

Forker, Laura B.

Article — Digitized Version

The Soviet Merchant Marine of the 1990s: Still a Competitive Threat?

Journal of the Transportation Research Forum

Suggested Citation: Forker, Laura B. (1991) : The Soviet Merchant Marine of the 1990s: Still a Competitive Threat?, Journal of the Transportation Research Forum, Transportation Research Forum, Washington, D.C., Vol. XXXI, Iss. 2, pp. 253-266,
<https://babel.hathitrust.org/cgi/pt?id=ien.35556020281747&seq=11>

This Version is available at:

<https://hdl.handle.net/10419/319795>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.

The Soviet Merchant Marine Of The 1990s: Still A Competitive Threat?

by *Laura B. Forker**

ABSTRACT

The Soviet merchant marine has been commonly portrayed as a competitive threat to Western shipping, due to its rapid expansion in the 1960s and early 1970s. What has been the pattern of growth of the Soviet merchant fleet in recent years? Is the Soviet merchant marine a potential disrupter of Western shipping equilibrium? These concerns are addressed by examining the structure and economics of Soviet shipping, the fleet's size over the past decade, and the Soviets' participation in international freight transport.

INTRODUCTION

While most branches of Soviet industry have been characterized in the West as backward, inefficient, poorly managed, and incapable of participating in the world marketplace (except when they heavily discount their goods and/or services), the Soviet merchant marine has been commonly portrayed as a competitive threat to Western shipping. Typical of the alarm-raising comments sounded in the early 1980s is the following:

Between 1965 and the end of 1981, the Soviet merchant marine increased numerically by 75% - from 1,741 vessels to 3,046 - and in tonnage by 154% - from 6.5 million to 16.5 million grt. The Eleventh Five Year Plan (1980-85) includes provision for the addition of a further 3.2 million dwt. to Soviet merchant capacity. The Soviet fleet came fifth in the world tonnage tables by 1979. According to TASS, the Soviet merchant fleet (Morflot) carried 223 million tons of cargo in the 12 months ending August 1982, out of a world total of 3,200 million tons. The Soviet merchant marine has thus developed into a significant force in world shipping and its continued net expansion coupled with growing sophistication have raised

persistent fears as to the economic implications for Western merchant shipping operations and the potential support available for the pursuit of apparently more ambitious Soviet objectives in the Third World.¹ (emphasis added)

What has been the pattern of growth of the Soviet merchant fleet in recent years? Has it continued to expand and upgrade technologically as the author of the above quotation feared it would? Is the Soviet merchant marine a potential disrupter of Western shipping equilibrium? The Soviet Union's potential as a competitive threat will be evaluated by looking at the fleet's participation in domestic and international trade, and in cross-trading. The Soviet share of the world fleet, the growth pattern of the Soviet merchant fleet, and the USSR's rank relative to other nations' merchant fleets will then be presented. Finally, several new developments that may affect the future growth and competitive position of the Soviet merchant marine will be discussed.

