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COOPERATION IN AMERICAN EXPORT TRADE.

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LETTER FROM THE CHAIRMAN OF THE FEDERAL TRADE COMMISSION, TRANSMITTING, PURSUANT TO LAW, A SUMMARY OF THE FACTS AND RECOMMENDATIONS EMBODIED IN THE DETAILED REPORT OF THE FEDERAL TRADE COMMISSION'S INVESTIGATION INTO TRADE CONDITIONS IN AND WITH FOREIGN COUNTRIES WHERE ASSOCIATIONS, COMMISSIONS, OR OTHER CONDITIONS MAY AFFECT THE FOREIGN TRADE OF THE UNITED STATES.

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FEDERAL TRADE COMMISSION,  
*Washington, May 2, 1916.*

To the PRESIDENT OF THE SENATE OF THE UNITED STATES.

SIR: In accordance with the provisions of subsection (h) of section 6 of the Federal Trade Commission act, I have the honor to transmit herewith a brief summary of the facts and recommendations embodied in the detailed report of the Federal Trade Commission's investigation into trade conditions in and with foreign countries where associations, combinations, or other conditions may affect the foreign trade of the United States.

Respectfully,

JOSEPH E. DAVIES, *Chairman.*

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SUMMARY.

Under the authority of its organic act the Federal Trade Commission has completed a comprehensive investigation of competitive conditions affecting Americans in international trade. The commission finds:

(1) That other nations enjoy marked advantages in foreign trade from superior facilities and more effective organizations.

(2) That doubt and fear as to legal restrictions prevent Americans from developing equally effective organizations for over-seas business and that the foreign trade of our manufacturers and producers, particularly the smaller concerns, suffers in consequence.

The Commission appreciates the importance of fostering foreign trade and realizes the urgent need of enabling our citizens to meet foreigners on equal terms in international commerce. It therefore recommends the immediate clarification of the law to permit cooperation among Americans for export trade.

## ADVANTAGES ENJOYED BY FOREIGN EXPORTERS.

While the United States has been absorbed in domestic development other nations have followed definite policies for the expansion of their foreign trade and have perfected efficient organizations for the purpose in view.

Recognizing the vital influence of transportation facilities foreign nations have built up their ocean shipping, have granted low export railway rates, and have combined their land and ocean transportation facilities to give their shippers ready entrance into their over-seas markets. The United States on the contrary has neglected its merchant marine until it is dependent upon its commercial rivals to deliver its goods. In consequence the transportation of its products is now largely controlled by powerful international combinations of foreign shipowners who discriminate against American shippers.

Realizing the necessity of banking and credit facilities to finance their transactions foreign nations have not only established connections with banking houses in every land but have dotted the map of the world with foreign trade banks of their own. Banks with their main offices in London, Berlin, Paris, Rome, and Vienna operate hundreds of branches and agencies in South America, the Orient, Australasia, the Levant, all around the coast of Africa and far within the remote interior. They give the foreign exporter information, extend credit, finance his transactions, and constantly strive to increase the foreign business of the mother country. The few foreign branches of American banks have but recently been established, and in most markets our exporters must depend on alien bankers.

Though now increasing, American investments abroad are comparatively small. British, French, German, and other foreign traders, on the other hand, enjoy a peculiar advantage from the billions of dollars of investments made by their fellow nationals in foreign lands, frequently on the express condition that supplies and equipment should be purchased in the country furnishing the funds. British and German investments in South American railways and public utilities, French investments in Turkey, and Japanese investments in China and Manchuria are typical examples. In consequence, time and again American manufacturers have found it impossible to sell their products abroad because the prospective customer was forced to purchase from or through interested investors.

Shipping facilities, banking and credit arrangements, and investment of capital abroad are thus of primary importance in international trade. Other branches of the Government have special jurisdiction of some of these matters and all of them will doubtless receive consideration from Congress. In accordance with its specific authorization, this commission has therefore directed its investigation to the effect of foreign combinations on the commerce of the United States.

## FOREIGN COMBINATIONS COMPETING WITH AMERICAN EXPORTERS.

In seeking business abroad, American manufacturers and producers must meet aggressive competition from powerful foreign combinations, often international in character. In Germany, England, France, Italy, Austria-Hungary, Switzerland, Holland,

Sweden, Belgium, Japan, and other countries business men are much freer to cooperate and combine than in the United States. They have developed numerous comprehensive combinations, often aided by their Governments, which effectually unite their activities both in domestic and foreign trade.

