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MARITIME CABOTAGE SERVICES: PROSPECTS AND CHALLENGES

This edition of the FAL Bulletin is based on the document entitled “Serie de la CEPAL, RNI, 32: Transporte marítimo regional y de cabotaje en América Latina y el Caribe: el caso de Chile”, which is available on the Internet at www.eclac.cl/transporte/perfil

Information is also included on other subregions based on studies that are currently being prepared.

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Transport and Integration

There are two main reasons for promoting shipping over the road transport option in regional transport and cabotage (carriage within the same country). Firstly, the negative externalities of congestion, pollution and deterioration of highways associated with road transport would be reduced if there was a significant shift in the modal split in favour of maritime transport. Secondly, in many instances maritime transport offers potentially cheaper freight rates than overland or air shipment, and reducing barriers to its use would foster competitiveness in foreign trade and domestic transport, and enhance the economic integration of the countries of Latin America and the Caribbean.

The following points demonstrate that there is real scope for promoting the maritime transport option in regional and domestic transport:

- In many countries in the region, a large number of foreign-registered ships call at more than one domestic port, but are prohibited from taking advantage of these journey to transport cargo between these ports.

- Red tape, administration costs and the low number of regular coastal sailings all contribute to a situation where the vast majority of cabotage is undertaken by road transport.
- The ocean freight charge for a 20 ft container between San Antonio (Chile) and Callao (Peru) is less than that between San Antonio and Iquique (Chile).

Illustration No. 1: It is forbidden to transport cargo between all the ports along this route in a single vessel.



Only Argentine companies may engage in coastal trade in Argentina without special permission, and Chilean companies operating in Chile enjoy the same advantage; companies from either country are prohibited from combining their services to take in the other. In a similar fashion, it is not possible to link up coastal trade services in the various countries that make up the Andean Community.

N.B.: the boundaries and names that appear on this map do not imply official support or acceptance on the part of the United Nations.

Supply and demand

Supply: It is important not to confuse the “national merchant marine” with the supply of international shipping services. In virtually all countries, most cargo involved in foreign trade is shipped on foreign-registered vessels, and national shipping companies derive their income primarily from trade with third countries. For example, Compañía Sudamericana de Vapores (CSAV), the largest shipping company in the Americas in terms of the movement of containers, generates 82.7% of its freight revenues outside of Chile, and transports a mere 5.94% of Chilean trade by volume (figures prepared by ECLAC, based on different sources; 1999 data). In addition to vessels operated by CSAV, 95% are chartered and are not owned by the company (source: Dyna Liners, June 2001).

The total fleet of container ships employed in regular sailings to and from South America - i.e., irrespective of their flag or the country where the company has its head office- comes to 456 vessels with total capacity of 604,765 TEUs, which gives an average of 1,326 TEUs per vessel, nearly all of which have their own cranes. The equivalent figure for Central America,

the Caribbean and Mexico is 302 vessels with total capacity of 584,651 TEUs, giving an average of 1,936 TEUs per vessel. This is almost 50% greater than the average for South America, and is due especially to the ships that cross and put in at the Panama Canal (figures prepared by ECLAC, based on www.ci-online.co.uk, 1 June 2001). Against this backdrop, it is pertinent to remember that the liner shipping routes in Latin America form part of global networks, and that many countries link up to these networks at more than one domestic port.



Illustration No. 2: American President Lines (APL), which is owned by Neptune Orient Lines of Singapore, links Ensenada and Manzanillo (Mexico) with Asia, but is unable to transport containers between these two ports, as coastal trade is reserved

solely for Mexican-registered vessels.

Demand: In Latin America and the Caribbean over the last decade, intraregional trade has expanded at a faster pace than foreign trade in general. Furthermore, the governments of the region have expressed their political willingness in this respect, while there are expectations in view of subregional agreements and the Free Trade Area of the Americas (FTAA) Agreement that intra-Latin American trade will again grow in relative importance.

The main route for movement of cargo by sea in South America is the Argentina-Brazil route, followed by the Brazil-Chile route. It should be pointed out that both routes are currently partially protected from international competition, since, with a few exceptions, ships registered in either of the two countries concerned must be used for bilateral trade.

As for coastal trade, let us look at the example of Chile; there, foreign trade accounts for 75% of port traffic, including cargo in transit form neighbouring countries, with coastal trade responsible for the remaining 25%. Coastal trade's share in sea-borne commerce registered by shipping companies amounts to 14.5%. (Coastal trade's share in shipping is less than its share in port traffic, as each ton of coastal trade goes through two ports, though it counts only once as sea traffic). Of this coastal trade, 56% is liquid bulk and less than 11% is general cargo.

