopoly over the goods shipped from the ports where there are many tramp steamers ready to take in cargo. Nor can the deferred rebate system be applied to the bulky cargoes which are shipped in such large quantities as cannot be carried by liners exclusively, either on the outward or on the homeward voyage. In regard to these goods, competition is bound to arise between liners and tramps. Such goods are, therefore, treated by the Conference as "open cargo" on which the companies can charge any rates they choose irrespective of the rates agreement.

Thus, in marine transportation tariff freight rates are not applied to all sea-borne goods. Even among the goods transported by liners there are some for which the freight charges in free competition are quoted. From this point of view, shipping tariff rates are limited in their application. Even where they are applied, they are qualified in many ways, as the nature of the monopoly which characterises the liner business may dictate.

It is highly desirable that tariff freight rates should, generally speaking, possess the qualities of stability, uniformity, openness, and lucidity. Although railway tariff rates may be said to possess these attributes, the last-named excepted, to a satisfactory degree, the tariff rates for liners are sadly to seek in these respects. Let me, first, examine the stability of tariff freight rates for liners.

4. STABILITY OF SHIPPING TARIFF FREIGHT RATES

Tariff freight rates have stability in that, when once they are fixed, they remain unaltered for some length of time. The tariff of our government railway now in force was promulgated in 1923. They have been in force for about five years, though some slight revisions may have been made in the interval. The freight rates which remain unchanged for a long time are in accord with the ideals of tariff freight rates, and such durable rates are possible where the business is monopolised by the State, and it excludes all competition, as, for instance, Japan's nationalised railways. The stability of freight rates is desired by all shippers because it lessens the risk of loss in business transactions. As freight rates form part of the cost price or the cost of production, their alterations upset the estimate of the cost price or the cost of production worked out at the time a contract is made. If such a contingency cannot be avoided, all commercial transactions in the goods which require transport invariably add to them certain speculative elements to the extent of the liability of freight rates to fluctuations, with the result that commercial transactions are proportionately handicapped and the development of trade is checked. Such being the case, stability or durability in freight rates is a most desirable thing for the development of commercial transactions and economic progress.

This is true not only of freight rates for overland transport but of those for transport by sea. In oversea trade to-day, c.i.f. prices are generally adopted, and as is usual in oversea transactions, a considerable period of time intervenes between the acceptance of orders and the shipment of the goods, or as, in some cases, the goods ordered are delivered in several instalments during an ample length of time, any increase in freight rates in the interval proves detrimental to the interests of the exporters concerned.

Exporters suffer losses from the reduction of freight rates no less than from their increase. It is by no means rare for exporters of important commodities previously to send their goods abroad and keep them in warehouses in the places whither they have been sent. A reduction in freight rates, therefore, puts such goods at a disadvantage in competition with those sent after such a reduction is made. The same thing may be said of importers. If the freight rates are reduced when they have large stocks, their stocks will be unable to compete as successfully as would otherwise be the case with the goods of the same kind imported after the reduction of freight rates took place, and they will lose to the extent of the reduction made. It will thus be seen that for traders it is undesirable that freight rates should fluctuate, either upward or downward. Such changes make international transactions more speculative, to the impediment of oversea trade.

But as long as the transport business is operated under competition, changes in freight rates are absolutely unavoidable. Particularly violent and frequent are the fluctuations that occur in freight charges for tramps, which are open to unrestricted rivalry. In the case of tramps, stability of freight charges can never be looked for. In existing circumstances, it is only in regard to liners operating under the monopolistic power of a Conference that stable freight rates are possible. It is true that even where there is no Conference operating, the stability of freight rates can be secured for a certain period by means of arrangements between the parties concerned under a contract over a long period, to which reference will be made later on. Such contracts are concluded with big shippers only, who give shipowners large quantities of goods for transport at all times, and consequently only a limited number of big shippers stand to gain by the stable freight rates obtaining under such contracts. In fact, the fact that a few big shippers benefit by such arrangements redounds to the disadvantage of shippers generally.

