

Stockholm School of Economics

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SHIPPING POLICY - A VIEW OF WESTERN EUROPE

Address by

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Mr. Chairman, (Ladies and) Gentlemen :

It is a pleasure for me to follow the invitation of the Stockholm School of Economics to attend this conference and I am honoured indeed to have been asked to present to you the view of Western Europe on shipping policy developments. Let me warn you already now that this view will be an EEC Commissioner's view.

But we can safely assume that the fundamental approach to shipping policy issues is basically the same from Scandinavia right down to Southern Europe, although admittedly, there are differences in emphasis.

This conference couldn't have come at a more appropriate time because I think that after the EEC decision on ratification of the United Nations Liner Code and after UNCTAD V in Manila we have a much clearer picture now of the outline of a future European shipping policy.

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... UN Code of Conduct

UN Code of Conduct

I don't want to go today into the technical details of the EEC regulation on the UN Code of Conduct. Instead, I should like to explore the political significance of that decision. Firstly, it shows that the Community is capable of dealing with shipping policy issues of world-wide importance in a decisive and coherent manner. I think this decision was a great surprise to many people who thought that our Member States' policies in this important field could never be brought to a common denominator. Moreover, we are convinced that in other areas of shipping policy Community positions can and will be decided as well in due course. So for us the EEC's Code decision is an important first step in the direction of formulating a common shipping policy.

Secondly, the Community and its Member States have a strong commitment to the developing countries based on historic, social, political and economic ties. Just think, for instance, of our special relationship with the ACP countries. But we are in turn dependant on them for vital

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imports of a number of raw materials as they are on us for exports of capital goods and technical know-how. Therefore, we are genuinely interested in the economic well-being of the developing countries. On their prosperity depends ours as well and we think that the implementation of the UN liner code is one such area where we can cooperate to our mutual benefit. And I emphasize the word "mutual" because any other basis would be unrealistic.

Of course, the Regulation on the Code was not only passed by the Council of Ministers with the aspirations of the developing countries in mind. We also wanted to preserve, and reaffirm, a commercial approach to liner shipping within the OECD area. Certain of the Code's features, such as the cargo sharing principles, the veto rights of national lines, the freight rate freeze do not fit into the traditional commercial approach of the OECD countries to liner shipping. Therefore, as far as OECD trades and lines are concerned the objective is to preserve a maximum of commercial freedom under the given circumstances.

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.... Hence the reservations

Hence the reservations which every Member State will make on accession to the Code Convention in relation to EEC, respectively OECD trades. But let me emphasize that the rights of the developing countries under the Code will not be affected by these reservations. In a nutshell, then, we accept a certain preferential treatment for the developing countries in liner conferences but at the same time we reaffirm the traditional commercial approach to liner shipping for the developed countries.

Finally, we in the Commission have favoured a Code based solution to the liner conference problem because we were convinced that there was no other realistic alternative to it if we wanted to achieve our primary objective of a multilateral organization of liner conference traffic acceptable to the developing countries but also the developed countries of the West and East. With some satisfaction I can say that the European Community has been instrumental in making the Code acceptable to many Western industrialized countries and probably has influenced

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... the decision by others

the decision by others to ratify the Code. Once all governments which announced their intention in Manila to ratify have done so countries owning about three quarters of the world liner tonnage will back the Code. We think that this is a very good basis from which to discourage henceforth unilateral or bilateral protectionist measures in liner shipping.

In this context I think a word on the attitude of the United States to the liner Code and the Community regulation on it is in order. As you may know the Council asked me to visit the United States to explain to U.S. government authorities and other interested parties the intended Community position on the Code. As could be expected there was no clear-cut common opinion either on the Code itself or on the proposed Community regulation. Responses ranged from a certain understanding for the Community's position to the fear that this decision might open the flood gates for cargo sharing demands in other shipping markets and that the developed countries might not be able to withstand these pressures given the precedent in the liner conference trades. Well, the events in Manila

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... showed that Group B

showed that Group B was very well able to withstand the pressures exerted by the developing countries and I am convinced that the EEC decision on the Code has strengthened the determination of Group B to reject the maximalist and politically motivated demands in the bulk sector.