In Germany prior to the war there were 600 important cartels, i. e., combinations to control the market, embracing practically every industry in the Empire. Many dominated the export trade of their industries and carried on vigorous campaigns to extend their foreign business, to prevent competition among German producers in foreign markets, and to secure profitable prices. Thus the German dye-color industry operated as a unit in foreign trade under the leadership of two great groups of allied producers, the Badische group and the Höchst-Casella, which were working under agreement to avoid competition between themselves for 50 years. The manufacture and exportation of electrical equipment has been made one of the bulwarks of German foreign trade by two great companies, the Allgemeine Electricitäts Gesellschaft and the Siemens-Schuckert, with numerous subsidiaries at home and abroad working in harmony with each other. Half of the \$150,000,000 worth of coal and coke exported annually was sold by one central selling agency, maintained by the great Rheinisch-Westfälische coal syndicate, of which the Prussian Government mines are members, and which embraces the bulk of all the coal and coke production of the Empire. Practically all the rapidly increasing and highly valuable iron and steel export business was handled by the single selling agency of the Stahlwerks Verband, the aggressive union of German iron and steel manufacturers which has actively fostered foreign business through export bounties and other means.

In France and Belgium, syndicates of iron and steel, coal, glass, and other industries were strong factors in domestic and foreign trade. Silk-ribbon manufacturers of France and Germany conducted their export trade in accordance with a joint agreement. In Italy, Russia, Austria-Hungary, Switzerland, Sweden, Greece, Argentina, Chile, and Ecuador, central organizations unite the interests of producers in various industries such as coal, iron, and steel, agricultural machinery, oil, sulphur, superphosphates, cement, matches, chocolate, embroidery, silk goods, watches, cotton goods, condensed milk, canned fish, currants, quebracho, iodine, cacao, etc.

In Japan an export organization of textile manufacturers is rapidly obtaining the rich cotton goods trade of North China. The trade in tea is controlled by a nation-wide "tea council." One great Japanese firm, which in itself combines manufacturing, mining, shipping, and merchandising enterprises, is rapidly extending Japanese trade in all lines throughout the Far East, and the Japanese Government is directly assisting the development of shipping, banking, and trading for foreign business.

British manufacturers have relied more fully upon an unusually effective merchandising organization for foreign trade, long established in foreign markets and giving British products a superior representation there, but in various important industries they have gone much further. Thus most of the great coal export business is done by powerful organizations, combining mine operators, marketing companies, shipping lines, and foreign distributing companies. This

gives British coal its grip on the rich South American market. British cement manufacturers are united in a strong and successful union for the extension of their over-seas trade. Recently a number of large British manufacturers of machinery of all sorts have formed the Representation For British Manufacturers Ltd., an organization to handle their business in certain important foreign markets and to carry on an aggressive campaign for its extension. Similar organizations for foreign trade are in process of formation among other British manufacturers. In the electrical, cotton-textile, pottery, tobacco, wall paper, iron and steel, and various other industries, strong associations and combinations are important factors in foreign and domestic business.

It is against such organizations as these, uniting powerful groups of foreign concerns, backed by great banks, aided by railway and ship lines, and vigorously assisted by foreign Governments that hundreds of comparatively small American manufacturers and producers must compete for trade beyond our shores. Some of the foreign trade combinations, which enjoy overwhelming advantages in international trade, have established branches and plants here which compete with American manufacturers for the home trade. Moreover, in some industries our smaller manufacturers must compete abroad with great American companies having most efficient world-wide selling organizations.

In various manufacturing industries the lack of raw materials, higher manufacturing costs, and similar handicaps make it extremely difficult at best for Americans to compete with foreigners for trade abroad. Therefore, with Americans suffering rigorous competition from powerful foreign combinations, and forced to expose the secrets of their over-seas business to their foreign competitors and to risk effective discrimination against their trade through dependence on foreign cables, telegraphs, banks, and ships, our manufacturers, and especially our smaller producers, are frequently at a decisive disadvantage in foreign trade.

#### FOREIGN BUYING COMBINATIONS WHICH DEPRESS AMERICAN EXPORT PRICES.

In various markets American manufacturers and producers must deal with highly effective combinations of foreign buyers. Thus exporters of lumber find such combinations in Australia and on the Continent of Europe. Cottonseed products are handled by combinations of buyers in Holland, Denmark, and Germany; and Austrian cotton-textile manufacturers have a buying combination to import their raw cotton. The Wholesale Cooperative Societies Ltd., an astonishingly comprehensive wholesale buying organization maintained by 1,400 cooperative societies in Great Britain, has one buyer in New York who annually purchases millions of dollars' worth of American products. Combinations of British coal brokers fix the contract price for bunkering ships at Newport News. Four London firms, known as the Fixing Board, daily set the price of silver for the world, and American mining companies must sell their silver for either the English or the great Indian market to one of these four houses. For years the copper trade of the world has been ruled by a vast German metal-buying organization centering in the Metallbank

und Metallurgische Gesellschaft A. G. of Frankfort on the Main. This combination has subsidiary and affiliated companies in Germany, England, France, Spain, Switzerland, Belgium, Africa, and Australia, controls copper and lead mines and smelters in the United States, Mexico, and other countries, and works in agreement with other German metal-buying concerns.

These combinations constantly make individual American producers bid against each other, and are thus able to buy at prices near or below the cost of production. By such tactics the present contract price for bunkering ships in Hampton Roads has been fixed at 5 to 7 cents per ton below the domestic price. By similar means and the manipulation of the foreign future markets the German metal-buying combination over a series of years has bought millions of tons of American copper at prices averaging nearly a cent a pound below the prices paid by American consumers.

