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## Shipping and the Third World

In the past years UNCTAD paid considerable attention to world shipping. Its Committee on Shipping is becoming more and more the forum for discussing controversial issues between industrial and developing countries. We asked the Director of the Division for Invisibles, UNCTAD, Mr W. R. Malinowski, some questions about the present and future work of this Committee.

*In the past years UNCTAD's Committee on Shipping dealt with a variety of problems in the shipping field. What is the particular importance of this Committee for trade and development especially with regard to developing countries?*

Through its Committee on Shipping, UNCTAD has devoted considerable time and resources over the last five years to work on shipping and ports. This work has the support of all countries. It is true that the initiative for the study of and action upon invisibles — like shipping, insurance, tourism and transfer of technology — came from the developing countries when the first Conference was held in 1964. Other groups at first tended to resist this initiative, but invisibles were finally placed on the programme

of UNCTAD by the unanimous agreement of all participating countries.

One can perceive three main reasons why the developing countries took this initiative. First, the recognition of the foreign exchange bottleneck which frustrated the development plans of developing countries and of the persistent worsening of their terms of trade (meaning that a given unit of their imports was costing more and more in terms of units of their exports) focused the efforts of these countries on the alleviation of their chronic balance of payments deficits. Sooner or later they were bound to feel the pinch of the large amounts of foreign exchange that flowed annually to developed countries in payment for service items like shipping.

Although shipping is a very important element in the balance of payments of some maritime nations, I would not like to imply that shipping and other invisibles hold the key to balance of payments problems. I would say, however, that developing countries which have gone into shipping have on the whole found that this led to foreign exchange saving.

There is a second reason. An important sector of shipping — that which provides liner services — has been organised in conferences which are dominated by lines from traditional maritime countries and tend to have a highly restrictive attitude towards the participation of shipping lines from new maritime countries. Yet shipping is a service industry whose object should be to facilitate trade.

The inter-dependence between shipping and trade is very clear to the developing countries who provide the bulk of seaborne cargoes and at the same time are even more dependent than most developed countries on shipping services.

Shipping can either foster or hamper trade. Developing countries' products can be made competitive in foreign markets, or eliminated from them, as a result of the freight rate policies of conferences, which, as we have found through our enquiries, remain at best largely undefined and not subject to any clear criteria. Moreover, as a result of the relative elasticities of demand and supply of developing countries' imports and exports, the incidence of the chronically increasing liner freight costs falls heavily upon the developing countries. In general, a rise in freight rates on their exports is expressed not in higher c.i.f. prices but in lower prices obtained by producers in developing countries, while a rise of freight on imports is borne by the importer in a developing country in the form of a higher c.i.f. price. Developing countries have felt that entry into shipping would enable them to have some influence on these pricing policies which are crucial for the development of their trade.

The third reason is that in trying to build viable and diversified economies, the developing countries could hardly overlook their almost total dependence on shipping controlled by foreign interests. Such a situation could have disastrous consequences on a nation's foreign trade when shipping is in short supply, especially at times of international tension or war.

To sum up, developing countries have decided to enter shipping largely to lessen their balance of payments difficulties, to exert some influence on the

freight rates affecting their trade and to diminish their almost total dependence on foreign shipowners. They have looked upon UNCTAD as the organ to help realise their aims and therein lies the importance of UNCTAD Committee on Shipping in the field of trade and development.

### Common Basis for Effective Work

*The sessions of the Committee on Shipping sometimes seem to demonstrate confrontation rather than co-operation between industrial and developing countries. Is there a common basis for effective work at all?*

What is confrontation? It is, I think, a situation in which the interests of various groups are formulated either as demands or as a defence of the status quo: they are divergent and each group looks for ways and means to obtain total or at least partial satisfaction. Such a situation may lead to deadlock, to unilateral action or to the accommodation and reconciliation of interests through negotiations. Thus, confrontation often opens the road to progress and so has it been in the Committee on Shipping. The fact is that all parties discovered that there is a common basis for effective work. I would say that UNCTAD has been successful in some areas in persuading developed countries that enlightened self-interest is a more fruitful long run policy than narrow parochialism. Shipping is, I believe, one of these areas.