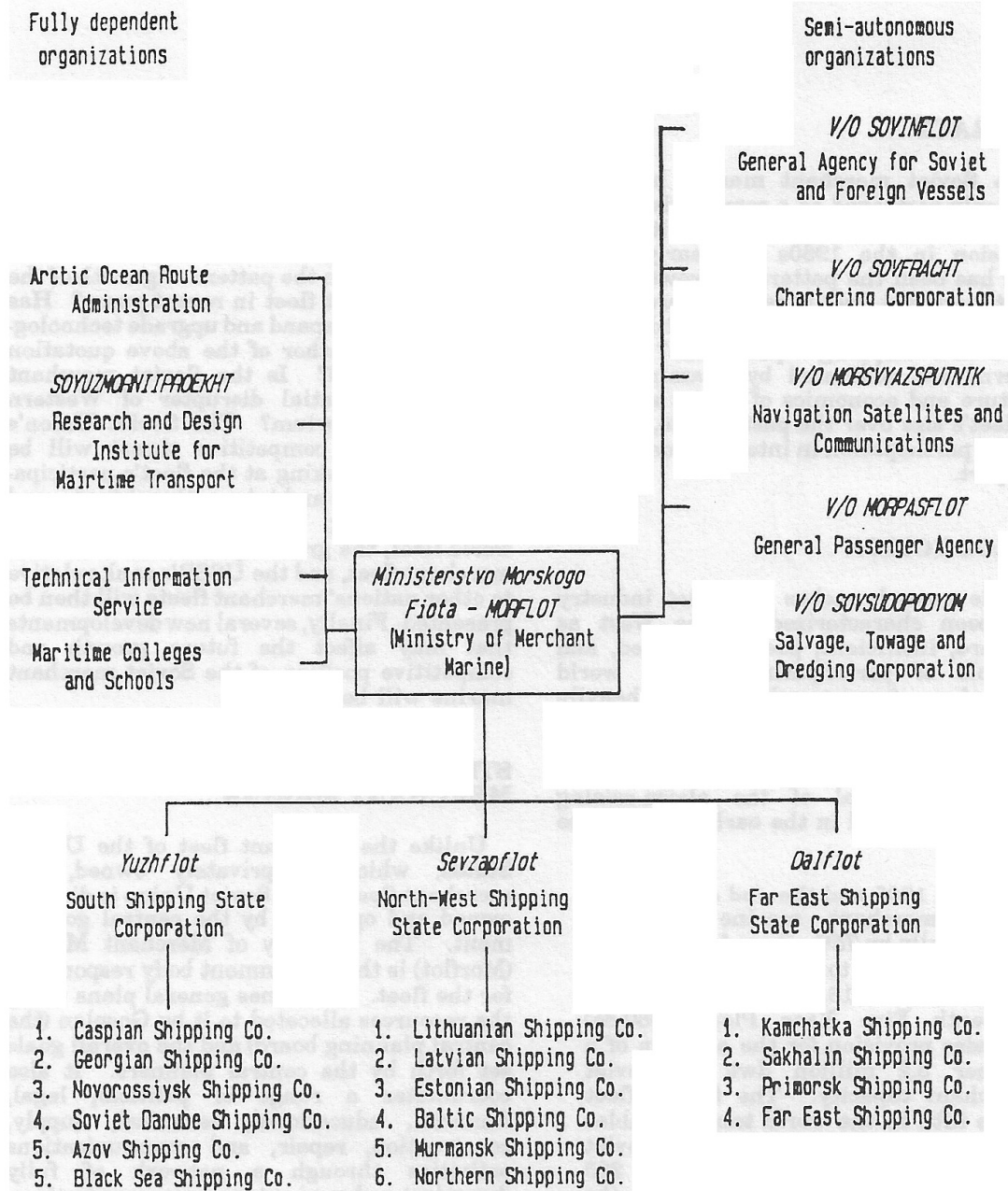
STRUCTURE OF THE SOVIET MERCHANT MARINE

Unlike the merchant fleet of the United States, which is privately owned, the merchant fleet of the Soviet Union is directly owned and operated by the central government. The Ministry of Merchant Marine (Morflot) is the government body responsible for the fleet. It outlines general plans using the resources allocated to it by Gosplan (the central planning board) and the overall goals set forth by the central planners. It also coordinates a range of political, legal, financial, educational, technical, supply, construction, repair, and communications activities through a network of fully dependent and semi-autonomous organizations. And Morflot is the ultimate authority above the three holding corporations that supervise the sixteen shipping companies serving Soviet marine transport needs. The structure of the Soviet merchant marine organization is pictured in Figure 1.

The three holding corporations were set up in 1970 to manage a rapidly growing Soviet fleet. Each corporation has its own budget

FIGURE 1

Organizational Structure of USSR Merchant Shipping



Source: Bergstrand and Doganis, *The Impact of Soviet Shipping*

and the authority to allocate vessels among the shipping companies under its jurisdiction. The holding corporation must convey the goals of the ministry's planners to the shipping companies and gather information from the companies to give to the ministry for planning purposes.

The holding corporations are composed of shipping companies within a given geographic region and tend to have a different functional emphasis due to each region's unique requirements. The South Shipping State Corporation concentrates on tanker transportation and is responsible for more than half of total Soviet tonnage due to the large loads carried on tankers. The North-West Shipping State Corporation moves much of the country's foreign trade. And the Far East Shipping State Corporation plays an important role in intercoastal transport in the Soviet Far East, where the network of roads and railways is not well-developed.

The shipping companies within the holding corporations can be identified by function or by region. Each holding corporation is responsible for one large dry cargo shipping company. Some shipping companies serve local primary industry while others are multi-functional within a given geographic area. Companies within a holding corporation cooperate on port and ship-repair services and also take on some foreign flag work.

THE ECONOMICS OF SOVIET SHIPPING

To carry the commodity flows of internal and external trade, Morflot determines what routes ships will take and what infrastructure will be used for transport. Morflot also decides where and what type of port facilities will be built (or expanded); what type, how many, and how big new vessel purchases or constructions will be; and which shipping companies will receive existing and/or newly built vessels. Ports and ships that service international trade tend to receive first consideration.

Due to the lead time required for ship construction, projections for future freight movements and tonnage allocations must be made well in advance. If there are no short-term contingencies or changes of plan, then existing vessels can be assigned to shipping companies to meet the transport needs of the country. But if foreign trade enterprises arrange to buy or sell goods abroad that were not accounted for in earlier plans, then the Ministry of Merchant Marine is forced to juggle existing shipping capacity to meet these new transport requirements and still attain its own long-range plans.

If a shipping company is short of capacity, it must apply to Morflot for more vessels.

The final decision about which company gets what ships remains with the ministry. The ministry's needs are to balance the supply of and demand for shipping services on a national level; it is therefore often unresponsive or insensitive to an individual company's needs. If a new routing arises that is more profitable to Morflot than an existing trade (especially if the compensation is in convertible currency), the ministry will not hesitate to pull vessels from one company and assign them to another, even if this causes disruptions in shipping services.

Like other sectors of the Soviet economy, shipping has been run on "taut" plans, where little slack is allowed to meet unforeseen events. Although problems caused by supply shortages or interruptions in other sectors (upon which shipping depends) are common, no contingency plans have been made to handle these possibilities. Delays in plan implementation and climatic uncertainties also have not been accounted for. The result is that some supplies must be leased or purchased from abroad to meet last-minute transportation needs when emergencies arise.

The most well-known example of a crisis-causing event is the annual shortfall in grain production that necessitates the procurement of grains from overseas. Morflot must allocate vessels for grain transportation based on the Ministry of Agriculture's projections for grain production, as laid out in the five-year and annual plans. To assign more vessels for the importation of grain from abroad (when the plan projects enough domestic production to meet internal consumption needs) is to admit that the agriculture sector will not meet its target production. Since every sector is expected to meet the goals set out for it by the central planners, other interdependent branches of the economy must make their plans based on the planned output levels. Yet, year after year, the grain harvest fails to meet the optimistic projections of the planners in Moscow and large quantities of grain must be imported. Most of these cereals (around 90 percent) are carried on foreign ships because of the limited supply of Soviet vessels and Morflot's inability to invest in new constructions for such contingencies.² Scarce convertible currency is spent in the process, not only on the grain but also on its movement.