But let me return for a moment to the United States. The hearings on the UN Code conducted in April by the House Merchant Marine and Fisheries Committee under the chairmanship of Congressman Murphy showed a certain tendency on the side of many witnesses testifying there to plead for bilateral rather than multilateral solutions to the liner shipping problem. Needless to say, we in the EEC would be most unhappy if these sentiments became official government policy. With our Code Regulation we have gone out of our way to preserve a commercial approach to shipping among developed countries. U.S. ships can freely compete in all of our trades, also after the Code has been ratified by our Member States and we expect that the same opportunity will be given to our ships.

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... Bulk Shipping

Bulk Shipping

Of course, our consent to cargo sharing in the liner conference trades and our determined opposition to applying this principle in the bulk trades begs the question :

"Why accept cargo sharing in the one trade and reject it in the other ?"

Well, it is no secret that liner conference trades are run by shipping cartels. And I might add, there are good economic reasons for the existence of such cartels in the liner trades. We don't contest that. We have accepted that fact by accepting the UN liner Code. But as you all know, cargo sharing and limited access of newcomers to the conference are also features of such cartels. Therefore, there is a certain justification for establishing an overall framework of rules of behaviour, as widely acknowledged as possible, in order to guarantee an equitable treatment of all participants in the trade, whether newcomers or not, whether economically strong or weak.

The situation is quite different, however, in the bulk trades. Entry into the bulk trades is free. Anybody with a ship, the know-how to operate it and, most important, a thorough knowledge of rapidly changing market situations can enter the game. The great number of success stories from

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"rags to riches" shows that the right man, with the right ship at the right time can make a fortune, even in today's depressed market. But what it takes is a businessman ready to take risks, to exploit the chances the market offers and to accept the losses if his judgment was wrong. If the developing countries have such people, - and there is no doubt in my mind that they are there, - they are most welcome to join because entrepreneurial talent is always in short supply.

We are ready to assist the developing countries in building up their fleets on an economic basis, expanding operational skills and market know-how. But we refuse downright to create any white elephants through uneconomic, artificial bulk cargo allocation schemes.

As Gerald Cooper, Liberia's Commissioner for Maritime Affairs has put it so aptly with reference to bulk cargo allocation : "It's like going on welfare because it's better than looking for a job." Well, we say : "We are willing to go out of our way to help the developing countries getting that job, in particular the sorely needed job training."

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... This whole discussion

This whole discussion on bulk shipping in Manila unfortunately had a distinctly surrealistic tinge, or so it seemed to the dispassionate observer. A hard look at the economic facts of shipping life was carefully avoided and instead the proceedings resounded in empty political rethoric, a waste of everybody's time and resources.

Similarly superficial in analysis and equally unrewarding were the UNCTAD discussions on open registries, or flags of convenience as they are popularly called. Again, an objective discussion of the causes, as well as the costs and benefits of open registries at the national and international level was not even attempted. In shipping, developing countries which had benefitted from open registries were not about to sacrifice these advantages.

I think that UNCTAD V had one important result : it showed that the bloc approach doesn't work. If this lesson has been brought home to every participating government in UNCTAD V, as well as the UNCTAD secretariat, we might have a world forum in the future where we can get down to doing some real business.

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... Another issue of

Another issue of international importance with top priority for the Community is shipping safety and pollution prevention at sea. The Amoco Cadiz disaster led the Community to decide that it could and must play a significant role in shipping safety and pollution prevention. The central role in these matters is in fact played by a world-wide organisation, the United Nations agency IMCO. This is as it should be, since shipping is a world-wide activity.

The Community can, however, make a valuable contribution of its own in several ways :

- by early ratification of the IMCO conventions by the Member States;
- by strict enforcement by the Member States of the terms of the conventions in respect of their own ships and of other ships using their ports;
- by acting as a pressure group within IMCO;
- by taking action at Community level on matters, such as pilotage, which are not being dealt with by IMCO.

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... Since the Amoco Cadiz

Since the Amoco Cadiz disaster the Council has adopted a number of concrete measures falling into one or other of these categories. Three of these measures are in the Commission's view calculated to help reduce to the minimum the risk of serious accidents including those in ports.

Firstly, the Council adopted last July a Recommendation that the Member States should ratify as soon as possible a number of IMCO safety and pollution prevention instruments. These include the 1978 Protocols to the 1974 Convention on the safety of life at sea and the 1973 Convention on marine pollution.

These two Conventions cover the installation of inert gas systems in tankers and certain other aspects of equipment and construction.

Secondly, the Council adopted last December a Directive on the conditions to be met by tankers (oil tankers and other tankers) approaching and leaving our ports. This is designed to guard against the entry of sub-standard tankers and to ensure that any problems which may exist are known to the port authorities in good time.