The atmosphere of suspicion surrounding the Committee on Shipping when it started its activities in 1965 was greater than for any other body of UNCTAD. Its terms of reference were entirely new to the international community. For the first time a representative international body

was to study and deliberate upon the economic aspects of the well-established and tradition-bound maritime industry.

However, everyone felt the „wind of change“. The initial atmosphere of general suspicion, if not outright hostility, has given way to one in which accommodation can be found between conflicting interests. The Committee has a comprehensive and fully agreed programme of work. While some countries initially resisted studies of freight rate determination (in the so-called route study) and maritime law, these objections disappeared in time. The general opinion of all groups in the Committee has been that the studies undertaken by the secretariat on shipping and ports have been competent, based on facts and above all impartial. The Committee has adopted a large number of resolutions mostly agreed upon by consensus; only one substantive resolution—that on assistance to shipping—went to a vote, owing to the fact that no common position emerged among the traditional shipping nations, although the other side appeared to be united and ready for a compromise.

The existence of common ground can be illustrated by the observation by the representative of a traditional maritime country at the last session of the Committee that all was not perfect in shipping. This prompted the Committee to state, in an unanimous resolution, „that further improvements in the liner conference system are necessary and would be in the common interests of shippers and shipowners“.

The latest expression of this spirit of accommodation is to be found in the understanding on shipping and ports incorporated in the „World Strategy“ just proclaimed by the United Nations General Assembly for the

Second Development Decade. If you compare this text with the early decisions of the Conference and the Committee you will appreciate how far we have come in the Committee towards agreement on a new international division of labour in shipping. The text gets so far as to acknowledge the principle "... that national flag shipping lines of developing countries should ... have an increasing and substantial participation in the carriage of cargoes generated by their foreign trade."

May I also draw your attention to the fact that this year four Nordic countries (Denmark, Finland, Norway and Sweden) and the Netherlands have granted UNCTAD more than a quarter of a million dollars for our research on improvement of ports.

My answer to your question is that there is indeed co-operation in the Committee on Shipping. Conditions have been such that the formulation of views by groups of countries, i.e. "confrontation" of views, was necessary to pave the way to negotiations. The developed countries have through the Committee's deliberations come to appreciate more fully that change is necessary, that change in some areas is fruitful all round. The political will to see what I have called their enlightened self-interest has been there—and I would like to pay my tribute to it.

#### **Demands of Developing Countries**

*Would it be correct to say that the so-called traditional shipping countries, which are presently dominating the world shipping scene, quite rigorously defend their own positions and argue against the reasonable demands of newcomers from the Third World?*

This question is largely answered by what I have already

said. May I add the following: All parties in the Committee defend and protect their legitimate national interests. The kind of change to which I referred, whether in shipping or in any other field, never takes place without some resistance and any significant change may involve a "painful adjustment". I recall that Trygve Lie of Norway once visited Dr Prebisch after the first Conference and was concerned with the possible impact of the wellknown "Common Measure of Understanding on Shipping Questions" on shipping in his country, whose balance of payments so heavily depends upon shipping. Dr Prebisch answered along the following line: ... the developing countries, even if they expand their merchant fleets, will not take shipping business away from you in an era of expanding trade. At the most, they will take part of the increase in the volume of cargo carried by sea ...

The latter part of this statement cannot very easily be verified statistically, but as far as the first part is concerned, it is interesting to note that developing countries' share of world fleet declined from 8.1 p.c. to 7.6 p.c. between 1964 and 1969. On the other hand the volume of international seaborne trade increased from 1.5 bn tons in 1964 to over 2.0 bn tons in 1968 (1969 figures are not yet available), an increase of about a third. It is therefore not surprising that the strategy for the Second Development Decade now includes the following sentence: "In order that the developing countries have an increasing and substantial participation in the carriage of maritime cargoes, and recognising the need to reverse the existing trend whereby the share of the developing countries in the world merchant fleet has been declining instead of increasing

developing countries should be enabled to expand their national and multinational merchant marines through the adoption of such measures as may be appropriate to permit their ship-owners to compete in the international freight market and thus contribute to a sound development of shipping."