In 1990, the Soviet Union reaped a record grain harvest. However, due to a lack of grain-carrying rail cars, inadequate storage facilities, and insufficient trucks and drivers to haul the crops, almost half of the harvest went to waste. The Soviets will have to import grain from the West once again, and spend convertible currency on commodities they have in excess supply, but are unable to transport to urban consumers. Additional costs, in the form of maritime chartering and

demurrage fees, will increase the price paid for Soviets' poor distribution system. The Soviets have had to pay large demurrage fees to foreign carriers in previous years because of the system's inability to accommodate the imported grain at the same time that the domestic harvest is being transported from the fields to the cities. With this year's additional burden on the distribution system, it is expected that delays will occur again.

Performance measures for Soviet shipping were historically based on output quantity targets, as has been the case for all sectors of Soviet industry. Planners used constant prices that enabled them to trace increases in physical volume from one period to the next. The use of constant prices meant that the costs of transportation and the value of the cargo being transported were ignored in evaluating plan fulfillment. To meet the planners' targets for tons of freight carried or ton-kilometers of freight moved, shipping companies would ignore high-volume low-weight cargoes, even if they contributed more income to the firm. The lack of regard for profitability even extended to foreign exchange: some companies would hire foreign vessels and spend convertible currency on their chartering in order to meet the targets for tons of freight shipped.

Since the mid-1960s, a variety of performance measures have been used, one of which is the tonnage target. More weight is being placed on revenue generation, however, and less on the movement of physical output. Morflot's aim is to improve efficiency and to make the shipping companies responsible for covering their costs and generating income. Each company must meet a revenue-per-day-per-ton target calculated to cover the average costs of the vessel it operates. For overseas shipments paid for with convertible currency, the indicator is basically the same. The merchant marine's main objective has been to transport the imports and exports of the Soviet Union. Trips that service other countries' transportation requirements have been taken only when a Soviet vessel would otherwise travel empty or below capacity.

The Soviet merchant marine has been accused in the past of grabbing market share away from American carriers, particularly in the area of cross trades. In fact, the U.S. government barred further Soviet cross trading to and from American shores at the end of the 1970s. Data collected during the 1980s indicates, however, that very few Soviet ships were devoted exclusively to cross trading.

Overall, almost half of all Soviet vessels were used for direct trading in 1983; only 2 percent were committed solely to cross trading. A little more than a quarter of the fleet engaged in combined direct and cross

trades, so that a ship would not have to travel in ballast on one leg of the trip.

Among specific Soviet freight fleets, more than half of all bulk/ore carriers were employed on direct trades, and a little less than half of the general cargo vessels were used exclusively for direct trades. Only with the containerships and roll-on/roll-off vessels was there any significant portion devoted to the cross trades (13 percent).

Morflot's emphasis on servicing bilateral trades is one symptom of the Soviet Union's long-standing policy of import substitution. Rather than using its fleet to earn foreign exchange in cross trading, the Soviets have chosen to emphasize the conservation of foreign exchange by carrying as much of their own cargo as possible. Some 90 percent of their international trade is transported by the Soviet merchant fleet.⁴ By selling their exports "cost, insurance, and freight" (CIF) and buying their imports "free on board" (FOB), the Soviets have left the choice of carrier to themselves. In both cases, the shipping costs are paid for by the importer; the Soviet Union can therefore use its own fleet for the shipment of goods and save on convertible currency expenditures. It also frees the country from "dependence" on foreign service providers, whom the Soviets have eyed with great suspicion in the past. The Soviets' propensity for self-sufficiency was a strong motivating force in their decision to expand the merchant marine in the 1960s and early 1970s.

PARTICIPATION OF THE SOVIET MERCHANT FLEET IN INTERNATIONAL AND DOMESTIC TRADE

For historical and political reasons, the Soviet Union has not had many trading partners far from the country. Its top ten trading partners in the 1980s were responsible for a third of the USSR's international trade. Of these ten, only Cuba, the United States, and India were at a sufficiently far distance to require deep-sea shipping services.

Consistent with its proximity to the countries it trades with, nearly a quarter of Soviet foreign trade used rail transport in 1984; another quarter was shipped by pipeline and inland waterways. Only half of Soviet imports and exports were transported by the merchant marine. These proportions probably have changed only slightly in the intervening years with somewhat more traffic traveling by pipeline and somewhat less traveling by rail. As the Soviet Union increases trade with the West, the proportion of goods shipped by the merchant marine should grow.

Table 1

Soviet Vessel Deployment by Trade Type during 1983 (trading non-tanker vessels over 3,000 tonnes)		
Trade Type	Number of vessels	%
Direct trade	601	46
Combined direct and cross-trade	358	28
Cross-trade	32	2
Insufficient data	306	24
Total	1,297	100

Table 2

Deployment of Bulk and Ore Carriers and Miscellaneous Trading Vessels During 1983				
Trade Type	Bulk/Ore		Miscellaneous	
	No.	%	No.	%
Direct trade	79	57	14	31
Combined direct and cross-trade	33	24	20	44
Cross-trade	4	3	1	3
Insufficient data	23	16	10	22
Total	139	100	45	100

Table 3

Deployment of General Cargo and Unitized Vessels during 1983				
Trade Type	General cargo		Container/Ro-Ro	
	No.	%	No.	%
Direct trade	478	47	30	30
Combined direct and cross-trade	269	27	36	36
Cross-trade	14	1	13	13
Insufficient data	252	25	21	21
Total	1,013	100	100	100

SOURCE: Bergstrand and Doganis, *The Impact of Soviet Shipping*.

