CHAPTER XXV

FIXING THE TOLLS

LONG before the Panama Canal was finished shipping interests in every part of the world began inquiring minutely as to probable rates of toll, stating that it would be necessary for them to have this information before making plans to meet the changed conditions. Some wanted to plan construction of new ships, while others desired principally to readjust their transportation lines in accordance with the new conditions.

With this in mind, President Taft in 1912 recommended to Congress the passage of a law fixing the tolls and providing for the permanent operation of the canal. Congress, acting upon this recommendation, passed what is known as the Permanent Canal Law. In this law are stated the terms under which the canal may be used by the shipping world. It authorizes the President to prescribe, and from time to time to change, the tolls that shall be levied by the Government of the United States for the use of the canal. No tolls may be levied on vessels passing through the canal from one United States port to another. Provision was also made that tolls might be based upon gross or net registered tonnage, displacement tonnage, or otherwise, and that they might be
THE PANAMA CANAL

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upon that basis. In the majority of cases cargo is taken on at "ship’s option"—either by weight or space. Forty cubic feet is estimated as the space occupied by an ordinary ton of freight, and ships usually carry cargo at rates based on that amount of space for each ton. The 40 cubic feet method of determining the amount of cargo carried is adopted by maritime interests because a long ton of wheat occupies about that amount of space. From this, it will be seen that for the purpose of collecting tolls the United States allows 100 cubic feet of space for a ton, while the ordinary shipping firm allows only 40 feet per ton. Thus it happens that a shipowner charges the shipper for carrying 2½ tons where the United States charges the shipowner for carrying 1 ton.

Notwithstanding the fact that the shipowner collects for the carrying of 2½ tons where he pays toll on 1 ton, he still has to pay what seems, in the aggregate, a large sum of money each time his ship passes through the canal. An ordinary 5,000-ton ship will be charged $6,000 for passing from one ocean to the other. A ship like the Cleveland, the first around the world tourist steamer advertised to pass through the canal, will have to pay $14,000 for the 12-hour trip from Colon to Panama. A steamship like the Lusitania will have to put up some $30,000 for a single passage. The average ship will pay from $5,000 to $10,000 for its passage. This seems like a high rate, even though it does amount to only 2 or 4 cents per hundredweight of cargo, but when one takes into consideration the time saved in passing through the canal, and the cost of main-
taining a ship on the high seas, the rate becomes a reasonable one.

The average ship costs about 10 cents per net registered ton per day for keeping it in operation. Thus a 10,000-ton ship will save about a thousand dollars for each day its voyage is shortened. If this voyage be shortened by 20 days, the ship-owner makes a net saving of $8,000 when he selects the Panama route over some other route. In fact, he may save even more than this, for the other route might involve the giving of additional space for bunker coal, which otherwise would be used for cargo. Convenient coaling stations mean a minimum of space required for the operation of the ship and a maximum of cargo-carrying capacity. In this way a merchant ship might save several thousand dollars additional by choosing the Panama route over the Strait of Magellan.

It is estimated that the tolls it will be necessary to collect to make the canal self-supporting will be $15,500,000 a year, since that amount will be required to meet the expense of operation and return 3 per cent interest on the investment. The $15,500,000 is made up of $8,500,000 for operations, $250,000 for sanitation and government and $11,250,000 for interest on the $375,000,000 the canal cost. This takes no account of approximately $10,000,000 which will be required for the support of the troops on the Isthmus. Should this be considered, the total annual charges to be made would approximate $25,000,000, but this, in the view of those who have considered the matter, is not a proper charge against the cost of operation.

It has been stated that a proper system of
GATUN SPILLWAY FROM ABOVE AND BELOW
finances would provide for the repayment of the cost of constructing the canal in a hundred years. This would mean an annual charge of $3,750,000, and would bring the total annual outlay, exclusive of the cost of protection, up to $19,250,000. From this viewpoint the canal will not be self-sustaining until the total traffic approximates 17,000,000 tons a year, which it will reach about 1925.

It has been estimated by Prof. Emory R. Johnson, the Government expert on canal traffic, that the total tonnage which will pass through the canal during the first year of its operation will approximate 10,500,000 net registered tons. Since the shipping of the United States is permitted to pass through without paying tolls, the tonnage upon which toll will be collected will yield a gross revenue of approximately $10,000,000. This will afford the United States an income of a little less than 2 per cent on the money invested, after paying the actual cost of operation. On this basis it probably will be four or five years from the opening of the canal before the returns will yield 3 per cent on the investment.

The ships of the world use approximately 75,000,000 tons of coal annually. The opening of the Panama Canal will save several million tons a year and the money thus saved will, in part, fall into the coffers of Uncle Sam. A vessel en route from Chile to Europe can save nearly enough in the cost of coal alone to pay the tolls that will be exacted at Panama.

