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surrounding villages with a view to adopting co-operative methods of cultivation and thus to make use of the advantages of large scale farming.

There is no doubt that cooperative organisational methods are of the greatest importance for raising agricultural production in the developing countries. But founding agricultural cooperatives is not enough. What matters is to infuse them with the right spirit, i.e. to awaken and foster the cooperative spirit of self-aid, corporate responsibility and self-administration. This requires laborious and systematic training, and for this the necessary pre-requisites have yet in many cases to be created. The cooperative is no pat solution to the problem of organising small agricultural producers in developing countries, as is

often assumed by supporters of the cooperative idea. Alongside with the promotion of rural cooperatives there exist other forms of organisation which may be suitable in accordance with local conditions and with the mentality of the people concerned. A case in point for instance is a partnership basis on which rests the well-known Gezira Settlement Scheme in Sudan. Another example is the loose interfarm-cooperation which recently assumed increasing importance in some West European countries. Provided proper use is made of existing organisational possibilities, it is easy to create relatively quickly the necessary pre-requisites for the introduction of improved farming methods. And once this is done, an important step will have been taken on the road to increase agricultural production in the developing countries.

INTERNATIONAL SHIPPING

The Freight Rate Studies of UNCTAD

By Dr Gerhard Krause, Hamburg

At its first session in November 1965, the Committee of Shipping had before it a proposal of the Secretariat for a Program of Work. Members of its Group B i.e. the representatives of Western industrialised countries (15 delegates, one third of the Committee's total membership) had some doubts whether this program was not too comprehensive, however, after long discussions agreement was reached on all items but those listed in Chapter II of the program

"Level and structure of freight rates, conference practices and adequacy of shipping services."

Hence, as a compromise, the Committee, at the end of its session, unanimously decided to instruct the Secretariat to submit to a Special Session of the Committee in July 1966 a report on a study of the above subject which should be devoted to a description of the approach and methods to be used in the study as well as an explanation of its objectives. If it was approved, a report on the progress of the study would be made to the next regular session of the Committee.

Before turning to further developments, it may be useful to point out the reason for which Chapter II was included in the proposed Program of Work, and for the opposition to it in its submitted wording by Western countries, especially those with tradition in shipping. As a matter of fact, the items Chapter II deals with have been mentioned in the Common Measure of Understanding on Shipping Questions adopted by the first UN Conference on Trade and Development in 1964—although there for consideration by the consultation machinery of shippers and shipowners—and later on when the Trade and Development Board had established a special Committee

on Shipping in addition to the three already existing, also in the Terms of Reference for the new body.

The Freight Rate Problem

Already before the formation of UNCTAD numerous overseas countries had considered rates in the liner trade serving their ports as "too high". Since they had no information on rate making procedures especially of the liner conferences, and since there had been examples in the past of rate increases and surcharges being imposed on shippers without prior consultation with them, at least not with shippers in developing countries, these governments held that a thorough reform was required, and that inter-governmental organisations should create a basis for this by economic research. Especially the Regional Economic Commissions of the UN for Latin America (ECLA), for Asia and the Far East (ECAFE) and for Africa (ECA) had entrusted experts with studies that were a first step in this direction. Now the Secretariat of the new worldwide organisation seemed to them to be the right agency for undertaking studies of the rate problem on a larger scale.

As regards conference activities, the countries of Western Europe, in general, did not believe in the merits of government intervention although they recognised the necessity that liner conferences adjust their structure and activity to changes in the trade pattern, especially by closer contacts with shippers. In their view, shippers should be organised in national shippers' councils with which shipowners should consult before any steps affecting the shippers are taken. Already in 1963, the Ministers responsible for shipping in ten European maritime countries have given their

shipowners distinct directives for the handling of complaints and the establishment of a consultation machinery. In the meantime, most of these directives have been implemented; the most important development was the signing of a "Note of Understanding" by shippers' and shipowners' organisations in 1964. The West European Governments, later on joined by Japan and Finland, were satisfied that this would be a good basis for further developments. Therefore, they did not consider it necessary that, in addition to the work expected to be performed in this machinery, the Secretariat of UNCTAD took upon it an extensive program of studies which could be carried out within the machinery. However, in view of the special interests of many developing countries, they were willing to agree to a limited program of research on freight rates provided that the Secretariat was undertaking one study after the other and a new study only after careful consideration of the results reached in the preceding one.

In its report to the Committee's Special Session in July 1966 the Secretariat stated that the objectives of freight rate studies would be to complement other studies already agreed upon e.g. on the establishment of national and regional consultation machinery, improvement of ports, establishment or expansion of merchant marines in developing countries and reviews of current and long-term aspects of maritime transport. Furthermore, it assured that it had no intention to use the proposed research for the purpose of expressing an opinion as to the "correctness" of any particular rate; only more light should be thrown on the rate making process, on the principles underlying it and on the interrelationship of trade and the prices and costs of ocean transport. With this in mind, the Secretariat proposed four types of studies, country studies, commodity studies, route studies and aggregative studies.