The Soviet desire for self-sufficiency has meant that the merchant fleet's main responsibility has been for domestic coastal and intercoastal traffic. Domestic coastal shipping has involved the transport of mostly high-volume low-value fuels and raw materials. Due to the enormous size of the country (with more miles of coastline than any other nation in the world), and the dispersion of natural resources, a large coastal fleet has been necessary. More than a third of total traffic on Soviet ships has been for coastal movements of commodities.

GROWTH OF THE SOVIET MERCHANT FLEET SINCE THE COMMUNIST REVOLUTION

The size of the Soviet merchant marine has varied in the post-revolutionary period according to the priorities of the political leaders. While Lenin governed the country (from 1917 to 1928), the desires of the Soviet leaders to consolidate power and to choose an economic program meant that a low priority was given to shipping. The Soviet merchant fleet accounted for less than one percent of the world fleet, in terms of gross tonnage, and for less than two percent of the world fleet, in terms of number of ships. (See Figure 2.)

From 1928 to 1953, during the Stalin era, there was a small amount of growth in fleet size; however, the Soviets still owned less than 3.5 percent of the world fleet, in terms of both ships and gross tonnage. The country followed a policy of autarky throughout this period, engaging in very little foreign trade. [Data for 1940-1947 is unavailable, due to World War II.]

Soviet foreign trade turnover more than tripled during the 1950s, when Khrushchev was in power, and the Soviet merchant marine acquired more ships to service that trade. The most dramatic expansion of the fleet occurred in the 1960s and early 1970s, at the height of the Cold War. While the Soviet Union continued to increase its commerce with other countries, the steep build-up of its fleet size at this time was no doubt motivated by political and military considerations. From 1960 to 1972, the number of ships in the merchant marine grew six times, and the gross tonnage of the fleet increased fivefold. Relative to the rest of the world, the Soviet share of number of ships expanded more rapidly than did their share of gross tonnage, indicating that the Soviets were building far more small ships than were other maritime nations. Soviet gross tonnage actually fell from 1973 to 1979, even though their share of the world fleet (in terms of number of ships) remained relatively constant.

The growth pattern of the 1980s reflects a different trend. From 1980 to 1989, the

number of ships in the Soviet merchant marine shrunk by 21 percent, while the gross tonnage of the fleet increased by 10 percent. Relative to the world fleet, the Soviets were retiring more ships than they were replacing. The new ships acquired were larger, on average, than those in other countries' fleets, as evidenced by the Soviets' growing share of global gross tonnage throughout most of the 1980s. The annual percentage rates of change for number of ships in the Soviet and world merchant fleets can be found in Figure 3. Percent rates of change for Soviet and world gross tonnage throughout the post-revolutionary period can be found in Figure 4.

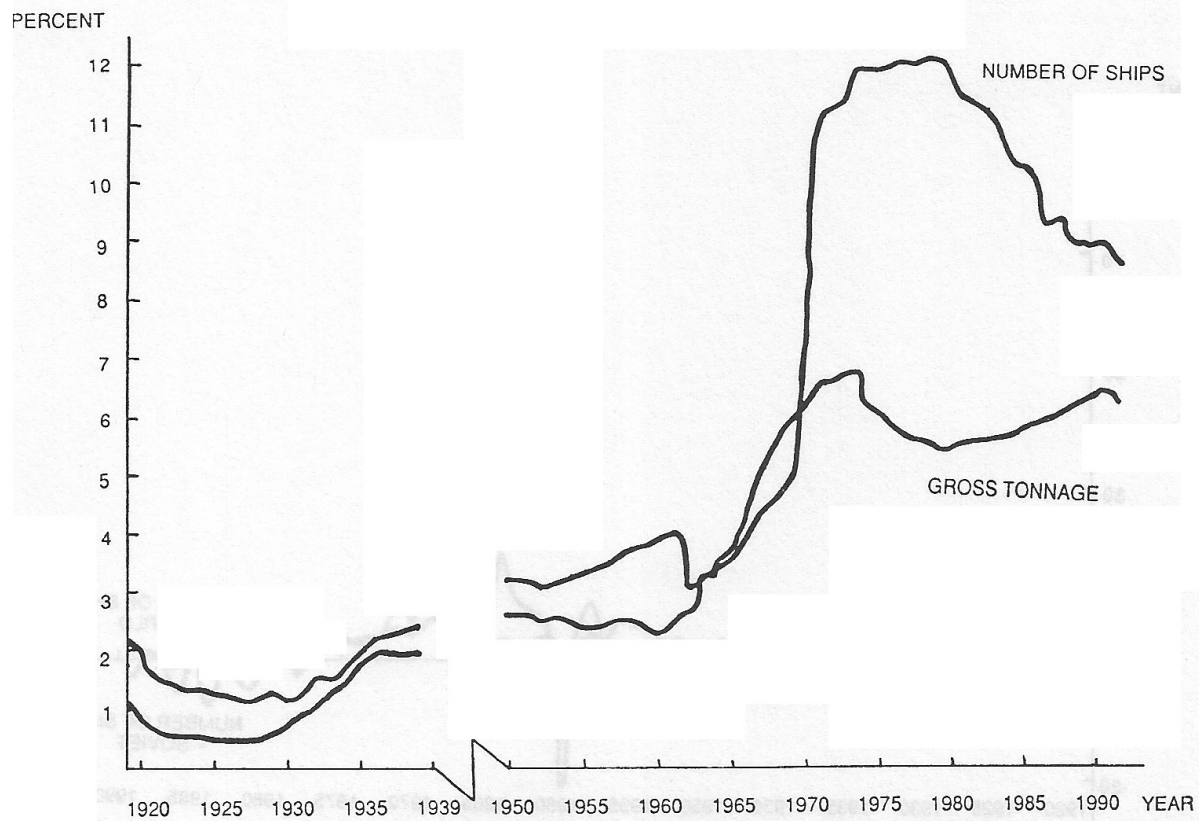
How does the Soviet fleet compare with the American one? In 1989, the Soviet merchant marine owned 8.6 percent of the world's ships, while the U.S. held 8.4 percent. The Soviet fleet accounted for 6.3 percent of global gross tonnage, whereas the U.S. accounted for 5 percent of gross tons. These statistics are for domestic-flagged vessels only, however. If flags of convenience were assigned to their beneficial country of ownership and included in country totals, the U.S. share of the world fleet would exceed the Soviet share.