When the United States came to frame its system of toll charges and collections, it was found
that there was a wide difference of opinion as to the right of the United States Government to exempt coastwise shipping from the payment of tolls. Under the Hay-Pauncefote treaty with Great Britain there was also a wide variance of opinion as to the question of whether the United States, as a matter of national policy, ought to exempt from the payment of tolls, ships trading between its own ports on the two coasts. These questions were argued pro and con, and Congress finally decided by a very close vote that the United States ought to allow ships trading between its own ports to use the canal free of charge. No foreign ships are permitted under any circumstances to engage in such traffic.

Those who advocated the exemption of ships trading exclusively between United States ports from the payment of tolls, did so on the ground that it would build up a wealthy American merchant marine which would be invaluable to the United States in time of war, and also that it would tend to reduce freight rates between Atlantic and Pacific points. They argued that every cent added to the cost of transportation through the canal would be reflected in freight rates between the East and the West.

Those who opposed the exemption of American coastwise shipping from the payment of tolls, asserted that the coastwise shipowners already had a monopoly on the handling of cargo between American ports, and that no further encouragement was needed. They argued that it would make little or no difference in rates whether tolls were charged or not, and that the only people who would
benefit would be the shipowners. They contended that the United States ought to charge everybody alike and use the tolls collected for the purpose of repaying the money it spent in building the canal. Some of them also contended that the Hay-Pauncefote treaty bound the United States to treat all shippers alike, and that the United States could not discriminate in favor of the American coastwise traffic without contravening the treaty with Great Britain. This view, however, did not prevail, and the law, as enacted, exempted coastwise shipping.

England immediately protested against this exemption on the ground that it was in contravention of the treaty between the two countries. The story of how the United States came to be bound by a treaty with Great Britain in the building of an Isthmian canal goes back for more than half a century. The year 1850 found the North American continent, north of the Rio Grande, in the possession of the United States, England, and Russia. The United States had only recently finished its continental expansion, and each of the two countries needed a canal to connect their east and west coasts. England had long possessed a west coast in Canada, but the United States had only recently come into possession of a Pacific seaboard. When it came to consider the question of connecting its two coasts the United States found that Great Britain was holding the position of advantage in the Isthmian region. It held the Bahamas, Bermuda, Jamaica, the Barbados, Trinidad, the Windward and Leeward Islands, British Guiana and British
Honduras; and held a protectorate over the "Mosquito Coast," now the east coast of Nicaragua. That protectorate covered the eastern terminus of the only ship canal then deemed possible.

Under these conditions the United States concluded that it was necessary for the support of the Monroe doctrine that some sort of an understanding should be reached between the two countries. England assented to such an understanding only after Nicaragua and Costa Rica had given to the United States its consent to the building of a canal across its territory. These treaties with Nicaragua and Costa Rica were negotiated but never ratified, and were used as a club to force Great Britain to make a treaty. The result was the Clayton-Bulwer treaty, which provided that neither Government should ever obtain or maintain for itself any exclusive control over an Isthmian canal, and that neither Government should ever secure for itself any rights or advantages not enjoyed by the other in such a canal. The proposed canal was to be entirely neutral, and the treaty set forth that the two countries agreed jointly to protect the entire Isthmian region from Tehauntepec to South America, and that the canal always should be open to both countries on equal terms. The canal under this treaty was intended to be entirely neutral with reference to defense, with reference to tolls, and with reference to such other nations as might join in maintaining neutrality.

When the United States decided to build the Panama Canal, it found the Clayton-Bulwer
treaty wholly unsuited to its aims and desires. It therefore asked England to enter into a new convention; the Hay-Pauncefote treaty was the result. This document declared that its purpose was to remove any objections that might arise under the Clayton-Bulwer treaty to the construction of an Isthmian canal under the auspices of the Government of the United States without impairing the general principle of neutralization.

Under this treaty the Government of Great Britain made a protest against the decision of the United States to exempt its coastwise traffic from the payment of tolls, claiming such exemption to be a violation of the neutrality agreement. This protest came in the form of two notes to the American Government. The first was written as a warning to Congress that the British Government would regard the exemption of American coastwise traffic from the payment of tolls as a discrimination against British shipping, and a violation of the neutrality agreement between the two countries. It admitted that if the United States were to refund or to remit the tolls charged, it would not be a violation of the letter of the treaty, and acknowledged that if the exemption of coastwise American shipping from toll charges were so regulated as to make it certain that only bona fide coastwise traffic, which is reserved for American vessels, would be benefited by this agreement, then Great Britain could have no objection. But it declared that England did not believe that such regulation was possible.

