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Article — Digitized Version

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Intereconomics

Suggested Citation: Kern, Helmuth (1976) : No cause yet for state measures, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 11, Iss. 4, pp. 104-106, <https://doi.org/10.1007/BF02928667>

This Version is available at:

<https://hdl.handle.net/10419/139360>

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The Federal Government is in this context speaking of bilateral shipping agreements and regards these as *one* suitable instrument for the harmonization of the various mutual foreign trade and currency interests with the COMECON countries and the USSR in particular. It may be said that the conclusion of a bilateral sea-shipment agreement with the USSR is certainly desirable as a means of achieving really equal participation by the two fleets in the mutual goods exchanges. For at present we are still far from

having reached such an equal status. It should be noted that the USSR has concluded similar shipping agreements with other West European countries and obtained in these practically unilateral guarantees which give it free access to the ports of the other contracting party also in regard to traffic to and from third countries. A mutual right of free movement can probably be achieved in relation to the USSR, at best, only on a bilateral basis.

In view of the need for coordination of possible defensive

measures at least with the neighbouring states and the fact that such coordination usually involves a political process which is anything but brief, a hesitant approach would be a step backward. The urgency of the problem is shown clearly by the mentioned figures about the development of the liner tonnage of the COMECON states and especially the USSR. It is to be hoped that the authorities concerned will appreciate how urgent this problem is and show themselves willing to draw the appropriate conclusions.

No Cause Yet for State Measures

by Helmuth Kern, Hamburg *

There are people who describe the recent activities of the big German liner shipping companies concerning, or rather against, the COMECON flags as part of a public relations exercise designed to acquaint the German public with the international liner shipping problems and to campaign for the retention of the conference system. In this context, they say an exaggerated account and assessment is given of the activities and the expansion of some East bloc fleets.

I cannot endorse this version nor can I reject it. For there exists no certain information yet about the problem of the competitive situation between eastern and western shipowners although the German liner companies are known to have on average earned good profits again in 1975; according to Hamburgische Landesbank the

past year has actually been an outstanding one for some liner operators. If one reads besides that the large Norwegian shipping company of Wilh. Wilhelmsen has informed its shareholders that the last year has ended with a profit close to that of 1974 and was thus one of the best in the company's history, and that this success was due to its engagement in the liner trade, one will suspect that the German and western shipping companies issue their Cassandra-like warnings largely for prophylactic purposes.

Lack of Precise Information

Statistics are known to make excellent ammunition but many of the figures mentioned in recent discussions need correlating with others or even correcting. That applies to both sides, especially if comparable figures which would cast an unfavour-

able light on the own position are omitted. The interested observer will also note certain inconsistencies. He may for instance wish to ask the liner operators how they account for the 13.5 p.c. hoist of freight rates on the Europe/East Asia route from March 1976 in the light of their complaints about large tonnages being lost to the Trans-Siberian rail route.

The claim that western merchant fleets are facing a growing threat from the COMECON flags should be taken seriously but has not yet been sufficiently proved because of lack of exact data, comparable statistics, neutral studies and conclusive statements by other interested parties. This lack of information makes it in my view at the present juncture impossible to indi-

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cate solutions for the problem. The problem has to be outlined first, after thorough preliminary investigations, and further steps must then be taken to propose and implement suitable measures. It is to be hoped that the expert study of the USSR merchant fleet policy commissioned by the Federal Minister of Transport and the Association of German Shipping Companies will throw a little light on a subject still covered by a Rembrandt-like chiaroscuro.

Protectionist Market Intervention

One point however is already clear today: The competitive pressure of COMECON flags is not as general a problem as claimed; at worst it concerns dangers which may yet arise as a result of the USSR shipping policy. It is by now conceded by the western shipping companies that the Polish and GDR participation in the western trade is more or less realistic and their incoming and outgoing cargo volume in some measure related to their production and their position in world trade while Bulgaria, the CSSR, Hungary and Rumania play no significant role in oceangoing shipping.

There can be no doubt that the shipping policy of the USSR is not governed solely by economic motives but based also on power and foreign political concepts. The US shipping policy however is influenced by the same kind of considerations. As a great power with a leading role in the maritime field the USA depends upon a strong merchant fleet. It does not want to see its mercantile marine imperilled by the free interplay of market-economic forces. Hence it shields it by protectionist intervention in the market and vast financial assistance from public funds. The US merchant marine receives opera-

tional offset subsidies of up to 39 p.c. of the costs at US domestic rates, in addition to substantial grants for ship construction and modernization. An estimated 30 p.c. of the active merchant fleet of the USA enjoys such benefits. The USSR appears to be following a similar course but subsidizes its merchant fleet in a different way — possibly by the state re-compensating it for investment and depreciation costs or insurance premiums.

Efforts by the Developing Countries

The aggressive shipping policy of the two world powers, the USSR and the USA, is not the only threat to the liner operators in the western countries who dominated the liner trade until a few years ago. The developing countries are also invading this market. Helped by the conference system which succeeded the former ruinous competitive rate-fixing at the end of the last century, the international liner services have been developing into an extremely efficient instrument of commerce. At the same time the western shipping companies have been building up a monopoly position which — despite the undoubtedly still existing internal competition and the continuing outside competition — has led to a one-sided domination of the sea routes.