Figures 2-4 examine trends in the total Soviet fleet, including all ships of 100 gross tons or more. To determine if the Soviet merchant marine poses a competitive threat to Western shipping, it is useful to look at the growth pattern of ocean-going vessels of 1,000 gross tons or more. These larger ships are more likely to be involved in international trade.

Table 4 displays the size of the Soviet fleet of ocean-going vessels over the last 10 years. In terms of number of ships, the Soviet Union has held a relatively stable number two position, behind Panama, throughout the decade; the Soviet fleet edged upwards from number seven to number six, in terms of deadweight tons. The discrepancy in these rankings suggests that the Soviets own a relatively "light" fleet of trading vessels. Once again, country ranks are based on the flag flown by a ship. If flags of convenience were ascribed to their actual owners, the American, British, and Greek fleets of ocean-going vessels would surpass the Soviet fleet.

The number of trading ships in the Soviet merchant marine changed little during the 1980s (a slight drop of 1.7 percent), implying that new vessel constructions and purchases were made strictly for the replacement of lost, scrapped, or retired ships. (See Table 5.) The internal cubic capacity of these newer ships (in tons) expanded at a more rapid rate, however, than did the rate of increase in gross tons for the entire Soviet fleet. Apparently, the Soviets have been focusing on the ocean-going vessels in their upgrading of ship size and capacity. While merchant fleets throughout the world have been building

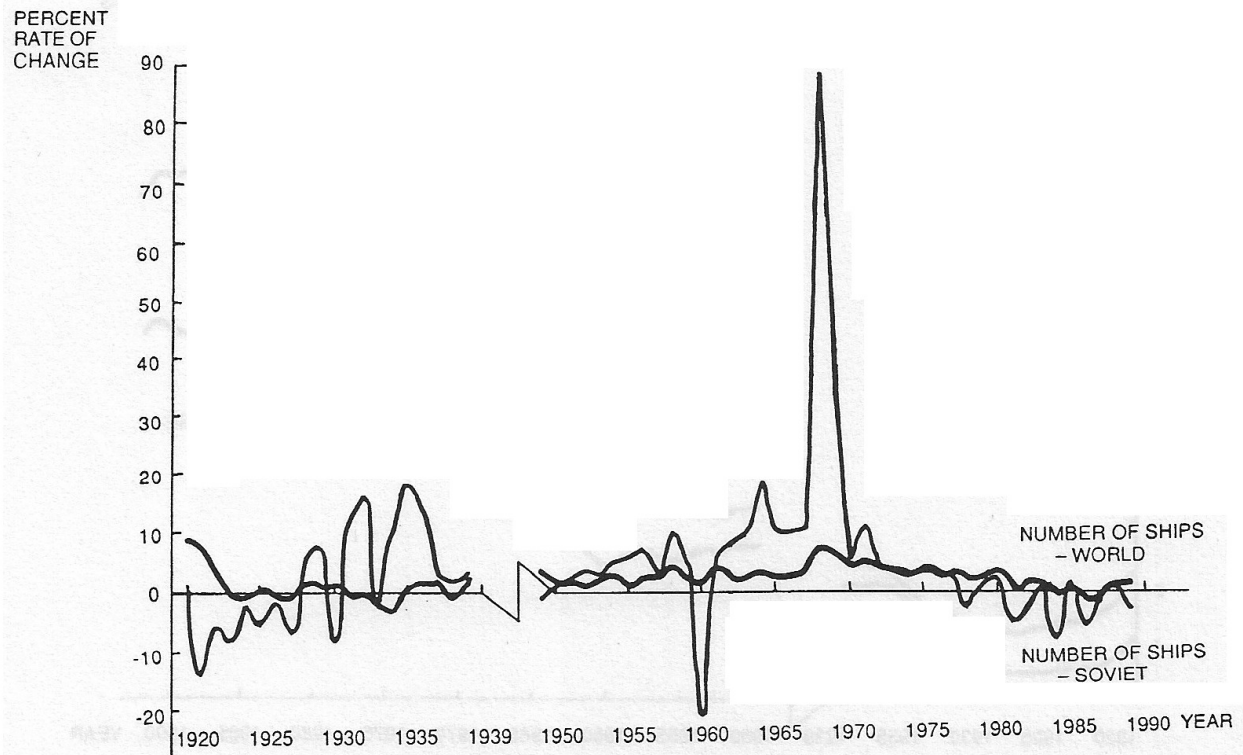
FIGURE 2
Soviet Shares of the World Merchant Fleet



Source: Lloyd's Register of Shipping, *Statistical Tables*, and Author's Calculations.