Country and Commodity Studies

There was little difference of opinion between the various Groups of the Committee as to the usefulness of country and commodity studies. An increasing number of university and other research institutes is undertaking studies of this type from various angles, not rarely also under shipping aspects. Moreover, it had to be recognised that developing countries have a legitimate interest in the analysis of the facts bearing on their overseas connections. As regards commodity studies, at the time of the Special Session, the UNCTAD Committee on Manufactures had already asked for a study of the costs for carrying semi-manufactured timber products from developing countries to overseas markets. Requests for other manufactures, semi-manufactures and for several kinds of commodities for the export of which the costs of overseas transportation are of importance, were likely to follow. The principal Western concern was that the related costs of inland transportation may not be duly considered as an essential part of the overall carrying costs and that, therefore, the

studies when completed would not offer a true picture. Whilst the developing countries did not accept this view, it can be assumed that the economists working for the Secretariat will not overlook the related costs when undertaking country and commodity studies.

Aggregative Studies

Not only members of Group B had difficulties to understand what the term "aggregative studies" meant. According to the Secretariat their primary aim would be to examine the global economic effects of the existing level and structure of freight rates, and of possible future changes in rates that may result from changes in shipping technology, in the organisation of the industry or in market conditions. Most of the work, the Secretariat explained, would be statistically based on aggregative economic statistics of ocean transport and international trade. Special attention would be paid to the extent to which the costs of ocean transport may hamper the expansion of trade in general or distort its geographical pattern and—not in the least—to the significance of transport charges for the balances of payments of maritime and non-maritime countries. In spite of some doubts if studies of this complexity should be decided on before having seen the results of less comprehensive research work, also this part of the program did not meet with particular opposition by the traditional maritime countries.

Route Studies

But there was still the project of route studies. As the Secretariat stated, their purpose would be to achieve a thorough insight into the whole complex of the cost and demand factors which enter into the determination of freight rates. The studies would proceed in two stages. The first step would be to collect all available data concerning the round-voyage costs on a small number of selected, relatively simple liner routes with relatively few ports of call and a relatively narrow range of cargo. Taking into account these data and market conditions, and with due allowance for stowage and load factors, an attempt would be made to estimate a plausible tariff of freight rates for each route sufficient to cover direct and indirect costs and to provide a reasonable profit. The second step would be to compare the tariffs thus calculated with the actual tariffs for the two legs of each route; experts from the industry would then be invited to establish the historical and business reasons for possible divergencies between the estimated and the actual tariffs.

Against this approach and the related methods serious objections were raised by traditional maritime countries. In their opinion, prior to such studies it was essential to define more precisely the different factors entering into the determination of freight rates. They were willing to agree to a study which would describe these factors and outline the methodological problems involved. Moreover, they did

not believe that an international organisation should be given the mandate for confrontation of their shipowners with theoretically calculated model tariffs.

Since, however, the majority of the Committee insisted on at least a pilot study, a roll-call vote became inevitable. For the final wording of the item "route studies" voted 27 delegates, against it five, seven delegates abstained. When the Program of Work on level and structure of freight rates and the other items of the chapter was voted on, 29 voted in favour, none against, ten delegates abstained.

The project thus approved is described as follows: "Route studies. The purpose of a pilot study will be to gain insight into the rate making process. In this study, among the different factors that enter into the determination of the level and structure of freight rates, account will be taken of, inter alia, market conditions (especially elasticity of demand), turn-round of ships in port, allowance for stowage and load factors and cost calculations. One or two relatively simple liner routes with relatively few ports of call and relatively narrow range of cargoes would be selected for this purpose. In order to carry out this, a simulation method or any other technique would be applied."

Seminar on Shipping Economics

In August 1966 the Secretariat of UNCTAD convoked a Seminar on Shipping Economics with leading economists from Europe (UK, Norway, Sweden), USA, Canada, Australia and Pakistan; also the secretariats of ECA, ECLA and ECAFE were represented. The Report on the Seminar, "Shipping and the World Economy", states in its chapter on freight rates that the actual share of liners in world trade may be of the order of 20 to 25 %, and that it is this part which is carried at administered rates. Most of the imports of developing countries are carried at conference rates whereas much of their exports, being bulk commodities, is carried at open market rates. As these are comparatively volatile, they can have important effects on the exports of the developing countries. With respect to the determination of liner rates it is said that economic theory provides a number of general hypotheses which can be framed specifically with reference to liner rates. These hypotheses can then be tested by reference to the facts. It was suggested that the research by the Secretariat of UNCTAD be directed towards formulating and testing a number of likely hypotheses rather than towards the mere collection of data with no definite principles in mind, although the value of such data was appreciated especially for the formulation of realistic hypotheses. After discussion of several cost and non-cost factors a number of hypotheses was provisionally suggested of which the most important may be that very high profits for a liner company in a conference are rare, that differentiation of rates on all commodities to and from a certain range of ports is influenced by the terminal costs