That is unquestionably one of the crucial factors which caused the developing countries in the past 25 years when sea-borne foreign trade increased sixfold to make considerable efforts, partly in disregard of commercial and operational data, to establish their own national merchant fleets and start them off by means of protectionist measures. As a supporting measure the developing countries have pushed through the

UNCTAD code for liner conferences so as to make sure that a substantial proportion of their import and export tonnages will be carried in their own vessels.

It is thus in the main from three areas of state interference with the sea-borne traffic that the liner companies guided by market-economic considerations are threatened with a restriction of their range of activities:

- The US anti-trust legislation and the attitude of the Federal Maritime Commission;
- Flag protectionism in the maritime trade of the developing countries;
- Expansion of some East bloc fleets on the routes between western industrialized countries.

A Serious Market Factor

The complaints about a further erosion of the "freedom of the seas" by the western shipping companies have focused on this last area. They have made much more of this in the recent past, which is understandable as there is reason to fear that they will feel the effects of the disparity of the market orders more acutely in the future, for:

- It will not be possible to make up for lost cargoes by new transport orders thrust upon the market;
- The USSR liner fleet has become so large that it has to be taken seriously as a market factor;
- The shipbuilding plans of the USSR indicate that the efficiency of its merchant fleet will expand further.

This last point deserves special attention. At present the USSR ships are still among the least modern units in the major merchant fleets of the world. The technological lead of the

West will however be reduced by the Soviet construction plans which include cargo ships of high quality.

Since 1970 the dry cargo tonnage of the USSR has increased from 5.9 mn grt to 7.3 mn grt but there are still hardly any container ships. The ships' orders for the next five years include 188 dry cargo vessels totalling 1.13 mn tdw (against 974 dry cargo vessels totalling 7.92 mn tdw in the rest of the world) and 38 container ships totalling 0.56 mn tdw (compared with 172 container ships totalling 3.55 mn tdw in all other countries). The available figures do not indicate what proportion of the USSR tonnage is needed to meet home requirements and what proportion is to be employed in the cross trade. To what extent Soviet liner shipping can ever endanger the existence of the western shipping companies however depends on its apportionment between USSR needs and outside employment.

The charge that the expansion of the Soviet liner tonnage bears no reasonable relationship to the volume of the sea-borne general cargo traffic of the USSR is not very well founded. If the USSR wants to hold on to its market share in the long-established services, it must of necessity engage in up-to-date forms of transport, e.g. container services. Besides, countries are under no obligation to adapt the size of their liner fleets to the volume of their sea-borne general trade. This has never been demanded from western countries — say, Great Britain, Sweden, Denmark or Norway. Moreover, such "adaptation" would have no implications for the ships' use for carrying national general cargoes or plying in the cross trade.

The problem discussed here involves in my view two partial

aspects calling for separate consideration which should attract our attention:

□ The CENSA report on the freight practices of the COMECON fleets claims that East bloc outsiders are undercutting the rates on most indicated routes by 10–30 p.c. What share of the cargo volume is thereby attracted can in many instances not be ascertained. As far as indicated, it is between 3 and 14 p.c.

It should be noted that outsider undercutting of conference rates by 10 p.c. is common and being tolerated by the conferences. The latter are in many cases making up for such lower rates through patronage discounts. An independent body should be charged with the task of examining the rate structures of the COMECON shipping undertakings and determining the nature, extent and effects of any possible undercutting of freight rates. Further state measures should be contingent upon the outcome of this investigation.

□ It is undoubtedly true that the COMECON states are by and large denying access to their sea-going trade in general goods to western shipping companies while soliciting business without hindrance in the western world.

Possible State Measures

Political measures are the only antidote. Bilateral shipping agreements are not an effective remedy; at best they may lead to a division of foreign trade cargoes between the contracting parties. Intervention is on the other hand vital for cross traders. Western shipping companies must be given an equal opportunity to carry cargoes between Poland and the USSR or the USSR and the USA as the GDR for instance is already

enjoying in regard to transports between the Federal Republic of Germany and Great Britain. Supranational agreements are required in order to achieve this. The UNCTAD code could be one such agreement. Arrangements between the EC and the COMECON countries USSR, Poland and GDR would also make sense, but this would presuppose EC competence for shipping policy which the national shipowners' associations are still opposing. The prospects for coordinated measures under the auspices of the Consultative Shipping Group (CSG) or of OECD on the other hand must in the light of experience be viewed with some scepticism.

No Chance for National Solos

It may be stated in conclusion that the available data do not at present warrant the preparation, initiation or promotion of government measures to protect the German liner companies. Such statistics as exist say little about future developments but suggest a qualified forecast that the East bloc fleets and their activities will grow at a rather moderate pace in future.

I welcome for these reasons the intention of the Federal Government as expressed in its answer to a parliamentary question at the end of last year to work in the CSG and in the OECD Shipping Committee for an investigation of the nature, extent and effects of the activities of East bloc shipping enterprises before anything else is done. I share the view of the Federal solo Government that national solo tours would prove abortive. The Federal Government should avail itself of the External Economic Relations Act only if such action becomes necessary in order to avert major injury from German sea-going shipping.