Supply and demand: Taking into account only containerized trade, it can be observed that flows between countries on the same coast are more significant, and this is partly attributable to the fact that they are connected by regular north-south services. The existing supply seems to be generating its own demand; in other words, the supply of regular shipping services exists because of trade between, for instance, Chile and Europe, and as a flow-on, containerized sea-borne trade is also growing between Chile and Peru, as vessels which, for example, connect

San Antonio (Chile) to Ambers (Belgium) also call at Callao (Peru).

Potential improvements

Lower freight rates: Notwithstanding the fact that the distance between San Antonio and Callao is greater than the distance between San Antonio and Iquique, and that the three ports are on the same route and are served by the same international shipping lines, freight rates for a regular service of a 20 ft container are 30% lower in the case of the international shipment. In the case of Venezuelan coastal trade, freight rates have halved since bare-boat charters of foreign vessels -albeit with the continued requirement to use the Venezuelan flag-, were authorised in early 2001.

Greater use of spare capacity: Many ships that offer regular sailings from the ports of Latin America and the Caribbean also call at other ports of the same country, but are prohibited from providing a coastal shipping service. Clearly it is inefficient not to allow this available capacity to be used. Given that a large percentage of the costs of operating a vessel are fixed, and not related to the volumes transported, at the end of the day the shipping company is forced to charge the user more per unit shipped. What this means is that both coastal and international shipping are becoming more expensive.

Improved frequency of service: In Chile, it is estimated that 27 trips are undertaken monthly between the centre and north of Chile in container ships flying a foreign flag, compared to 48 trips between the north and centre. In terms of coastal services, CSAV offers a service every 10 days, while Transmares has a service every 15 days. If it were possible to take advantage of the stopovers made by international vessels, frequency of service could be increased fivefold on the centre-north route, and tenfold on the north-centre route.

Greater competition: Critics of the liberalization of coastal services often cite the risk of monopolistic abuse and dumping by international carriers. Similar arguments were frequently put forward two decades ago when the issue of international cargo preference was being debated. Since this practice was discontinued, the number of companies offering services to Latin American foreign trade has in fact risen, while freight rates over the long term have dropped. In Chile, for example, there are currently only two companies offering regular services for general cargo on the centre-north route, while three companies operate a service to the south. By contrast, there are a total of 23 independent carriers offering international containerized services, the vast majority of which call at more than one Chilean port.

Unnecessary waivers: As a general rule, special permit schemes always run the risk of introducing bureaucratic obstacles and giving public officials and sometimes associations of private firms an unwarranted degree of discretionary authority. It is possible to apply for waivers - special permits issued to transport domestic cargo within in Chile in international vessels - but at the present time they are hardly ever used because the conditions are too strict

and the process too long. In other countries, such as Mexico, a substantial portion of coastal trade is already being conducted using such waivers, which does not fit with the idea that they should be used in special cases.

More sea-borne cargo: If efforts to promote cabotage and improve the integration of domestic transport services and international services are successful, there are likely to be two developments that would help increase the volume of sea-borne cargo carried by the shipping lines of Latin America and the Caribbean. Firstly, foreign trade would be boosted. Secondly, this mode of transport would become more competitive with overland transport. A comparison of cargo transported by truck and coastal shipping on Chile's centre-north route shows that the maritime mode has barely a 6.2% share. Obviously, it would be unrealistic to expect that the mode of transport used to move the majority of this cargo could change from trucks to ships; however, if it were possible to switch just seven percent of the cargo currently moved by road over long distances between central Chile and the northern regions to the sea-borne option, the amount of general cargo carried by coastal shipping would double.

In summary, all the evidence points to the fact that the following are possible: lower freight rates, better use of spare capacity, more frequent services, less need for waivers, greater competition in the market, and greater volumes of sea-borne cargo.

Ways of promoting maritime transport

1. Enhance competitiveness with land-based transport: the negative externalities associated with trucks, which include pollution, noise, congestion and accidents, are far greater than in the case of maritime transport. That notwithstanding, the terms of many highway concessions require concessionaires to maintain a stable ratio between the toll charges for heavy trucks and those for light vehicles; this ratio is typically lower than the difference in the amount of damage caused by the two categories of vehicle. In Chile, for example, the toll paid by trucks on highways operated under concessions is equivalent to only half the cost of wear and tear (US\$0.041 versus US\$0.085 per km for dual-axle trucks, and US\$0.093 versus US\$0.182 for trucks with more than two axles. These figures do not include fuel taxes). In other words, were trucks required to pay the actual cost of the damage they cause to concessioned highways, they would face higher tolls (Ian Thomson, in the CEPAL Review No. 67, April 1999).