FIGURE 3

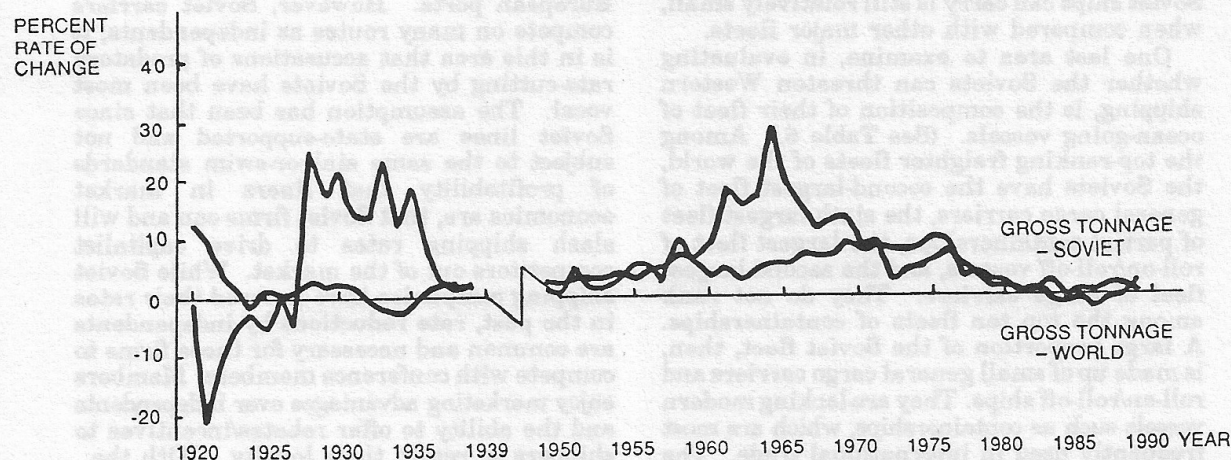
**Annual Percentage Rates of Change in the Size of Soviet and World Merchant Fleets:
Number of Ships, 1919-1989**



Source: Lloyd's Register of Shipping, *Statistical Tables*, and Author's Calculations

FIGURE 4

Annual Percentage Rates of Change in the Size of Soviet and World Merchant Fleets:
Gross Tonnage, 1919-1989



Source: Lloyd's Register of Shipping, *Statistical Tables*, and Author's Calculations

TABLE 4

The Soviet Merchant Fleet of the 1980's: Trading Vessels

As of January 1	Number of ships	Rank - Ships	Gross Tons	Deadweight Tons	Rank - DWT Tons
1989	2,434	2	19,122,000	25,481,000	6
1988	2,439	2	18,478,000	24,479,000	6
1987	2,453	2	18,535,000	24,563,000	5
1986	2,514	2	18,717,000	24,858,000	6
1985	2,531	2	17,824,000	23,875,000	6
1984	2,497	2	17,299,000	23,157,000	7
1983	2,482	3	16,921,000	22,457,000	7
1982	2,449	3	16,542,000	21,886,000	7
1981	2,530	2	16,550,000	21,757,000	7
1980	2,512	2	16,333,000	21,590,000	7
1979	2,475	2	16,037,000	21,206,000	7

Source: Maritime Administration, *Merchant Fleets of the World*, 1981-1989 issues.

larger ships, it appears that the Soviets have been augmenting their average ship size at an even faster rate. They have done this to lower capital and operating costs per ton of capacity. The maximum weight that the Soviet ships can carry is still relatively small, when compared with other major fleets.

One last area to examine, in evaluating whether the Soviets can threaten Western shipping, is the composition of their fleet of ocean-going vessels. (See Table 6.) Among the top-ranking freighter fleets of the world, the Soviets have the second-largest fleet of general cargo carriers, the sixth-largest fleet of partial containerships, the largest fleet of roll-on/roll-off vessels, and the second-largest fleet of barge carriers. They do not rank among the top ten fleets of containerships. A large proportion of the Soviet fleet, then, is made up of small general cargo carriers and roll-on/roll-off ships. They are lacking modern vessels such as containerships, which are most frequently used in international trade. The makeup of the Soviet merchant fleet reflects the priority placed on domestic coastal and intercoastal transportation. Considering the size of the country and its distribution of natural resources, the emphasis on domestic trade is intuitive.

In contrast to the warnings sounded in the early 1980s, the Soviet merchant marine has not continued to expand, when measured by number of ships. Its continued upgrading of ship size (a trend evident throughout world fleets) has been done to increase efficiency and lower operating costs, by spreading the fleet's fixed costs over bigger cargo loads. Larger vessel construction has not been part of a Soviet strategy to undermine Western shipping, as some politicians and analysts charged at the beginning of the eighties. The Soviets have acted rationally in their desire to reduce marginal costs, and to cover their expenses with the revenues they earn in transport.

SOVIET COMPETITION IN THE LINER MARKET

Morflot has been accused at times of being an unfair rival. The greatest controversy has centered around the liner market where Soviet firms compete as independents. A liner service carries cargo from one port to another (or from one series of ports to another) on regularly scheduled routes and timetables. Freight is consolidated from many shippers and transported on the same vessel. Shipping lines that service the same routes or regions are often organized in conferences that collectively decide the freight rate structure to be used by all conference members, and the shipping capacity that each member will offer. On some routes, the entire supply of liner

shipping has been controlled by these conferences.