As it is, moreover, for the purpose of enlisting the powerful support of big shippers for their business that the liner companies give such benefit to them in a competitive freight market, it is usual for them to quote lower freight rates for these shippers at the expense of other shippers. The losses resulting from the charging of lower rates on big shippers must necessarily be made up for by charging high rates on those shippers who are excluded from such contracts, when the competition among shipowers becomes weakened. From this point of view, the freight rates by agreement means a loss for small shippers in general.

It is when shippers as a whole enjoy the benefit of the stability of freight rates, not by any means when the stability of freight rates is guaranteed by such discriminatory means, that stable freight rates work for the progress of trade.

The stability of freight rates may be said to prevail in general when they, assuming the character of tariff rates, are applied to all shippers, big and small alike, and when they are not subject to frequent changes. This is possible only where common carriers are in a position to fix their own rates, unshackled by the freight policy of their rivals.

In other words, it is possible only where there is a monopoly of business. When a monopoly exists in regard to one money-making enterprise, it is inevitable that there should occur discriminatory treatment of customers, because of the desire of the management of such an enterprise to increase the sum total of the net profit as far as possible. The most desirable kind of monopoly is, therefore, one which springs up under the balance of power of many liner companies. For this reason, the tariff rates formed under the monopoly of a Conference may be described as being most stable and beneficial to the shippers generally.

Moreover, freight rates are fixed in a Conference, not on the basis of the ephemeral condition of the movements of sea-borne goods, but in consideration of the general and average condition of the movements of such goods. In this respect, they are fixed on a stable basis. This stability is further increased by the fact that they are fixed by agreement among the many companies, which constitute the Conference, and supervised in common by them. Viewed in this light, it may be said that the Conference system operates to ensure the stability of freight rates.

It must, however, be noted that, unlike a State monopoly, legally established, a monopoly under a Conference is not absolute. As already dwelt upon in detail, it is not only exposed to a constant challenge from tramp steamers, but is also subject to what is called "friendly competition" among the members of the Conference. It is what is known as relative monopoly or quasimonopoly. Such being the case, although the tariff freight rate ruling under a monopoly established by the Conference are much more stable than the rates for tramps, they are less stable as compared with the tariff freight rates for State-owned railways.

The degree of stability varies, according to the possibility of competition with tramps and the kinds of goods carried. With regard to such goods as are almost exclusively secured by liners, because of their conformity with the nature of the service offered by such vessels, the freight rates quoted for them have a comparatively large measure of stability. This is especially so in regard to those for valuable goods which are absolutely unsuitable for transportation by tramps. On the other hand, the rates for such goods as are secured by liners by in virtue of the deferred rebate system are subject to changes, because although they are not exposed to the actual menace of competition from tramps, there exists a potential competition with them. The stability of the tariff freight rates for liners is, therefore, very uncertain, so far as goods of these kinds are concerned.

As mentioned above, the degree of stability of tariff freight rates for regular liners differs, according to the potential competition with tramps and to the kinds of goods to be carried. For the same reason, there is a difference in the degree of stability possessed by such freight rates, according either to steamship lines or to ports of shipment. In other words, some rates applied to certain lines are very changeable, while those for other lines are durable. This is also the case with regard to ports. Since a Conference refers to one steamship line, the freight rates for all Conferences are not the same in point of stability.

5. OPENNESS OF TARIFF FREIGHT RATES.

Not until freight rates take on a stable nature can they be indicated in a tariff and so become tariff rates, as I have already explained. Freight rates in tariff form can either be put up at suitable places or be distributed for information among the shippers or the public generally. When people are thus enabled to see the amount of freight rates which they have to pay on certain kinds of goods, they are afforded much facility in fixing the prices of their goods. Furthermore, it simplifies trade procedure, and this tends to promote trade. Again, as tariff freight rates, when made public, invite public comment, a sort of barrier can thus be set up against exorbitant rates. This is welcome as bidding fair to remedy the evil attending monopolies of fixing tariff rates unreasonably high. This being so, traders generally desire the publication of tariff rates. Indeed, this publication is particularly desirable in the shipping business, as it provides a check on profiteering on the part of middlemen, for in marine transportation, goods pass through the hands of many middlemen before they are put on board, if the places of origin are distant from the ports of shipment, thereby affording such middlemen opportunities of making improper profits.

