

February 2, 1955

Letter, Harold Lady to Syngman Rhee

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Summary:

Harold Lady writes regarding the need to develop policies and procedures for the ocean transportation of FOA goods.

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Memo No. S-1

February 2 , 1955

Office of the President
(ATTENTION: Mr. Chan Il PARK)Subject: Ocean Transportation of FOA Goods

1. Developing proper policies and procedures with respect to the ocean transportation of FOA goods is an important problem requiring immediate attention. I have, from time to time, discussed this matter with the President of the Korea Shipping Corporation and believe our ideas are in complete agreement.

2. Plans should be perfected (a) to save as much as possible of the FOA funds being devoted to ocean freight, and (b) to enable to Korea Shipping Corporation to realize a profit from this business.

3. Inseparable from the above problems is the very pressing matter of making arrangements to prevent the confusion, waste of money and delays in delivery that will occur unless a proper procedure is established to insure compliance with the provision of the FOA law requiring at least 50% of all FOA-financed freight tonnage to be transported in American-flag vessels. This is complicated by the requirement that the limitation must be applied separately to dry cargo, liner cargo, and tanker cargo, and to geographical areas. The limitation applies to purchases through private channels and by agencies of the U.S. Government as well as purchases by the Office of Procurement. The FOA seems to be undecided and confused as to how this requirement should be met in actual operations and the proper administrative devices to be employed to comply with it.

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4. It is recommended that the Korean Government adopt the following policies:

a. As much as possible of the FOA-financed cargos should be carried in Korean-flag vessels. Although FOA regulations prevent payment in U.S. dollars when Korean vessels transport FOA cargo, The Korea Shipping Corporation, in effect, earns dollars for the Korean economy whenever it transports FOA cargo because the FOA money saved in ocean freight is available for use in importing other or additional goods for the benefit of Korean reconstruction.

b. Up to the permissible limit of 50%, FOA cargos should be shipped in non-U.S.-flag vessels because their rates are lower than those charged by U.S.-flag vessels.

c. Even when U.S.-flag vessels are used, the Korea Shipping Corporation, whenever possible, should earn a commission.

d. Inasmuch as it will be Korea that suffers any penalties that are imposed as the result of any violation of the 50%-U.S.-flag requirement, the Korean Government should assume responsibility for controlling ocean freight. This will also protect the aid program from delays and mistakes on the part of FOA employees.

5. To effectuate the above policies, it is recommended that -

a. The Ocean Freight Coordination Office be established as a part of the Ministry of Transportation.



(1) This office should be located in Seoul inasmuch as it would be impossible for it to accomplish the functions assigned to it if it were located elsewhere.

(2) Its table of organization should include:

(a) A director with full authority to make final and unreviewed decisions.

(b) A part-time advisory committee composed of:

A foreign advisor experienced in the freight forwarding and ship-chartering businesses. (He could also serve as advisor to the Korea Shipping Corporation.

A representative of the Ministry of Commerce.

A representative of the Korea Shipping Corporation.

A representative of the Control Section of the Office of Supply.

A representative of the Procurement section of the Office of Supply.

(c) A staff including experts in bookkeeping correspondence and typing in the English language.

(3) The Ocean Freight Coordination Office will maintain a record of all ocean freight on FOA goods and make monthly reports thereof to FOA.

(4) It will decide with respect to each procurement made with FOA funds -

(a) Whether the goods must be transported in U.S.-flag or non-U.S.-flag vessels.

(b) Whether the freight will be arranged by the purchaser or by an instrumentality of the Korean Government.



b. In instances in which the Ocean Freight Coordination Office determines that freight will be arranged by an instrumentality of the Korean Government, it will assign the problem to the Korea Shipping Corporation, after first advising the purchaser that procurement must be effected on an FOB or FAS at port of origin basis.

c. So far as possible the Korea Shipping Corporation, within the limit of the 50% non-U.S.-flag allowance, will transport cargos in its own vessels or vessels that it charters and operates.

d. Whenever possible, the Korea Shipping Corporation will arrange for cargos to be combined to make full ship-load lots so that the cargo may be transported at charter rates instead of the higher commodity rates.

e. The Korea Shipping Corporation, in instances in which the port of origin is in North America or Central America, must refer the matter to the American-Korean Shipping Agency, Inc., unless the Korea Shipping Corporation elects to transport the cargo in its own vessels or vessels it operates under charter. This is necessary because of the five-year contract signed by the Korean Government, giving this company the exclusive right to arrange all shipping, including charters, in this area.

f. If the port or origin is in an area not covered by the American Korean Shipping Agency, Inc., contract, the Korea Shipping Corporation, unless it elects to transport the cargo in its own vessels or vessels that it operates under charter, will arrange for freight either in U.S.-flag or non-U.S. flag vessels, according to the instruction of the Ocean Freight Coordination



Office. This will be accomplished through its own employees or sub-agents, as appropriate to the individual transaction, and all or part of the standard freight commission will accrue to the Korea Shipping Corporation in the case of both non-U.S.-flag and U.S.-flag shipping.

6. So far as the husbanding agency agreement with the Pacific Far East Line is concerned, it is a good contract from every standpoint. It does not interfere in any way with the plan recommended herein.

Harold Wendell Lady