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CHINA'S RR FREIGHT RATE POLICY

This article summarizes the changes in freight rate policy of the railways of the Chinese People's Republic, effected in 1949 and 1950, and indicates the main reasons for it.

During the early postwar years (1946 - 1949), the rate structure was simple and imperfect. It provided for the classification of cargo into five categories in North China and ten in the Northeast.

After the People's Liberation Armies crossed the Yangtze River into South China, a new rate structure better suited to the new economic conditions was adopted on 10 July 1949. This provided for the classification of cargo into 20 categories and embodied the principle of granting lower rates to essential goods and charging higher rates for luxury goods.

The rate schedule was found unsatisfactory and unprofitable due to insufficient and faulty classification of goods and to the great spread in rates between the various categories. Accordingly, a revised schedule was issued 6 December 1949 in which the classification of goods was rectified, and lower classification was granted to materials for export. The range between highest and lowest rates was narrowed down from 200 to 25.

A rate schedule that would stabilize railway finances was adopted by the Ministry of Railways on 1 August 1950. This schedule made 30 categories of goods and further rationalized them in many particulars; the rate spread was again narrowed, this time from 25 to 17. Other features of the schedule included: (1) a general reduction in freight charges; (2) abolition of some miscellaneous extra fees; (3) special rates for export commodities whose sale produced added foreign exchange, and for certain import commodities such as cotton and industrial equipment; (4) special rates to encourage movement of industries

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from the sea coast to interior; (5) a sliding scale of charges; and (6) relatively lower rates for less-than-carload shipments.

Ch'en Chao-pin (陳肇斌)

The people's railways freight rate policy is a decisive factor in stimulating the flow of goods between cities and rural areas. The freight rates are designed to achieve three objectives: reduced freight costs; differential rate schedule, depending on the nature of the cargo; and the development of the railways as financially independent enterprises. These objectives have been incorporated in the present rate schedule to create suitable conditions for economic prosperity.

During the past year, the freight policy was in an experimental stage. The rate structure had many weak points because the plan was still superficial and incomplete. The purpose of this article is to summarize and analyze the development of the freight rate policy.

A. Classification of Goods and Determination of Freight Rates

Classification of goods and determination of rates have an important impact on the flow of trade and on railway revenue. During the Liberation War, when the railways were forced to bear the tremendous burden of supporting the front lines, classification of goods determination of rates could be handled only in the simplest manner. Goods were classified into only ten categories in the Northeast and five in North China.

Facilitation of commodity flow between city and country became paramount after the People's Liberation Army crossed the Yangtze in May 1949 and the revolution had succeeded. The Ministry of Railways met to formulate a new freight rate schedule to meet the new economic conditions. The existing freight rate structure was reviewed and a new method for classifying goods and a new rate structure were instituted on 10 July 1949. Under this agreement, goods were classified into 20 categories. The rate range of the 20 categories was from one to 200, and the intergrade range was 10. The daily necessities of farmers and the working class and some essential agricultural and industrial goods were given special treatment while luxury goods were assigned higher rates.

However, the classification made in July had many weaknesses. It was still too simple and sometimes unreasonable. For instance, no distinction was made between steel and wooden industrial equipment, native drugs of higher and lower grade, pig iron which is cheap and cast steel which is expensive, and raw silk and waste silk. Typewriters, calculating machines, and medical instruments were first class goods while radios and leavening materials were considered second-class. Some native goods, often handled in large volume by rail transportation, were not included in the classification while other goods rarely handled by the railways were classified.

The rate range between goods in the higher classes and those in the lower was too wide. Consequently, high-priced goods by-passed rail transportation while low-priced goods overflowed the railway yards. This breadth of range caused extensive losses to railway operations. In view of these weaknesses, the railways tried to apply an unscheduled rate reduction in favor of higher priced goods, but it had no decisive effect as a final solution.

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On 6 December 1949, the Ministry of Railways again revised the classification and the rate schedule.

The December revision contained the following special features:

1. The new classification was clearer and more definite than the previous one. It was more favorable to industry and to export goods. For instance, basic materials and products such as acids, alkalis, salt, and industrial machinery, and essential exports such as wool, tea, and pharmaceutical materials were assigned a lower classification.

2. The rate range between categories was narrowed. In the 20 categories of goods, the rate range between the first and the 20th was reduced from 200 to 25.