But the publicity of tariff freight rates depends upon the degree of stability which then possess. When there is little or no need of changing the rates once fixed, the good effect of stability in the rates can be enhanced by their publicity, but where they stand in need of frequent changes, publicity loses its significance. For the above-mentioned reason, although railway tariff rates, which are of a very durable nature, are always given publicity, those for liners are not always made public, because their stability is a matter of relativity, as has already been explained.

Another important reason for the failure of steamship companies to publish their tariffs is a fear lest they should be turned by rivals to their own behoof. As the publicity of tariffs on the part of steamship companies means the laying their cards face up on the table, it tends to put their rivals, if there are any, at an advantage in carrying on the competition, for they will then be able to secure any quantity of goods for their ships by fixing their freight rates a little lower than those quoted by their rivals.

Thus, it is chiefly for two reasons that shipping companies operating regular lines keep their tariffs secret. One reason is to prevent their rivals from exploiting them for their own benefit, and the other reason is to reserve to themselves the advantage of changing freight rates quickly and easily in accordance with the changing state of competition. There is, therefore, no special difference between the tariffs published and those kept secret in point of constitution, form, etc. Nor is it by any means the case that the tariffs which are kept secret represent higher rates than those which are made public. On the contrary, when one is higher than the other, the higher one must be the tariffs published, for when tariffs are made public, it means that the shipping company concerned enjoys a large measure of monopoly, while, on the other hand, the secrecy kept over tariffs implies a fear of competition.

If there is any difference at all between the two, it is this: whereas tariffs for publicity have only a general classification of goods, secret ones are minute in their classification of merchandise. This is because, as the goods handled under secret tariffs are exposed to competition, their minute classification enables shipowners to make such changes as are necessary to meet competition more easily.

On secret tariffs are printed the words "Private," "For use of the Line and its Agents only." The more prudent shipowners have the following notice printed on them in order to prevent their being lost:—"This tariff is the property of the Line and to be returned on request."

6. AMENABILITY OF SHIPPING TARIFF FREIGHT RATES TO IMMEDIATE CHANGES

It is when tariff freight rates are comparatively stable that they are made public, and consequently the published tariff rates are not so frequently changed as secret tariffs. But, as already mentioned, the monopoly secured by regular steamship companies under a Conference is not so perfect as the railway monopoly. It is in no small measure affected by the competition outside the Conference, which grows or weakens with the prosperity or decline of the shipping business, with the result that the published tariffs have, every now and then, to be undergo sometimes drastic alterations.

As alterations in tariffs are calculated to add to the speculative nature of international transactions, there is increasingly a demand among traders that shipping companies should not alter their published tariffs unless sufficient previous notice is given.

In such affairs as State-owned railways, which enjoy absolute monopoly and which do not necessarily aim at profit-making, it is usual for previous notice to be given to the public when alterations in the tariff are contemplated, so as to lessen the speculative elements in domestic transactions. In the marine transport business also, it is very necessary not only for the convenience of traders but for the development of trade that previous notice should be given in similar circumstances. This necessity is even greater in this business than in the railway enterprise, though the course is attended with supreme difficulties in practice. The reason is, as frequently mentioned, that the monopoly which shipping companies operating regular liners enjoy is not so complete as the one inhering to the railway business. These shipping companies have to lower their rates when their special "sphere of influence" is competitively invaded by tramps, or when a freight war is started by liner companies outside the Conference, and in either case the alteration must be made quickly. On the other hand, they raise their rates when either the slackening or the termination of the competition afford them an opportunity to recoup themselves for the losses which they have incurred through the forced lowering of their rates. In this case also, the shipping companies have to act promptly. Hardly any shipping companies are, therefore, willing to take upon themselves, of their own accord, the duty of giving previous notice of any alteration in the tariff. Nay, they even reserve to themselves the freedom of altering tariffs whenever they think fit. They usually print on their tariffs the following words :—"Subject to alteration without notice."