After Congress, with this note in mind, had
passed the canal toll law with an exemption to ships carrying goods between the two coasts of the United States, President Taft, in approving the measure, declared that the canal was built wholly at the cost of the United States on territory ceded to it by a nation that had the indisputable right to make the cession, and that, therefore, it was nobody else's business how we managed it. He contended that for many years American law had given to American ships the exclusive right to handle cargo between American ports, and that, therefore, England was not hurt at all when that shipping was exempted from toll charges.

England responded, in a second note, that the clear obligation of the United States under the treaty was to keep the canal open to the citizens and subjects of the United States and Great Britain on equal terms, and to allow the ships of all nations to use it on terms of entire equality. It also contended that the United States is embraced in this term of "all nations"; that the British Government would scarcely have entered into the Hay-Pauncefote treaty if it had understood that England was to be denied the equal use of the Panama Canal with America. The three direct objections urged by the British against the American canal law were: That it gives the President the right to discriminate against foreign shipping; that it exempts coastwise traffic from paying tolls; and that it gives the Government-owned vessels of the Republic of Panama the right to use the canal free. The answer of the United States to the first of these
objections was that the right of the President to fix tolls in a way that would be discriminatory against British shipping was a question that could be considered only when the President should exercise such action.

The British Government expressed the fear that the United States, in remitting tolls on coastwise business, would assess the entire charges of maintenance of the canal upon the vessels of foreign trade and thus cause them to bear an unequal burden. This, the second objection was answered with the statement that, whereas the treaty gives the United States the right to levy charges sufficient to meet the interest of the capital expended and the cost of maintaining and operating the canal, the early years of its operation will be at a loss and, therefore, at a lower rate than Great Britain could ask under the treaty. The third objection was considered insignificant.

The British Government, after laying down its objections to the American canal toll law, requested that the matter be submitted to The Hague tribunal for adjudication. The American Government declared that this course would not be just to the United States, since the majority of the court would be composed of men, the interests of whose countries would be identical with those of England in such a controversy. Before leaving office President Taft proposed that the matter should be submitted to the Supreme Court of the United States. The whole question was left in that situation when the change from the Taft to the Wilson administration took place.

As to the merits of the controversy, there is no
unanimity of opinion on either side of the Atlantic. Some British authorities entirely justify the American position, while some American authorities take the British position. It is probable that the controversy will require years for settlement.

Before the canal was open for traffic there was much speculation as to what rate policies the railroads would adopt to meet the situation caused by the competition of the Panama Canal. If the same classes of goods are handled through the canal as across the United States, there will be more than 3,000 different articles on the tariff books of steamship lines using the canal. In his report on the effects of canal tolls on railroad rates, Prof. Emory R. Johnson expressed the opinion that the payment of tolls by ships engaged in coast trade would affect neither the rates of the regular steamship lines nor the charges of the transcontinental railroads.

A provision of the canal toll law forbids any railroad to be directly or indirectly interested in any ship passing through the canal, carrying freight in competition with that railroad. This provision was inserted to prevent the railroads from controlling the steamship lines using the canal, and through that control fixing rates between the two coasts on such a basis as to prevent effective competition with the railroads themselves. The result was that a number of railroads had to dispose of their steamships engaged in coastwise trade. This provision affects several Canadian railroads, and after it was made the British Government served notice on the United States that it intended to take up this
BLOWING UP THE SECOND DIKE SOUTH OF MIRAFLORES LOCKS
question and consider whether or not the law in this particular does not infringe upon British rights.

Nothing seems more certain than that, in the course of years, canal tolls will be materially lowered from the $1.20 fixed by the President. It seems inevitable that the Panama Canal and the Suez Canal will enter into a lively battle for the great volume of trade between eastern Asiatic and Australasian points and western European ports. On this dividing line between the two great interoceanic highways there originates many millions of tons of traffic, and this will be largely clear gain to the canal which gets it. The considerations which will draw this trade one way or the other are the rates of toll, the convenience of coaling stations, the price of coal, and the certainty of the ability to secure proper ship stores. This spirit of competition will probably serve to lower rates more rapidly than they otherwise might be reduced. With some 10,000,000 tons of traffic on the great divide between the two canals, ready to be sent forward by the route which offers the best inducements, it is certain that good business policy will call for some hustling on the part of both canals. As the business of the Panama Canal expands, it can afford to reduce rates. With an ultimate capacity of 80,000,000 tons a year, as the canal stands to-day, the rate of toll could be cut down to 25 cents a ton when that capacity is reached, and still afford the United States an income large enough to take care of the operation and maintenance of the canal, and sanitation and government of the Canal Zone, to meet the interest
on the cost of building it, and to amortize the entire debt in a hundred years.

It is certain that the United States made a good investment at Panama. Assuming that the coast-wise traffic is worth to the Government the amount of the tolls it is exempted from paying, the canal becomes a self-supporting institution from the day of its opening, leaving all the military and trade advantages it affords the United States as clear profit.