Nevertheless, there were some defects even in the December revision. Despite the fact that 20 categories were retained, they were not all inclusive. The 750 items enumerated in the 20 categories did not include all goods handled by the railways. The range between classes was still too great. Hence, another substantial change was made by the Ministry of Railways [on 1 August 1950]. This new classification consists of 30 categories of goods instead of 20. The classification system has been standardized throughout the Northeast, North China, and South China with the exception of only a few native goods in the various regions. The new classification is also more definite and rational. For example, newsprint was lowered from category 9 of the old list of items to category 17 of the new classification, cotton yarn from old category 3 to new category 12, educational equipment from old category 1 to new category 17, and waste silk and cocoons from old category 8 to new category 19. The range between the highest and lowest rates has now been reduced from 25 to 17. It is hoped that such a reduction will bring more income to the railway by diminishing the degree of differentiation between the classes of goods. As a rule, the freight rate range is lower in countries where transportation is highly developed; for instance, it is 11 in USSR and 7.5 in the US. However, we cannot lower the freight rate range too rapidly because conditions here are different.

As a result of the series of revisions in classification and freight rates, transportation costs for various goods have become much more reasonable and conditions have grown favorable to the development of the railway itself, which in turn will result in prosperity for industry and agriculture.

B. The Low Freight Rate Policy

It was difficult to stabilize freight rates while the nation's budget was not balanced, the market was abnormal, and prices were fluctuating. Sometimes the increase in freight rates could not keep pace with the rising costs. Such a lag prevented transportation charges from rising further, but it brought about considerable losses to the railways. To maintain freight rates in the midst of a price spiral is incompatible with the policy of long-run reduction in freight costs. However, in the past, because of practical difficulties, the government could not take the initiative in making timely adjustments.

The nation's economic and financial administration was unified in March 1950; prices began to drop in April and May, then reached a relatively stable level. As a result of the monetary appreciation, railway operations have been financially stabilized. To capitalize on this new opportunity to establish a properly functioning rail system, the Ministry of Railways issued new regulations on 1 August 1950. Adjustments have been made in classification and rate structure and transportation charges have been reduced for all goods, to stimulate the flow of trade.

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Carload Rates (yuan/mt/ 1,000 km)

<u>Commodity</u>	<u>Former Rate</u>	<u>Current Rate</u>	<u>Reduction (%)</u>
Coal	118,517	111,520	5.90
Rice and flour	403,464	273,060	32.32
Wheat	264,773	182,860	30.94
Industrial machinery	421,731	333,740	32.12
Cotton yarn	716,148	444,440	37.94
Cotton cloth	857,361	537,920	37.20
Newsprint	857,361	301,760	64.80
Cement	212,818	165,640	21.80
Tobacco	1,620,980	865,920	46.56
Fuel wood	168,950	136,120	19.43
Tea	857,361	488,720	42.99

Revenue from freight service is estimated to be 11.9 percent lower than before. Under the new schedule, freight rates for staple commodities, such as rice, flour, cloth, and industrial and agricultural machinery, are only one third of the prewar rates. These new rates are maintained almost at minimum costs, while the freight rate for coal, a commodity of vital importance to the household and to industrial production, is below operating costs.

In addition to rate reduction, many miscellaneous fees applying to the use of scales, the care of livestock, arrival notification service, pick up and delivery service, and the minimum fee for railroad responsibility were abolished on 1 August, to lighten the customer's burden and to simplify business procedures.

C. Special Freight Rates

A series of regulations providing reduced freight rates for specified commodities was issued to meet the changing needs of the nation's economy. These reduced rates were applied to imports, exports, certain types of transportation, and the use of cars which would otherwise return empty.

The special rates for export commodities were designed to encourage export and increase the access to foreign exchange. Regulations were issued by the Ministry of Railways and the Ministry of Trade on 1 July 1950, to remain in effect for one year. Under these regulations, freight rates were cut 50 percent for tea, pressed tea, raw silk, almonds, furs and skins, and egg products, and 30 percent for wool, camel hair, tung oil, soybean oil, flaxseed oil, peanut oil, cottonseed oil, pharmaceutical materials, walnuts, eggs, tin, cement, etc. These special rates apply to such goods shipped from any point to the terminal cities of Canton, Suen-ch'uan, Shanghai, Lien-yun-kang, Tsingtao, Tientsin, T'ang-ku, Ch'in-huang-tao, Ying-k'ou, An-tung, Sui'feng-ho, and Man-chou-li. Freight rates for Peiping decorative handicraft products (Ching-t'ai-lan; lacquerware; beads; artificial flowers made from cloth, paper, and wool; copper and zinc products; embroidery; marble sculpture, ivory, and jade ware) shipped to Tientsin for export were reduced 40 percent from the rates fixed last October. After the new special rate schedule was issued on 1 August 1950 these ornamental products were lowered to category 13.

