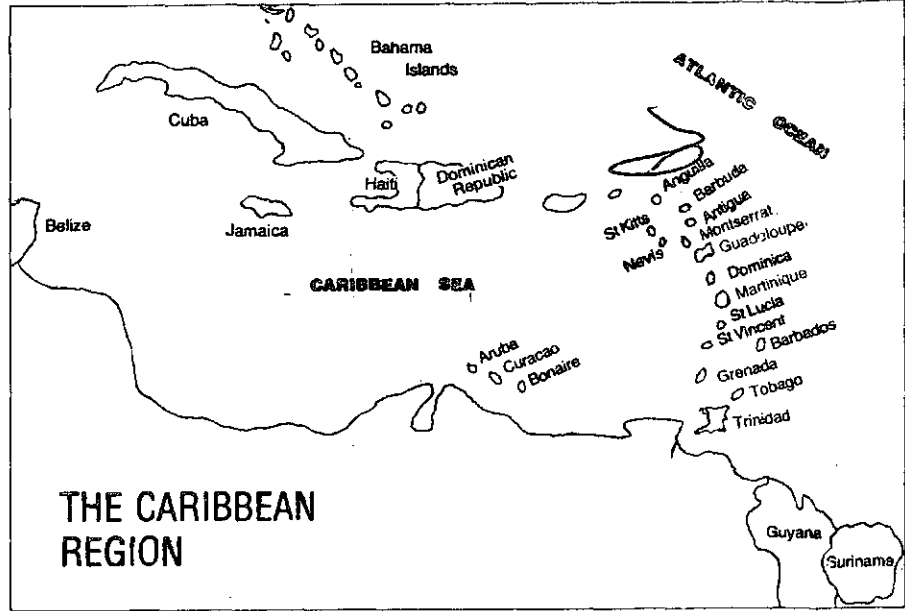
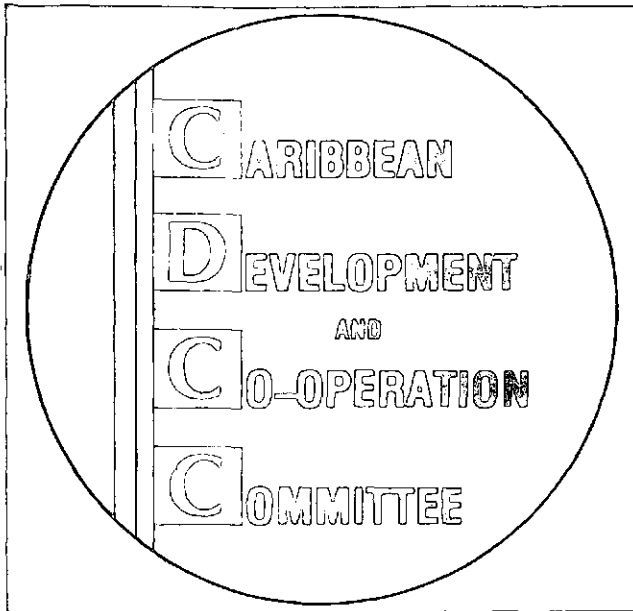


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D R A F T

THE CARIBBEAN SHIPPING SECTOR*: A PLANNING
 AND POLICY PERSPECTIVE

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*In this paper the Caribbean refers to English-speaking countries
 of the region.



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D R A F T

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Traditional trade models ascribed a neutral role to the transport factor in the development of international trade. Empirical evidence has invalidated this hypothesis. Studies on non-tariff barriers to the exports of the developing world have identified shipping cost as a significant non neutral factor in the formation of international prices. Consequently, there has been some recent attempts to extend the basic trade model to explicitly include a transportation sector.^{1/} A recent study on the movement of shipping cost in the developing world over the period 1965-74 concluded rather disturbingly that "the increase in the nominal shipping cost has cancelled out some of the benefits accruing from multi-lateral negotiations on international trade".^{2/} This study goes on to argue that while declining transport costs induced the development of periphery economies in the 19th century, this process was not repeated in the events over the period 1938-74. Developing countries are expected to face rising shipping costs in the future.

The incidence of rising shipping costs may be even greater in the Caribbean region. The geo-economic location of the region, and the structural openness and inherent dependence of the Caribbean economy do not insulate the region from rising shipping costs. In addition, a large part of the development effort in the area calls for greater penetration

^{1/} See for example Cassing, (2) and Falvey, (3) and (4).

^{2/} Olechowski and Yeats, (1) p. 263.