Over the long run, transport policy should “seek as its main goal an outcome whereby users, choosing freely in the market from among the various modes of transport, satisfy their own needs, at the same time maximizing the common good or the interests of society at large. This obliges the State to ‘guide’ the decisions of the market, prompting participants to internalize externalities in their decisions.” (Maritime and Port Chamber of Chile, 2001). “Some disturbances occur, as a result of which governments sometimes sacrifice long-term goals in order to be able to ‘put out fires’ in the short term, yielding in the face of concerted pressure by powerful unions, such as the truck drivers’ union, who, in the event of coordinated action, could manage to paralyze a nation.” (Ian Thomson: *El desarrollo institucional del transporte*

en América Latina durante los últimos veinticinco años del siglo veinte, (“*The Institutional Development of Transport in Latin America during the last 25 years of the Twentieth Century*”), ECLAC, March, 2001).

2. Reduce administrative procedures: Many administrative and inspection requirements relating to maritime cabotage are due to the fact that the Authorities make no distinction between domestic movement of cargo and international trade. Checks by the agencies responsible for safety and immigration, the agricultural service, and the police, among others, should be more flexible in the case of cabotage, and possibly also in the case of trade with countries that form part of the same economic bloc.

3. Treat feeder services differently from cabotage: From the shipper’s point of view, it is irrelevant whether his cargo is trans-shipped at a domestic or foreign port. It is even possible that he does not know if or where transshipment is taking place. At the present point in time, the port of Montevideo is benefiting from restrictions in Argentina, the Bahamas attends to feeder services to the United States, and ports in the Caribbean act as a regional hub for cargo from Venezuela.



Illustration No. 3: Maersk-Sealand operates its feeder service to Argentina via Montevideo in Uruguay, in order to be able to use international vessels.

4. Abandon bilateral agreements. Currently, the most significant bilateral agreements in Latin America and the Caribbean are those that protect trade between Argentina and Brazil, and between Brazil and Chile. With exceptions, they reserve half of bilateral sea-borne trade for vessels registered in one of these countries. The European Union explicitly prohibits its members from enacting such agreements. At the current time, vessels registered in Argentina or Brazil may offer international services between, say, Canada and the United Kingdom, while a locally-registered Canadian shipping company cannot do the same between Argentina and Brazil. It is probably only a question of time before international pressure forces Argentina, Brazil and Chile too to terminate these agreements.

5. Enact a regional agreement based on reciprocity. In the European Union, all international trade, i.e. including trade conducted between two Member States, is open to free international competition (Regulation No. 4055/86). Cabotage is open to all shipping companies of Member States, with the main restrictions concerning vessels of under 650 Gross Registered

Tonnage (GRT) and shipping connecting islands in Spain and Greece (Regulation No. 3577/92). This agreement, based on reciprocity, extends the protected market for European Union shipowners, as cabotage continues to be protected from competition from vessels flying non-EU flags. Only shipping companies from the EU are allowed to combine international services with cabotage services. As a result, they are able to achieve economies of scale, which then also enable them to be more competitive in the international non-EU environment. Were any Latin American grouping, whether LAIA, the Andean Community, Mercosur, or South America, to conclude a similar agreement to that of the European Union, it would clearly be a “win-win” situation for the region. First of all, there would be more transport options for the user. And secondly, as regards shipping between countries in the same bloc, the shipping companies covered by the regional agreement would be able to move both coastal and international cargo on the same route, while companies from outside the region would not.

6. Use international regular services for coastal trade. In addition to the regional agreement in force in the European Union, individual EU countries are permitted to completely free up their cabotage trade. Ireland, the Netherlands and the United Kingdom have chosen to do so. In these countries, with limited exceptions, all cabotage services are open to international competition. The writer of this edition of the FAL Bulletin personally worked as a sailor on a ship registered in Antigua and Barbuda engaged in coastal trade between Portsmouth and Harwich (United Kingdom).

Conclusions

As things stand, a company or consortium is still prohibited from, say, connecting on a single service Fortaleza and Rio Grande (Brazil), Buenos Aires and Bahía Blanca (Argentina), Valparaíso and Punta Arenas (Chile), and at the same time the three countries among themselves. This situation is not efficient. Stated differently, instead of having, for example, four or five independent services -three cabotage and one or two international- that do not compete with one another, it would be cheaper to maintain a smaller number of services which at the same time provide the user with a larger number of options.

The economic competitiveness of Latin America and the Caribbean is vital to the economic and social development of the region, and efficient transport services are essential if greater competitiveness is to be achieved. As far as exports are concerned, the cost of transport plays a more important role than customs duties in the country of destination. This direct impact aside, transport services are also increasingly important during production processes. Not only final products, but also intermediate goods, are shipped. One of the defining characteristics of globalization is that final products are manufactured in more than one country, necessitating safe, economical and often “just-in-time” delivery of raw materials and intermediate goods sourced from abroad. Any obstacle to the integration of production processes in Latin America becomes a direct obstacle to the competitiveness of its economies. The restrictions placed on regional and domestic maritime transport are one such obstacle.