What this agreement shows is that the shipping nations increasingly recognise the legitimate aspirations of the developing countries in shipping and, while defending their interests, gradually move towards acceptance of what you call the "reasonable demands of newcomers from the Third World".

#### **Shipping Conferences as Cartels**

*The shipping conferences as cartels of the shipping lines of the old maritime nations have been under constant attack of the less-developed countries. Is there any proof for the argument that the freight rate policy of shipping conferences discriminates against developing countries?*

A "Cartel" is probably not the most exact description of a conference. Unquestionably, however, conferences are monopolistic organisations aimed at eliminating competition among members and preventing outsiders from entering their trades. In any monopolistic situation one can prima facie presume that there is an extra profit involved (monopolistic profit in addition to what is known as "normal profit" under competitive conditions). When the operation of a monopolistic organisation is secret (as are conferences), suspicion that it has something to hide is obviously bound to arise.

The developing countries have frequently expressed their views regarding high and discriminatory freight rates. The UNCTAD

secretariat is however limited to studying facts and analysing them. Discrimination is generally defined in economics as charging prices so that the differences in prices cannot be related to actual differences in costs. And we have come closest to the question of the consequences of monopolistic pricing in shipping in our Route Study to which I referred earlier. In this particular study, we found evidence that under prevailing circumstances discrimination of the kind I have mentioned was practised, and also that it could be countered by certain action to influence the organisation of trade and by the participation of developing countries' fleets in trade. It is important to remember here the accepted economic theorem that it always pays a monopolistic body to discriminate. May I, however, make it quite clear that it is not the function of the UNCTAD secretariat to judge whether any particular rate is or is not high or discriminatory. We only collect facts and analyse them.

### **Self-regulation by Conferences**

*Do you believe that the conference system is to be regarded as a viable concept of industrial self-regulation considering that merchant fleets of the Socialist countries and the Third World enter more and more trade routes?*

The first part of your question is about "a viable concept of industrial self-regulation". Let us not forget that monopolistic groupings are formed to operate in the interest of their members. But the interests of the consumers of their product, in this case shippers, have also to be protected. In many market-economy countries governments seek to protect consumers and to prevent possible abuses that may stem from restrictive busi-

ness practices, sometimes through anti-trust legislation. In the USA, Canada and Australia, some provisions of such legislation is applied to shipping besides other activities. But almost all countries accept, or at least tolerate, conferences on the grounds that they fulfil the need for relatively stable prices and adequate and regular service. Whereas this is a real need, however, it does not necessarily follow that conferences should be allowed to act unilaterally, oblivious of their customers' interests.

This conclusion applies to all countries. In fact recently I attended a meeting of the European Shippers' Councils and found that many anxieties and preoccupations of Western European shippers are basically the same as those of their counterparts in developing countries with two differences however. In Western Europe, the business and trading community has old and well-established traditions and organisations, while in many developing countries conditions are so different that it is impossible for the commercial community to achieve the necessary coherence without assistance in this process of public authorities. Furthermore in Western Europe national interests in most cases comprise both important users' interests and important shipowners' interests, which is not the case in a large number of developing countries.

You may be right in suggesting self-regulation by conferences. However, one has yet to see that the conferences have a well-defined system of self-regulation in order to prevent possible abuses. Self-regulation presupposes some rules or a code of good conduct which does not yet exist. Secondly, it is necessary to decide who is to pass judgment on the efficacy of the self-regulation. Clearly if public interest is to be protect-

ed, the judgment on self-regulation and its effectiveness has to come from a third party.

To my mind the first part of your question is not connected with the second part. Conferences were not established to protect shipowners against shipping of the socialist countries and of the Third World. Conferences are too old for this to have been their objective. Your question could be rephrased: Should conferences continue to be an obstacle to new entrants into shipping? If this is to be their aim—as is implied by your question—then my answer is obviously negative. However, if they are meant to serve trade, to secure adequate and regular services for the benefit of shippers and importers at minimum cost, the answer is yes. But then they should not be secretive and they should admit newcomers, many of which are late-comers by accident of history. This is a process which may only painfully be delayed but cannot be averted in the modern world.