*In this paper the Caribbean refers to English-speaking countries of the region.

of export markets and dependence on import markets for traditional imports and more raw material sources, which will make further demands on the existing shipping services. Technological changes in the shipping world may produce a level of cost that cannot be efficiently absorbed through the scale economies prevailing in the region.

In these circumstances the market forces cannot be relied upon to produce a socially optimum allocation and distribution of resources for the shipping sector. These factors underline the need for a clear focus on shipping policy. In these circumstances the market prices cannot be relied upon to produce a socially optimum allocation and distribution of resources for the shipping sector. These factors underline the need for a clear focus on shipping policy.

Features of the Caribbean Shipping Economy

Traffic: The international ocean freight traffic in the Caribbean is concentrated on specific trade routes which have remained largely unaltered even during the post independence period.^{3/} Export and import cargoes are not in balance. In addition, the characteristics of export freight differ from those of imports. This in turn makes for differences in the respective transport markets and freight structures. A large part of the Caribbean exports are of a bulk commodity nature and utilizes tramp-like vessels. On the other hand, imports are mainly manufactured goods transported by regular liners. Freight rates for export commodities are subject to

^{3/} It has been estimated that over 75% of Caricom imports of general cargo and 40% of Exports are with the USA, Canada and Western Europe. 40% of the several cargo exports are intra-regional.

fluctuations which are caused by changes in the demand for the products themselves and by the low elasticity of the supply of ships. Import freights are generally established through the liner conference system.

Firms: In the operating environment, firms face "a structure and level of cost that are determined by forces largely outside the region's control. The cost of acquisition of vessels, the cost of chartering vessels, insurance and fuel costs, the cost of port equipment and in general the cost of technological changes are all determined thru the interplay of international market forces".^{4/} This feature reinforces the cost dependency of the region. On the revenue side, shipping firms find their rate earning capacity to be constrained by local economic factors like the level of income, cost of living, and what the market will bear. International carriers do not however face the full effect of this constraint, as the foreign part of their tariff are exogeneously determined, while the local part is largely influenced by non competing considerations.

Links: In the Caribbean environment, extra regional links are more developed than intra-regional links. This is due partly to the history of the region but has been reinforced by the existence of unchanging commercial forces. An internal transport network would only be commercially viable on a self sustaining

^{4/} Dookeran (7).

basis if it were to extend to the external network or employ cargo reservation techniques within the region's economy. Since neither of these two measures were employed (there is strong international opposition to both approaches), intra-regional links developed in a slow and almost haphazard manner. Also, the intra-regional carriers (both sea and air) were charged primarily with a service function and were called upon to discharge a social responsibility to the region.

Service: Shipping services for general cargo could be categorized into three groupings: external lines, regional lines and small vessel shipping. All of the external trade are carried by external lines. Some of the external lines are Columbus Line, Geest Line, Sea Land, Sea Train, Saguenay and Carol (Caribbean Overseas Line). Recently, nationally owned lines (Jamaica Merchant Marine, Guybulk Shipping Corporation) have entered the trade and are currently moving externally bound cargo. The major regional line is the West Indies Shipping Corporation (WISCO) which has traditionally operated a general cargo service within the region. Recently, WISCO has extended its service to Miami. NAMUCAR is another shipping line owned by Governments of the Caribbean Basin and serves the Caribbean and Central America. A large part of the small vessel trade takes place in the southern half of the Eastern Caribbean. The small vessel sector is very important to the region's economy. Apart from its contribution to saving foreign exchange, generating income, moving goods, and employing sea-faring personnel, this sector provides the main forum for developing entrepreneurial qualities in this field for the people of the Caribbean.^{5/}

^{5/} For further information see AMB (15).

Institutions: The major public Institution is the Standing Committee of Ministers responsible for Transportation which was established in 1975 and succeeded the Regional Shipping Council which came into being in 1962 at the dissolution of the West Indies Federation. The Caribbean Shipping Association is a grouping of shipowners interest and has been a major forum for public discussion of shipping matters. Attempts to form Shippers Councils have not been very successful. In this regard, Export Corporations expect to play an important role in protecting the shipper's interest.

Conferences: There are many liner conferences operating in the region. The most important is the Association of West Indian Trans-Atlantic Steamship Lines (WITASS). WITASS has been in operation since 1896 and represents 33 shipping lines, 5 associated lines and 21 different nationalities. Its services cover more than 100 ports in Europe and about 120 in the Caribbean and Latin American countries. Other conferences include US Atlantic and Gulf Jamaica conference, Japan/Latin American Conference, Brazil/Caribbean/Brazil Freight Conference and US Atlantic/Leeward and Windward Islands Conference.