To meet the requirements for economic reconstruction, freight rates for imported industrial raw materials and machinery have been given special treatment. The freight rate for cotton, a major import commodity, was given a 50-percent reduction on the regular rate schedule. This reduction, which was originally effective to June 1950, was extended to 31 August, and then to 31 December. It applies to cotton imported by North China, East China, and the

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Northeast areas through the ports of Shanghai, Soochow, Wu-hsi, Ch'ang-chou, and P'u-kou. All shipments of cotton in carload lots must have certificates from the Bureau of Foreign Trade to qualify for the reduced rate.

The special rate policy is also applied in conjunction with other policies to carry out specific tasks. A typical example is the rate reduction for industries moving from the coast to the interior which was issued by the Committee of Finance and Economics, Administration Council, on 2 December 1949. At the end of 1949, the Central People's Government urged that factories be dispersed to the interior to cope with the blockade, and that factories be located closer to their source of raw materials to reduce costs. All factories making the move are given a 50-percent reduction in freight rates. The reduced rates apply to the Peiping-Hankow Line and its western connections in North China, to the areas west of Anhwei and Kiangsi provinces in Central China, and to the areas in northern Kiangsi, Hunan, and Kweichow provinces in South China.

In addition to the rates given to such factories, certain products are also given specially reduced rates. For instance, during the harvest season, freight rates for wheat are reduced 25 percent from 13 to 31 July. Miscellaneous foodstuffs shipped from the Northeast to areas within the Great Wall received a 50-percent discount. Reduced rates for other commodities were: 30 percent for fresh fish, crabs, etc. However, the special rates have been suspended since these commodities were placed in more favorable freight rate categories by the new regulation of 1 August.

Another feature of the new regulation is the reduced rates to encourage the utilization of freight cars which would otherwise be returned empty. Thus, there is no charge for the return shipment of customer's tools and implements, while the rate for shipment of empty containers, such as barrels, baskets, jars, etc., on the return trip is 50 percent below the regular freight rates.

D. Reduced Rates for Long-Distance Shipments

Freight charges are ordinarily computed at a uniform rate per mile. In other words, the amount of the charge is proportionate to the distance. A fixed rate is easier to compute than one based on a sliding scale. However, a fixed rate places an undue burden on long-distance shipments and greatly decreases the mobility of goods. Therefore, the Central People's Government has adopted a system of discounts which increase with distance. Originally, discounts increased at a greater rate for longer distances, despite the fact that the opposite pattern dominates in present railway policy. This bias has been corrected in the regulation issued 1 August, which contains a schedule of discounts for moderate distances. The new discount is 18 percent for distances over 1,000 kilometers as compared with the former discount of 15.9 percent; 30 percent for distances over 1,500 kilometers as compared with 26 percent; 32 percent for distances over 2,000 kilometers as compared with 28.7 percent, and 41.5 percent for distances over 2,500 kilometers as compared with 42.6 percent.

Table of Former and Current Discounts

<u>Kilometers</u>	<u>Former Discount</u> (%)	<u>Current Discount</u> (%)
100	0	0
200	0.8	0
300	2.1	3.3
400	3.5	5.0
500	5.1	6.0
600	7.1	10.0

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<u>Kilometers</u>	<u>Former Discount</u> (%)	<u>Current Discount</u> (%)
700	9.2	12.9
800	11.4	15.0
900	13.6	16.7
1,000	15.9	18.0
1,100	18.3	21.0
1,200	20.8	25.0
1,300	23.4	27.7
1,400	26.0	30.0
1,500	28.7	32.0
1,600	31.5	34.4
1,700	34.2	36.5
1,800	37.0	38.3
1,900	39.8	40.0
2,000	42.6	41.5

E. Rate Reduction for Less-Than-Carload Shipments

The overwhelming proportion of goods moving between city and country is shipped in small lots. Because industrial and commercial enterprises in our country operate on a small scale, the demand for less-than-carload shipments far exceeds that for carload shipments. Except for certain commodities, such as grain, cotton, timber, minerals, and industrial machinery, most commodities are transported in small quantities. Agricultural products like grain and cotton are collected in small quantities from widely scattered areas and assembled before reshipment to city markets. However, less-than-carload shipment is expensive and requires special handling. Therefore, rates on less-than-carload shipments had been 100 percent higher than carload shipments. This greatly impeded the circulation of goods. Beginning 1 August 1950, rates for less-than-carload shipments were lowered to 170 percent of the carload rate to stimulate the circulation of goods and create a better market.

The passenger rate policy is similar in nature to that for freight. Passenger rates have been reduced several times: from 135 to 115 yuan per 8 kilometers in the South and the North in August. The new regulation also includes a simplified rate schedule. In August, passenger classes were reduced from seven to three with a rate reduction of 30 percent or more. Baggage rates were also reduced 17 percent.

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