### **Promotional Freight Rates**

*Developing countries have time and again proposed the granting of promotional freight rates to increase the exports. Would such proposal still be in line with commercial reality?*

In the view of the UNCTAD secretariat, promotional freight rates are ocean freight rates which are set significantly low in order to aid the non-traditional exports from developing countries. I emphasise these are to be for non-traditional items, i.e. new products, the export of which and markets for which are not well-established. It is well-known and accepted in commerce and marketing that new products often have to be promoted initially at some sacrifice in order to ensure the profitable market in the long

run. Thus there may be a common interest for a developing country and a conference in establishing such rates to develop exports of such products, especially since, in conference tariffs, items which are not separately listed are charged a so-called general cargo rate, which is usually the highest in the tariff. May I add that an empirical study of promotional freights is under way in UNCTAD and that I cannot anticipate its results at this time. On the face of it, however, I can say that there is nothing inconsistent between promotional freight rates as defined by us and commercial reality, as you put it.

*Is it the purpose of the UNCTAD study on the level and structure of freight rates merely to find facts or will the report serve as a basis for discussing the reasonableness of freight rates and for requesting rate adjustments?*

I have already partly answered this question when I spoke on possible discriminatory rates. May I repeat that it is not the function of the UNCTAD secretariat to pass judgment of whether any particular rate is just or unjust, right or wrong. The purpose of our studies on the level and structure of freight rates is to throw light on the process of rate formation in the shipping industry. We have studied the structure of freight rates on the France/Morocco route. We have also published studies on maritime transport of tropical timber and rubber, and are now advancing similar studies on jute and iron ore. In each case we study the cost of transport and also relate it to the costs arising from the prevailing organisation of trade in particular products. We have drawn conclusions regarding possible ways of lowering costs which are in the common interest of shippers and ship-

owners. Our task, as laid down by the Committee on Shipping, is to study facts and analyse them by use of tools provided by economics and statistics. Judgments and recommendations, if any, properly belong to the governments acting individually or collectively in the Committee.

### Increasing Government Interference

*Are requests for more effective government interference with shipping matters indicating that the majority of the members of the Committee on Shipping advocate more bilateralism in shipping and foreign trade?*

To my knowledge, the question of bilateralism in the strict sense of the world in shipping has never been directly discussed in the Committee and we have not so far undertaken a study of it. A certain number of bilateral arrangements exist between developing countries and developed market economy countries and socialist countries. In the case of the latter, as far as I can judge, they stem from two premises; first from differences in their economic and social systems and second from an element of justice giving developing countries an opportunity to enter shipping. The same type of bilateralism exists in merchandise trade and is practised by members of GATT. The philosophy behind this approach is likely to be that as long as other opportunities are limited, any door that opens is welcome. But I would like to add that this approach was used on a number of occasions by the traditional maritime nations, when it was in their interest.

More important, in my view for the time being, is what you call "government interference". Bilateral shipping arrangements have so far constituted only a

small part of government intervention by all means. It is well known that many shipping nations intervene in shipping by such means as: construction and operation subsidies, interest subsidies, investment grants, cabotage restrictions, manipulation of terms of shipment, credit guarantees and accelerated depreciation allowances, and some of them also protect their shipping in more direct ways such as cargo reservation.

Among the developed maritime countries, there is a divergence of view on the relative efficacy and propriety of these different forms of government intervention in shipping. Some find cargo reservation objectionable per se, others are less emphatic and some even practise it themselves. This divergence of views appeared to be the reason for the inability of the developed countries to adopt a common negotiating position in the debate on assistance to shipping in the Committee on Shipping.

In developing countries, the government is often obliged to play a more direct role in stimulating economic development than may be found necessary in a developed market economy country. In the specific case of shipping faced with a situation in which most of the governments of developed market economy countries are interventionist, the developing countries feel that quite apart from the fact that shipping is an infant industry in these countries they too must adopt measures of assistance to their national merchant marines if the latter are to make any headway in competition with the traditional shipping fleets. They claim that the same standards should be applied to them as are or have been applied to developed countries. This is the essence of the resolution on assistance to shipping adopted by the Committee.