Legislation: There is no uniform legislation in the Caribbean governing maritime affairs although this has been on the agenda of the Standing Committee for a number of years. The most significant legislation in the area is the recently enacted Jamaica Cargo Preference Act

which provides cargo preference in favour of the Jamaica Merchant Marine. The existing legal framework is an open one rendering the Caribbean environment totally dependent on external legal constraints and conditions.

National
Shipping
Lines:

State owned shipping companies in the region include Guybulk Shipping Limited, Transport and Harbour Shipping (Guyana), Jamaica Merchant Marine-Atlantic Line Ltd., Puerto Rico Maritime Shipping Authority (PRMSA), West Indies Shipping Corporation (WISCO), NAMUCAR (Naviera Multinacional del Caribe) and the Shipping Corporation of Trinidad and Tobago (SCOTT). SCOTT however is not in operation.

Historically, the shipowners have played an important role in forming the shipping environment in the Caribbean region. In many cases, agents who represent the shipowner's interest (i.e. for external lines) were also large exporters and importers. As such, external lines were partially vertically integrated into large local plantation conglomerates. This feature is peculiar to the region and may partly explain the difficulty of forming effective Shipper's Councils in the region. Within recent times, the public sector has shown a major interest in influencing the Caribbean Maritime environment. The main vehicle used by the public sector for increasing its influence in the shipping world of the Caribbean has been thru the establishment of national shipping lines in joint venture arrangements with foreign firms. In addition, there have been attempts to effect consultation procedures with the Conference system. Attempts to establish consultative machinery have met with little success^{6/}. Cargo reservation practices have not been employed

^{6/} In 1969 the Eastern Caribbean Consultative Committee was established. WITASS refused to cooperate and the Committee did not receive sufficient inputs from interested private and public sector organizations. Although there have been many attempts to revive the idea of "consultation" since that time, there have been no meaningful results.

in any significant way.

A Framework for Analysis

Planning and policy analysis requires an identification of the goals, the selection of means to achieve these goals and the development of an organic process that generates appropriate directional impulses. Too often the planning exercise identifies the goals and the means that may be used to achieve these goals and leaves the mechanics of change, the process by which change will take place, largely untouched. For instance, to merely state that the establishment of a regional shipping network is desirable and to provide a planned programme for resource use will not be enough if the commercial forces operating in the environment lead towards opposite goals. A key to planning in the shipping sector, as indeed to other sectors of the economy is to concentrate on generating appropriate directional forces that would be consistent with the programme of action.

Like the rest of the economy, the shipping sector of the Caribbean is characterized by an open dependency relationship. The nature and degree of this dependency constrains the policy choices that are open to positively influence the economic environment. The limit of policy prescriptions will depend on the extent to which exogeneous factors could be endogenized. In situations where this is not possible, policy and planning measures may attempt to contain the adverse impacts of structurally exogeneous factors.

The distribution system of which the shipping sector is a part lubricates the production structure and the consumption pattern in the economy. There is an interactive process among the distribution system, the production structure and consumption pattern. The distribution system mirrors the production structure and consumption patterns existing in the economy and at the same time provides the basis upon which the

production structure is built and the consumption pattern is formed. This is seminal to the understanding of the economics of change. The distribution system, the production structure and the consumption pattern are cumulatively self-reinforcing.

This framework leads to two approaches to policy formulation: the aggregate approach and the incremental approach. The aggregate approach focuses on the interactive processes, the cause effect relationship and may result in a multi-faceted policy approach. The incremental approach is directed to responses to contest specific situations. Ideally, the incremental measures should be integrated into the aggregate programme of action. In general, there has been a variance between micro economic efficiency and social efficiency in the methodology for transportation planning in the Caribbean region.^{7/}

Planning and Policy Issues in the Caribbean Shipping Sector

In the context of the framework for analysis as outlined above public policy initiatives in the shipping field during the last decade have been of an incremental nature. The following major policy interventions were employed during the period in the region:

- i) A planned programme of investment was agreed to so as to expand the intra-regional shipping service. (WISCO).
- ii) National shipping lines were established. (Jamaica, Guyana, Trinidad). In addition, Jamaica and Trinidad became full members of the Multinational Shipping Corporation of the Caribbean (NAMUCAR) which was formally established in May 1975 by Costa Rica, Cuba, Jamaica, Nicaragua, Mexico and Venezuela.
- iii) There were attempts to set up Consultative Machinery between Regional Governments and the Conference System (Caricom).