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of the liners in that range, that the freight rates for cargo moved also by trampers are very close to liner rates, and that the overhead costs may be charged to various commodities according to one of a number of different principles e.g. each commodity's use of capacity of ship, or the value of each commodity per ton, or direct cost to liner of each cargo. Of the many other related problems discussed in depth special reference may be made to that concerning the "averaging" of costs by charging the same rates to ports within a wide geographical area. It was mentioned as an important form of discrimination in the sense of differences in prices which are not explained by differences in costs.

Progress Report on the Work Program

In its Progress Report on the Work Program in the Field of Shipping submitted to the Second (regular) Session of the Committee on Shipping (21 February to 8 March 1967) the Secretariat stated that it expects to be able to publish three country studies in the first half of 1967, a case study on Liner Shipping in India's Overseas Trade prepared by a consultant, one dealing with the West African Shipping Range prepared by an economist of the Institute for Shipping Research in Bergen, and a substantial progress report on the study of the Cost of Ocean Transportation and the Trade of Developing Asia which is being prepared by arrangement with the Department of Applied Economics of the University of Cambridge. Further studies of this type will be mainly entrusted to outside consultants working on the spot. As aspects to be considered in a typical country study the Secretariat lists among others also practices of conferences serving the country concerned e.g. their tying arrangements, policy as regards admission of new members, release of shippers from obligations, rate making policy, allocation of sailings and arrangements for pooling freight earnings. On commodity studies it is said that they should make possible international and inter-conference comparisons of freight rates, that any estimate of the effect of rates on trade has to be made by assuming some alternative level or levels of rates, and that such a study would not be purely static but will look forward to the possible implications for trade of technological changes that might affect the costs of carriage of various commodities. It is further pointed out that this type of study will need the cooperation of port administrations and industrialists in commodity trade and shipping; the particularities of the cargo flows need to be analysed before any conclusions can be drawn with respect to the various rate levels observed and compared in terms of costs per ton-mile. The timber study now being worked on will be a major project precluding for the time being the commencement of another commodity study, however, it is hoped to initiate the second study of this type later in the year.

On the route pilot project the Secretariat reported that its work is in the initial stage involving the

study of various routes to find those that satisfy the criteria set for this item by the Program of Work (see above). When they are found, the analysis can begin. It will involve the detailed study of port conditions at both ends of the trade, operating expenses of the vessels serving the trade, quantity and regularity of flow of the main cargoes, and the estimation of market conditions facing shippers. It would then be possible to construct a simplified version of an "ideal" tariff. The analysis would enable the question of "discrimination" in shipping rates (see above) to be considered more objectively and would also throw light on possible consequences of changes in conference rate making policy such as quoting rates for individual ports rather than for the whole range.

As regards aggregative studies, the Secretariat envisages now as a starting point that an attempt will be made to estimate with rather more accuracy than has been possible in the past the incidence of shipping costs on the trade of certain countries. This would involve complementing the study of balance of payments data for the countries concerned with a study of freight rates and rate statistics. Emphasis was laid on the impact of changes in shipping technology, especially on the economic implications of containerisation; a paper on this latter subject has been prepared and will be distributed. The structure of existing freight rates including those for raw-materials will be studied to see to what extent recent advances in the theory of the real incidence of tariffs (usually known as "effective tariffs") can be applied to shipping.

It has been tried to give a general impression of the origin and the development of UNCTAD's plans for research in the freight rates area. Not every detail could be mentioned although it may have deserved special attention. If, at this moment, the research work of the UNCTAD Secretariat in the field of freight rate studies has not yet been further advanced, this is mainly due to the necessity for the Secretariat to concentrate on studies concerning the two principal shipping items on the agenda of the second Conference on Trade and Development to be held in New Delhi in February and March 1968. These items are the establishment of consultation machinery and the establishment or expansion of merchant marines of developing countries.

At its Second Session, the Committee on Shipping of UNCTAD was more concerned with problems other than freight rates. In the discussion on the Progress Report on the Work Program in the Field of Shipping only a few pertinent remarks were made, most of them for the purpose to prevent the Secretariat from falling victim to theories. For the rest, the Committee of Shipping noted the Report expressing its appreciation. More animated discussions may follow at later sessions of the Committee when studies of the Secretariat upon their completion will be submitted for review.