Soviet lines belong to only a few conferences, and some of these conferences restrict USSR loading rights to Soviet or East European ports. However, Soviet carriers compete on many routes as independents; it is in this area that accusations of predatory rate-cutting by the Soviets have been most vocal. The assumption has been that since Soviet lines are state-supported and not subject to the same sink-or-swim standards of profitability that liners in market economies are, that Soviet firms can and will slash shipping rates to drive capitalist competitors out of the market. While Soviet shipping companies have lowered their rates in the past, rate reductions by independents are common and necessary for these firms to compete with conference members. Members enjoy marketing advantages over independents and the ability to offer rebates/incentives to shippers to retain their loyalty. With the reduction in East-West tensions, and the restructuring of the Soviet economy to introduce more market-oriented reforms, previous relationships and behaviors may be irrelevant now. For example, in contrast to its prior exclusion, Baltic Shipping Company's recent entrance into the liner trades prompted the director of the North Atlantic's rate-making steamship conference to extend a membership invitation to the Soviet firm. If the Soviets join, their rates would be no different than those of other conference participants.

Independent status is not the only reason that Soviets have had to discount their rates. The quality of their liner services has often been below that of competitors in terms of frequency, speed, reliability, and regularity of sailings; and total capacity, vessel types, and port facilities available. Their fleet consists of mostly small general-purpose cargo ships that reflect the large role of the Soviet merchant marine in domestic coastal transport. Many of these vessels are old, slow, and unreliable. The inferior service they offer means that Morflot must lower its rates in order to attract any shipments. Quality of service rarely has been mentioned when accusations of Soviets undercutting the market have been leveled.

NEW DEVELOPMENTS

The Soviet economy has been experiencing major upheavals in the last year that have affected the merchant marine. The infrastructure is in urgent need of repair and rebuilding; government budget deficits have ballooned, thus diverting scarce resources; and Soviet enterprises have failed to alter old habits that wreaked havoc on the country's

TABLE 5

Percentage Rates of Change: Trading Vessels

Years	Number of Ships	Gross Tons	Deadweight Tons
1988-1989	-0.20%	4.09%	4.09%
1987-1988	-0.57	-3.42	-0.34
1986-1987	-2.43	-1.19	-1.19
1985-1986	-0.67	4.12	4.12
1984-1985	1.36	3.03	3.10
1983-1984	0.60	2.23	3.12
1982-1983	1.35	2.61	2.61
1981-1982	-3.20	-0.05	0.59
1980-1981	0.72	1.33	0.77
1979-1980	1.49	1.85	1.81
1979-1989	-1.66	19.24	20.16

Source: Author's calculations, using Marad statistics.

logistics and productivity in the past. Three new developments in 1990 address some of the infrastructural, financial, and incentive problems the Soviet shipping sector faces. These developments are: the modernization of the Trans-Siberian Railway by an American company; a new maritime agreement between the U.S. and the USSR; and the beginning of privatization of Soviet shipping firms. While it will take some time to realize the benefits of these changes, they could make the merchant marine a stronger, more efficient competitor in the future.

Trans-Siberian Railway Modernization

The Trans-Siberian Railway (TSR) opened in 1967 and was quite successful during the 1970s. However, its share of East-West trade gradually eroded in the eighties to the point (in 1989) where the railway handled only 5 percent of the total volume of containerized cargo traffic between the Soviet Far East and Europe. The lack of efficiency on the TSR caused the transit time across the railway to fall behind the competing all-water maritime route by 5-15 days or more, even though the distance between Europe and the Far East is only half as long on the railway as it is on the maritime route.

Sea-Land Service Inc. has undertaken a cooperative agreement to improve service

along the TSR as a land bridge for cargo transport between Asia and Europe. They plan on building a modern container station in Moscow, where the TSR ends, and are aiming to cut the transit time down to 17-20 days, which would be below the 22-35 days it takes on the all-water route.

When the TSR is fully upgraded, it could become one of the most heavily used transport arteries in the world. However, it is estimated that the improvements will require 20 years to complete. Western shipping companies may not feel the effect of the modernization until the next century.

US-USSR Maritime Agreement

Another important change is the recently-signed US-USSR maritime agreement. Trade between the two countries currently consists of almost all bulk cargoes: vodka, grain, and some timber. The 1990 agreement could expand that trade. The agreement: introduces a new system of nondiscriminatory access to cargo; allows Soviet vessels to participate in U.S. cross trades, which the Soviets were barred from throughout the 1980s; opens up 48 American and 48 Soviet ports to each other's vessels; and reduces the notification period for Soviet vessels calling at U.S. ports from two weeks to two working days.

TABLE 6

Top Ranking Freighter Fleets In Each Class
January 1, 1989

(Tonnage in Thousands)