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... Thirdly, the same Council

Thirdly, the same Council adopted a Recommendation on the rapid ratification by Member States of the recent IMCO Convention on the Training and Certification of Seafarers. This measure is aimed at reducing the incidence in so far as possible of marine accidents resulting from human error.

As regards the enforcement in our ports of the provisions of the IMCO Conventions, the Commission has proposed a Decision that two important IMCO Resolutions on port state control procedures should be observed in Member State ports as an obligatory requirement in carrying out controls.

Finally, the Commission is preparing a further proposal directed to introducing Community rules for the frequency of and criteria for port state control activities in the Community, and to increasing the personnel resources available for this in Member States.

At the end of May last year, the Council adopted an action programme concerning the control and reduction of pollution caused by the discharge of oil at sea.

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... In December last,

In December last, the Council took a series of decisions on Community participation in international agreements concerning anti-pollution measures.

Chairman, marine casualties and marine oil pollution cannot be entirely eliminated by legislative measures nor even by the best possible practical enforcement of international standards and the best possible training of everyone involved. But I believe risks can be substantially reduced. And this can be done in particular by reinforcing the role of port states in implementing and controlling international safety and pollution legislation. The Community has recognised that it has a definite role to play here. A measure of progress has already been made but such disasters as in <sup>BRITANNY</sup> ~~the Bretagne~~ and Bantry Bay tragically underline the need for further action. The Commission will continue to put forward realistic proposals, and I hope that we may be able to contribute our bit in making shipping safer and less hazardous for the environment.

#### Shipyard and Shipping Crisis

Another topic of considerable concern to us is, of course, the present crisis in bulk shipping and shipbuilding. Both industries were perhaps overconfident in expanding capacity

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in the expectation that the conditions of the early seventies would be a lasting phenomenon. But when the bottom fell out of the market after the OPEC oil price rise a series of structural adjustments had to be made and since then the pattern of world trade has changed.

Shipping and shipbuilding have not yet fully adjusted to this. I want to emphasize that individual nations are powerless to bring about a rational solution because it is a world-wide problem. Unfortunately, some countries are embarking on a shipbuilding subsidy race which will only end in deadlock and a worse situation than before. As you know, the Commission has proposed to the Member States a policy of restructuring and reducing shipyard capacity in order to bring capacity more into line with the reduction in demand. Although the Member States agree in principle on the need for reducing over-capacity, they have disagreed on how deep the cuts should go and how the burden should be distributed. The result is that our shipyards are now forced to reduce their capacity anyway but without the benefit of an overall European restructuring plan which could have helped them to ease the difficulties of the transition period and prepare for future fierce international competition.

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... The Commission is at present

The Commission is at present discussing with the shipyards and shipowners as well as Member State experts possibilities for an EEC scrap and build scheme which is designed to take some shipping capacity out of the market which would otherwise not have been scrapped and at the same time to secure a minimum of new building orders for Community shipyards during the coming difficult two or three years. This might be a small contribution, if the scheme is adopted by the Member States, towards securing the essential shipyard capacity needed as a base for our shipping industry.

The Commission has, however, always insisted that any attempts at restructuring the shipyard industry should not be at the expense of the shipping industry. Shipping must compete world-wide and therefore shipowners must be able to buy ships where they get the best value for money. A protectionist policy in this area would be a disastrous road to travel, particularly in view of the present serious crisis in bulk shipping. I believe that the bottom of that crisis has now been touched and that there will be a slow but steady improvement in the overall situation. However, this does not mean that the shakeout will come to an abrupt standstill. On the contrary, many of the less well financed, highly leveraged companies will probably have to opt out of the business. This is, of course, unfortunate but I have to say that it is a necessary element of our market economy system.

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... If we want to have



If we want to have a private enterprise system the entrepreneur must be given the right to make a reasonable profit but, on the other hand, he must also be held responsible for the losses he makes provided he is allowed to operate under fair market conditions. In this sense I see the present shipping crisis as a painful but necessary process of adaptation to changed market conditions.

#### Competition by State-Trading Countries

A shipping item very high up on our agenda is the question of how to come to grips with the non-commercial shipping competition from state-trading countries, particularly in the liner trades and principally from the USSR.