Inasmuch, however, as common carriers have to share, in the end, in the losses which traders incur in the matter of transportation, shipping companies operating regular liners desire to lessen, as far as possible, the losses that alterations in tariff freight rates may entail upon traders, and with this end in view, some shipping companies have worked out a *modus operandi* for the benefit of shippers for application to those lines where its application is possible. Supposing that shippers open negotiations with the shipping companies for the transportation of their goods on the basis of the tariff rates then ruling, and an alteration is made in those rates by these companies before the negotiations are concluded, the companies undertake the transportation of such goods at the old rates, provided the contract is concluded within four days, or sometimes a week. The time allowed is usually very short, but this *modus operandi* gives the shippers concerned sufficient time to close with their customers abroad by telegraphic negotiation.

As mentioned before, shipping companies operating regular liners reserve to themselves, as a rule, the liberty of changing their tariff rates without notice, but as this is due to the necessity of meeting competition successfully on their part, they may abandon this freedom when the necessity of meeting competition calls for exceptions to the rule. For instance, contracts over a period, contracts for large quantities and contracts guaranteeing no change in rates, all of which are concluded between shipping companies and large shippers sometimes, mean the abandonment of this freedom on the part of the shipping companies concerned.

Contracts over a period mean contracts under which shipping companies undertake the transportation, for a fixed period at fixed rates, of special kinds of goods which are always shipped in large quantities, on condition that their shippers promise to entrust these goods exclusively to them for transport. These contracts are concluded between the association of traders, who handle such special goods, or their members, on the one hand, and the Conference or the shipping company which is a member of a Conference, on the other. As it is stipulated in such contracts that any alterations to be made in freight rates during the contracted period should be effected by agreement between the parties concerned, the shipping companies forgo under these contracts the freedom of changing their freight rates without notice. The reason for the conclusion of such contracts by a shipping company is that these goods are shipped in large quantities. They have recourse to this method, as there is a danger of these same goods going to tramps or regular steamers outside the Conference, unless they try to meet the wishes of shippers not only in the freight rates charged but in the precedure to be followed in altering them.

It is exactly for the same reason that shipping companies conclude what is called contracts for large quantities. Contracts for large quantities are concluded by a Conference with the Government, a Government office, a Colonial Government, a canal company, a harbour company, a big commercial firm, or a big industrial company for the transportation of goods for use by the Colonial Government, railway materials, materials for big engineering works, etc., which are in such large quantities as may warrant the charter of a steamer on the part of the shippers for the specific purpose of conveying them to their destination. These contracts aim at precluding competition with tramps, and as several voyages are required to complete the transportation of the goods under contract, not only are special rates quoted but the fact that there will be no change in those rates during the life of the contract is also guaranted. Thus, these contracts deprive the shipping companies concerned of the freedom of altering their rates without notice.

Contracts for guaranteeing that there will be no change in freight rates are concluded between shipping companies and shippers who transact business at tariff rates. Under these contracts, shipping companies promise their customers to undertake the transportation of their goods at certain fixed rates for a specified period, say, three or six months, even though the tariff rates may be revised in the meantime. Such contracts clearly mean the abandonment by the shipping companies of the freedom of changing their freight rates without notice, and they are consequently very advantageous to traders. Shipping companies cannot, however, be easily induced to conclude such contracts. They consent to conclude them with such shippers only who may otherwise patronise tramps or regular steamers outside the Conference.

As contracts over a period, contracts for large quantities and contracts guaranteeing the inviolability of the contract rates deprive the shipping companies concerned of the freedom of altering their rates without notice, the freight rates guaranteed by such contracts have much greater stability as compared with ordinary tariff rates.

7. UNIFORMITY OF SHIPPING TARIFF FREIGHT RATES

When freight rates are indicated in tabular form and are made public, all shippers can pay their freightage according to the rates given in the tariff, and so all shippers, large and small alike, are entitled to exactly the same treatment in respect of the rates. In other words, there is uniformity of freight rates.

In the regulations governing the freight rates and charges of the Japanese State-owned railways, goods are divided into three kinds, viz. *koguchi atsukai* (goods in small lots), *kashikiri atsukai* (goods for a reserved breight car) and *tokushu atsukai* (goods for special treatment), according to the ways in which they are to be handled[1]. In respect of the manner of their transportation, they are divided into *futsūbin* (by ordinary trains) and *kyūkobin* (by express trains)[2]. Thus, there are six different ways of transporting goods. It, therefore, follows that freight rates are of six different kinds. Freight rates differ as the ways of handling and transporting goods differ, but no distinction is made either in reference to the owners of goods or with regard to the quantity of

[1] Article 4 of the Regulations governing freight rates and charges of State-owned railways.