#### SACRIFICING OUR NATURAL RESOURCES.

Our forests constitute a rich source of timber, our coal measures are among the greatest known, our phosphate-rock deposits parallel the potash beds of Germany, our copper mines produce more than half the world's output and are necessary for the world's demands. Other nations take measures to conserve their national resources. A combination of Chilean producers fixes export quotas and prices for iodine. The German Government promotes combination among German potash producers, with a Government board to determine output for domestic and export trade, and the law prohibits sales abroad below the prices fixed for domestic business. We, on the contrary, because our industrial organization is unsuited to international commerce, are favoring foreign above home consumers, and without present gain are wasting the priceless heritage of future generations. The mere statement of these conditions should be sufficient argument for their correction.

#### COOPERATION NEEDED IN AMERICAN FOREIGN TRADE.

If Americans are to enter the markets of the world on equal terms with their organized competitors and their organized customers; if they are to expand the foreign trade of the United States as they should, and if our small producers and manufacturers are to obtain their rightful share of foreign business on profitable terms, they must be free to unite their efforts. We are in danger of being misled into overconfidence and baseless self-assurance by the imposing totals of our present abnormal foreign trade. A great part of our present foreign trade is purely war business which will end with peace. Another part is enforced buying by parties cut off from former sources of supply, and unfortunately much of this business is being done on terms and by methods that are alienating the purchasers and that insure the diversion of their trade to other countries at the earliest opportunity. Moreover, the end of the war will doubtless see vigorous efforts by Europeans to recapture lost trade. Therefore, earnest thought should be given to measures for the improvement of our foreign business.

Our surplus foodstuffs and raw materials will sell themselves at some price, but to avoid needless expense in distribution, to meet formidable foreign buying organizations, to insure reasonable export prices, and to prevent the profitless exhaustion of our natural resources, cooperation among American producers is imperative.

In the sale of our factory products, cooperation is equally necessary. Such goods must be advertised, demonstrated, and a market created among alien peoples, often in the face of determined and destructive competition from great combinations of foreign manufacturers. But if our industrial development is to proceed as it should, the foreign business of our manufacturers must be expanded. Obviously only strong organizations can undertake the contest. If groups of American manufacturers and producers, either competing or noncompeting, can combine their efforts, they can share the cost of developing new markets, can establish themselves firmly, can assist in the financing of foreign enterprises, can more readily extend credit to foreign customers, and can compete more successfully with foreign syndicates and cartels. Precisely such action by our manufacturers is, therefore, one of the first requisites for the successful growth of our industries.

#### PREVENT DANGER OF MISUSE OF COOPERATIVE EXPORT ORGANIZATIONS.

Two chief dangers from cooperative export organizations of American manufacturers and producers are apparent. They may be used to exploit the home market and they may be used unfairly against individual American exporters in foreign trade. The dangers in cooperative action must be faced frankly and provided against fully.

The Commission is confident that this can be done without sacrificing the essential advantages of joint action and without altering the policy of the antitrust laws or interfering with their enforcement. Thus specific extension of the law prohibiting unfair methods of competition to export trade and requirement of full reports to the Federal Trade Commission from cooperative export organizations will protect the individual exporter, while the enforcement of the antitrust laws will prevent the use of such organizations to effect restraint of trade or monopoly in the domestic market.

The Commission does not believe that Congress intended by the antitrust laws to prevent Americans from cooperating in export trade for the purpose of competing effectively with foreigners, where such cooperation does not restrain trade within the United States and where no attempt is made to hinder American competitors from securing their due share of the trade. It is not reasonable to suppose that Congress meant to obstruct the development of our foreign commerce by forbidding the use, in export trade, of methods of organization which do not operate to the prejudice of the American public, are lawful in the countries where the trade is to be carried on, and are necessary if Americans are to meet competitors there on equal terms.

## DECLARATORY LEGISLATION RECOMMENDED.

By its investigation the Commission, however, has established the fact that doubt as to the application of the antitrust laws to export trade now prevents concerted action by American business men in export trade, even among producers of noncompeting goods. In view of this fact and of the conviction that cooperation should be encouraged in export trade among competitors as well as noncompetitors, the Commission respectfully recommends the enactment of declaratory and permissive legislation to remove this doubt.

The Commission feels that it would fail of its duty if it did not urge the pressing need of such action immediately. If American business men are to make the most of the great opportunities now before them, are to build securely in foreign trade, and are to avoid disaster in the shock of the stern and determined competition that will doubtless follow the war, they must at once perfect the organization demanded by the conditions of international trade.

Respectfully submitted.

JOSEPH E. DAVIES, *Chairman.*  
EDWARD N. HURLEY, *Vice Chairman.*  
WILLIAM J. HARRIS.  
WILL H. PARRY.  
GEORGE RUBLEB.