Briefly, the problem Community shipowners, and indeed shipowners in the whole of the OECD, are faced with is the enormous expansion of the general cargo fleet of the USSR in particular and the aggressive competition practices which only state-trading enterprises can apply over a long period of time and which are designed to penetrate our Western liner shipping markets. In the bilateral trades the USSR already calls the tune simply by selling CIF and buying FOB. But in order to be completely sure that Western shipping companies have no opportunity to compete for cargo they are not allowed to have their own agencies in the USSR. Everything must be channelled through the Soviet state transport agencies. You see how the system is heavily biased in favour of USSR shipping. But this is not the worst feature of Soviet shipping practices. After all,

bilateral seaborne liner trade with the USSR is relatively insignificant. The real danger arises out of their cut-throat competition in our Western liner trades. Acting usually as outsiders they heavily undercut, sometimes by more than 40 %, specific conference rates and thus skim off the cream of the traffic. This tactic is continued for as long as is necessary to build up whatever traffic is required to fill their ships serving a particular trade. As we know, these tactics are highly successful and they have earned the USSR much needed foreign exchange. Our shipowners suffer on two fronts. First, there is the direct loss in income with a consequent gradual erosion of resources and second there is a weakening of the liner conferences to which most of these companies belong.

All this would not concern us very much if our shipowners and the state shipping companies were competing on equal terms. But they are simply not. Our companies are responsible for profit and loss in a competitive environment, they have to buy their resources at market prices. If they do not succeed in the market they go bankrupt. Not so in state-trading countries. No state economic enterprise ever goes bankrupt. Costs and prices are what the government wants<sup>3</sup> them to be in accordance with the political and economic priorities it has. Competition is non-existent and many of the cost elements a private shipping

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company of the West has to bear are in those countries borne by society. In such completely different economic systems it would be folly to believe that the competition in the market place as we know it would ever work. Our governments are now waking up to the fact that such practices are slowly eroding the strength of our liner shipping by abusing the freedom of the seas. We think it is about time that something be done about it.

From the other side one frequently hears nowadays that Western countries are hysterical in their warnings about non-commercial competition; that they are looking for a scape-goat for their own "sinful" behaviour after having created a huge glut of ships running after too little cargo. To that is contrasted the very modest share of some 4 % of the world tonnage the USSR presently disposes of. This is all very impressive but quite besides the point. What we are talking about are the liner trades and there the USSR owns one of the largest fleets in the world, second to none. And it is the liner trades, their tactics of skimming off the cream of the traffic, as cross-traders in a particular liner traffic, which worries us because it destabilizes the whole organisation of the liner trades.

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... Incidentally, the Commission

Incidentally, the Commission is not alone in its call for effective action. The European Parliament and the Economic and Social Committee of the Community have urged the Community institutions to act. The U.S. and Japan have acted. Member States have tried to negotiate an accommodation with the USSR; with little or no results so far. Most of them have counter-measure legislation which they could have applied, but only at the expense of driving the traffic to other European ports. Therefore, the only effective action is deemed to be possible at Community level ....

As a first concrete measure the Member States have started monitoring certain liner trades; you are aware that the Council decided that as from the first of January 1979 the Member States will monitor the liner trades between the Community and Central America and between the Community and East-Africa. All liner operators in these trades, whether members of liner conferences or not, are asked to supply regularly information on the establishment, modification or expansion of liner services, the cargo carried and the average freight rates by carrier paid for selected commodities which are important in these trades. I want to emphasize that we regard this Decision as a beginning only.

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... We started with these two

We started with these two fairly uncomplicated trades because we want to gain experience with our information system. Follow-up action is already being studied by my services. We are looking into the question of how national counter-measure legislation can be utilised in common to achieve Community-wide protection against unacceptable levels of penetration by non-commercial practices. I note with satisfaction that the response in the Community and in other Western countries to the Council's Decision has been quite positive; and I understand that others may be getting somewhat uneasy about the increasing momentum of our action. That is our intention. But let me emphasize once again that we are not out for confrontation.

We are ready any time to sit down and resolve our differences at the negotiating table. But in order to do this successfully we must be in a position to show that we are serious about defending our essential interests and are capable of doing so.

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... Mr. Chairman,

Mr. Chairman,

I have tried to summarize for this seminar the most important aspects of our shipping policy work in the international context. Undoubtedly, the other speakers will put forward their particular views on these topics. I am sure this will result in some very lively discussion indeed. And I must congratulate you on your shrewd choice of speakers. Of course, we shall not be able to solve today all the shipping world's ills but discussing them with an open mind and learning to understand the views of others is already a good step in the right direction. I for my part am ready to list, discuss and learn.

Thank you.