[2] Article 7 of the same Regulations.

goods entrusted for transportation. Unlike some private railways in Western countries, the State-owned railways in Japan have neither *rabattarif* nor *rafaktie*[1]. It may, therefore, be fairly said that the freight rates of the State-owned railways in Japan are of absolute uniformity.

It must be noted that uniformity of freight rates means, not that uniform rates are charged on all goods, irrespective of their kinds, but that no distinction is made either in reference to the owners of goods or in regard to the quantity of goods entrusted for transportation. As the major part of the cost of production for the transport business, which is operated on a systematic and large scale, constitutes the joint cost of production for all the goods transported, this joint cost of production is imposed on goods according to their kinds and their capacity for bearing freight rates, with a view to increasing to the maximum the quantity of the goods carried and relatively reducing as far as possible the charges per unit. In other words, " What the traffic will bear " forms the basis on which it is fixed. The value of goods msot approximately represents their capacity to bear freight rates.

Consequently, in a tariff, the classification of goods is usually made with due regard to the value of goods appraised on the basis of weight or size, and different rates are fixed for different kinds or grades, from the comparatively costly goods down to the cheapest kind of goods. As this discriminatory treatment in freight rates refers simply to the kinds of goods, it does not do any violence to the uniformity of the freight rates under discussion. Since the uniformity of freight rates means that all owners of goods, big and small, are entitled to the same conditions of transportation, it is a very desirable thing from the point of view of developing commercial transactions. The fact that this principle is strictly observed in the State railway transportation business

1) Ulrich, Das Eisenbahntarifwesen im Allgemeinen, S. 85; Rank, Eisenbahntarifwesen in seiner Beziehung zu Volkswirtschaft und Verwaltung, S. 551.

is very satisfactory, as it contributes much to the healthy development of domestic commercial transactions. There can, however, be no complete uniformity of freight rates, unless the transport business enjoys a complete monopoly. The degree of the uniformity of freight rates is entirely dependent on the degree of monopoly.

The steamship companies within a Conference sometimes have a large measure of monopoly, according to the state of the lines concerned. In this case, there is a considerable amount of uniformity in the freight rates, and the rates given in the tariff are strictly applied to the goods mentioned in it. Moreover, as a Conference is formed by the component shipping companies on the condition, agreed upon among themselves, that the business should be carried on in strict accordance with the agreed rates, so that a common internal competition as regards freight rates may be precluded, it is, under a strict surveillance observed by the other members of the Conference, impossible for any one of the signatory steamship companies of the Conference to give special rates to its particular shippers. In the case of such a Conference as adopts the pool and the deferred rebate systems, direct surveillance is kept over the freight revenues of the signatory shipping companies through the applications filled by shippers for deferred rebates, and in this instance, the inter-company surveillance kept by the signatory companies over one another is something more than moral. Under a Conference, therefore, the uniformity of freight rates results from the operation of the Conference system itself, no matter whether tariff rates are made public or kept secret.

Although a Conference puts an end to freight competition between the signatory companies, it is not entirely free from competition from outside, as I have often explained. The tariff freight rates of a Conference, unlike those of the State-owned railways, admit of exceptions. If competition requires it, separate freight rates are formulated. Freight rates for application to contracts for large quantities, to which reference has already been made, are a remarkable case in point. Consequently, the principle of the uniformity of freight rates is not always strictly observed in tariff freight rates for regular liners.

8. LUCIDITY OF SHIPPING FREIGHT RATES.

Lastly, I must mention, as another characteristic of tariff freight rates, that the tariff is formulated in a very comprehensible fashion. Freight rates are so fixed that they can be reduced to a clear and simple table. Unless the rates are shown in a tariff in such a manner as to enable the shippers generally to know easily how much they have to pay for the transportation of the goods which they intend to ship, it is impossible for the shippers to be certain of the stability and uniformity of freight rates, even if the tariff is made public avowedly for general application. As a guarantee for stability and uniformity, therefore, it is desirable that the tariff should be framed in so clear and accurate a fashion that it leaves no room for doubt and ambiguity.