Ship Class	Number of Ships	Gross Tons	Deadweight Tons
GENERAL CARGO CARRIERS			
Panama	1,275	7,675	10,311
U.S.S.R	1,458	7,305	8,773
China	636	4,491	6,328
Cyprus	397	2,198	3,371
Japan	261	2,666	2,269
Greece	199	1,432	2,150
Liberia	174	1,724	2,146
Singapore	156	1,127	1,491
Philippines	181	977	1,387
United States (Private) /1	23	503	399
All Others	3,824	20,042	27,252
Total	8,714	50,140	65,877
CONTAINERSHIPS			
Panama	174	3,341	3,721
United States (Private)	90	2,716	2,826
Taiwan	70	1,982	2,189
Bermay (West)	97	1,715	1,992
Japan	53	1,651	1,528
United Kingdom	39	1,257	1,162
Denmark (DIS)	26	1,019	1,049
Singapore	46	903	1,002
Liberia	37	806	865
China	48	644	821
All Others	471	6,828	7,419
Total	1,151	22,862	24,575
PARTIAL CONTAINERSHIPS			
Panama	201	1,788	2,557
Cyprus	143	966	1,437
China	82	647	908
Liberia	51	539	754
Yugoslavia	44	508	705
U.S.S.R	74	558	693
Greece	46	467	690
Germany (West)	126	492	665
Brazil	45	391	499
United States (Private) /2	24	307	359
All Others	939	6,264	8,631
Total	1,775	12,927	17,898
ROLL-ON/ROLL-OFF			
U.S.S.R	86	1,073	1,215
Panama	92	1,757	994
United States (Private)	30	626	595
Sueden	38	339	438
Japan	53	869	425
Italy	40	292	369
Norway (NIS)	16	249	343
Masou, Bahamas	23	217	253
Liberia	18	311	237
Saudi Arabia	7	133	216
All Others	428	3,141	3,367
Total	831	9,007	8,452
BARGE CARRIERS			
United States (Private)	11	322	420
U.S.S.R	12	235	246
Liberia	5	105	154
Bermay (West)	7	83	77
China	2	4	26
Spain	1	7	9
All Others	9	240	343
Total	47	996	1,275
Grand Total	12,518	95,932	118,077

/1 Ranks 32nd in this category.

/2 Ranks 18th in this category.

Source: Maritime Administration, *Merchant Fleets of the World*, 1989

The most controversial aspect of the agreement is the permission extended to the Soviets to participate in U.S. cross trades. Western shipping companies fear that the Soviets will engage in predatory pricing, in order to ensure a share of the market. However, this behavior is unlikely for several reasons. First, The Law on State Enterprises, put into effect on January 1, 1988, has made all Soviet enterprises responsible for covering their own costs; government subsidies will no longer prop up loss-making operations. With overcapacity already depressing freight rates in the Pacific and Atlantic trades, the Soviets would make no money at all by undercutting the market price. Second, the maritime traffic base is smaller today than it was 10-20 years ago, when Soviet ships last cross-traded from American shores. Much of the present traffic is handled under service contracts, which limit the amount of cargo Soviet carriers could handle. Cargo growth for the next three to five years is predicted to be either negative or flat in the Pacific, and only marginally positive in the Atlantic. The Soviets will find little new business available. Finally, the expansion of intermodalism since the 1970s puts the Soviets at a disadvantage, vis-a-vis their American competitors. Soviet firms lack the intermodal network in the U.S. that American transporters have established. The quality of Soviet shipping services is also generally slower and less reliable than that of Western carriers. More efficient American firms should be the first to reap the rewards of the maritime agreement.

Privatization of Shipping Companies

A final development that will affect the Soviet merchant marine's future competitiveness is the movement of shipping companies away from Morflot to become private companies. The Baltic Shipping Company was the first to become independent but it will certainly not be the last. Independence means the company can now determine its own cargo flows, make its own investment decisions, and choose its own shipbuilding contractors to replace its outdated vessels; it will be as vulnerable as any private company in the international market. Baltic Shipping broke away from Morflot to enable the company to retain its above-the-plan profits; previously, these were collected by the ministry and used by the state to support loss-making sectors of the economy. Such profitability contradicts accusations in the West that Soviet shipping companies are government-subsidized and operate at a loss.

CONCLUSION

The Soviet merchant marine was developed to serve the transport needs of the USSR and to provide protection against foreign ship owners who could withhold service in times of political or economic boycott. The Soviet desire for independence and self-sufficiency has continued to dominate the rationale of the merchant marine throughout most of the twentieth century. Soviet participation in cross-trading has been confined largely to loading vessels that would otherwise return empty or partially filled; these trips have been taken to utilize existing capacity more efficiently. Morflot's role as the conveyor of Soviet imports and exports, rather than a convertible currency earner per se, has remained.

While a recent announcement by the Soviet merchant marine's minister indicates plans to modernize the Soviet fleet, such an upgrade will take time to accomplish. Projections of minimal cargo growth, depressed freight rates, and overcapacity worldwide in the 1990s will limit any market share that the Soviet merchant marine can gain in international shipping. Short-term domestic needs for maritime transport (that cannot be met by the existing fleet) can be managed at a relatively low cost by chartering foreign vessels.

The improvements to the Trans-Siberian Railway, the US-USSR maritime agreement, and the trend toward privatization of shipping companies may enable the Soviets, in the future, to provide the same or better shipping services as those currently offered by Western carriers. For the decade of the 1990s, however, the Soviet merchant marine does not pose a competitive threat.

ENDNOTES

- * Department of Decision and Information Systems, College of Business, Arizona State University
- 1. Scrivener, David. "Strategic Forum: Merchant Marine in Soviet Naval Strategy", *Marine Policy*, (April 1983), p. 118.
- 2. Bergstrand, Simon and Rigas Doganis. *The Impact of Soviet Shipping*. (London: Allen & Unwin, 1987), p. 106.
- 3. Ibid, p. 52.

4. Smalley, G. "Role of Merchant Fleet in Soviet Global Strategy", *Marine Policy*, (January 1984), p. 66.
5. Bergstrand and Doganis, op. cit., p. 19.
6. Ibid, p. 19.
7. Ibid, p. 19.
8. Ibid, p. 21.