In point of lucidity, the freight rates for regular liners is rather superior to those of railways. In the case of railways, different rates are provided for goods of the same kind, as they differ in the ways of handling or of transportation, as witness the State-owned railways in this country, but in the case of regular steamers, no distinction is made of kinds of goods. As there is only one form of transport, the tariff rates are of only one kind.

To quote the example of the Japanese State-owned railways, freight rates are fixed both in proportion to the number of miles covered and in accordance with the demarcation system under which sections progressively expand as the distance increases, and although reference to a tariff makes it clear how much one must pay for the carriage of goods over a distance of such-and-such miles, it is not so easy to know what freightage one must pay for the transportation of goods from one railway station to another. For freight rates are worked out, not on the basis of the distance over which goods are actually carried on a train, but on the basis of the shortest railway route between any two stations[1]. In these days of railway development, when there are so many railway lines and so many railway stations, it often happens that the two stations between which the goods are to be transported are connected with each other by several different lines, and in such cases, it takes a railway expert to discover the exact amount of freight one has to pay. In other words, as the line over which goods are actually transported is not always the same as the one which forms the basis of calculating freight rates, the task of working out the exact amount of the freightage to be paid is attended with much difficulty.

For instance, the goods to be carried from Osaka station to Shiodome station (Tokyo) are conveyed over the Tokaido Line. The train carrying such goods goes eastward via Kyoto, Maibara and Nagoya, but the freight rates are not worked out on the basis of the distance covered by taking this route. As the shortest route between Osaka and Shiodome stations is to go from Osaka station to Kyobashi on the Joto Line, then to Kidzu on the Katamachi Line, then to Nagoya over the main Kwansai Line, and then to the destination by the Tokaido Line, the requisite freight rates have to be worked out by calculating the total distance of this route. The tariff indicates that the distance between Osaka and Shiodome stations over the Tokaido Line is 352 miles, but the freight is not worked out on this basis. As the shortest route between them covers 342.8 miles, this distance is taken as the basis on which the freight is calculated. In this regard, the tariff freight rates of the Japanese State-owned railways lack clearness.

Again, the regulations governing the freight rates and charges of the Japanese State-owned railways consist of 32 Articles, including additional rules, and as many of these Articles are made up of clauses and paragraphs, the whole set of regulations is of considerable length. When it is

[1] Article 5 Paragraph 3 of the Railway Regulations already mentioned.

remembered that so many provisions are required to elucidate ambiguous points in reference to the calculation of freight rates, the very complex and ambiguous nature of the freight rates may easily be imagined. All this is not, however, peculiar to the State-owned railways in this country, for it arises from the very nature of the railway service.

As compared with this, the tariff for regular liners is simple and clear. It generally consists of a simple table, and only a few explanations are given for the elucidation of ambiguous points. This is due chiefly to the usage established internationally in the shipping business and partly to the fact that a steamship service forms, as a rule, a single line with a comparatively few ports of call—out of proportion few, indeed, as compared with the number of railway stations. The tariffs for the regular liners such as those providing for the deferred rebate of freight rates and primage do not show the exact freightage to be paid, it is true, but as all are given at rate per cent., one can easily understand them, if one only gets used to them.

As already explained, the comparative simplicity and lucidity, which characterise the freight rates of regular liners, are primarily ascribable to the nature of the transport service, but as another contributory cause may be mentioned the fact that not only is the tariff formulated as one means of meeting competition successfully but it is prompted by the necessity of the surveillance which members of the Conference keep over one another, lest improper rates should be quoted by some one or other.

Although the liner companies can monopolise the business under a Conference, their monopoly is restricted in many ways, as it is exposed to challenge, actual or potential, from outside. If the comprehensiveness, stability, opennes and uniformity of the tariff freight rates of regular liners are somewhat restricted in comparison with those of railways, it is a reflection of the restrictions which are imposed on the monopoly of the business.

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