^{7/} For a full discussion of this point see Dookeran (5).

- iv) Caribbean Governments established the Standing Committee of Ministers responsible for Transportation (Caricom).
- v) There were attempts to set up Shippers Councils so as to increase the bargaining position of Shippers (Jamaica).
- vi) Legislation was enacted to encourage cargo reservation practices (Jamaica).
- vii) There were discussions on a proposal for the establishment of a Caribbean Shipping Corporation (Trinidad).
- viii) Numerous technical reports on the provision of training facilities for all levels of shipping expertise were reviewed.

These policy interventions on the part of Caribbean Governments fall into the categorization of "incremental" as they were measured responses to contest specific situations. The geopolitical situation of the Caribbean did not encourage a common extra regional policy towards international shipping. In fact, it is somewhat paradoxical that the establishment of a Standing Committee of Caricom Transport Ministers came at the same time when a new wave of subnationalism rolled on the Caribbean scene. The situation manifested itself in independent action by each Government on the question of extra regional shipping and in some instances also with regard to intra-regional shipping.

In general, the focus of public policy in the shipping sector has been in terms of accommodation to developments in the world shipping economy. Frequent increases in freight rates led to the establishment of a Consultative Machinery and to suggestions and attempts to form Shippers' Councils. The expansion of the intra-regional shipping service was meant to provide feeder capacity that will be required to serve the extra regional shipping network, oblivious that such a feeder system would structurally be not financially viable in the current environment. The establishment of

national shipping lines were partly in parallel to such developments among large developing countries (India, Nigeria, Brazil, Mexico) and partly a result of the changing fortunes of international carriers. These public interventions in the shipping sector were of an incremental nature and provided a "visibility content" to Caribbean shipping measures without affecting the direction of commercial forces existing in the region.

The Need for Policy Reappraisal

The Caribbean region will face an increasing demand for shipping services and if the economies were to expand this demand would increase even further. Secondly, the rise in the cost of shipping will adversely affect the terms of trade which are already deteriorating in response to falling export prices and rising import prices. World protectionist policies^{8/} may reinforce these trends. Thirdly the international nature of the shipping industry and the openness of the Caribbean economy almost make transport technology an exogeneous factor in the planning process. In a dynamic sense, high technology levels may consume larger quantities of resources and in the absence of scale operations yield a proportionally lower output. This implies that there must either be a lower level of technology or an increase in the scale of operations, otherwise the balance between resources used and macro benefits may not be achieved.

In light of these considerations, there is need to develop a methodology for a policy reappraisal and the evolvement of a new planning perspective in the maritime economy. In this methodology, a clear distinction between the short and long term must be made. As was pointed out by Sturme^{9/}y "in the short

^{8/} Protectionism embodies several facets including subsidies (constitution, operation, financing), bilateralism, flag discrimination (cargo reservation), coastal trade reservation, UNCTAD code (40/20/20 principle) and national monopolies.

^{9/} Sturme^y (8) p. 202.

run the responsiveness of total international trade to changes in transport costs is quite low because it is generally only goods with inelastic demands for which carriage constitutes a large part of total cost. In the long term falling costs of carriage are a significant factor in increasing trade." In addition, changes in the structure of shipping (vessel type, routes, commodity carried etc.) takes time. During this period, immediate measures are necessary to protect and improve the terms of trade.

A second aspect of the methodology will be to examine shipping priorities in terms of other factors that may affect the terms of trade. There may be a high trade off between heavy capital investment in shipping and the removal of tariff and other non-tariff barriers (or higher export prices/lower import prices). The possibilities for such a trade-off must be explicitly measured, and a program of complementary action developed. Included in the action plan must be measures on tariff and non-tariff barriers to trade, fiscal measures and retaliatory responses by affected countries and parties.

A third aspect of the methodology is to integrate shipping policy with development of trade policy so as to plan in unison and within a policy reinforcing framework. A recent example of the absence of such a synchronization mechanism is the decision of some countries to join NAMUCAR without effective trade promotion policies which will ensure new trading opportunities and greater use of the NAMUCAR services. This has meant that the anticipated benefits to be accrued by such membership did not materialize.

A fourth aspect of the methodology is to separate the endogeneous factors from the exogeneous factors and develop adjustment mechanisms that will maximize the net social benefit to the regional economy. In this regard, it is

somewhat paradoxical that in spite of the political geography of the region which makes ocean and coastal shipping a principal mode of transport, there has been little evidence of a maritime tradition among the peoples of the area. The development of human skills remains still an exogeneous factor that could be easily endogenized. In this context, the linkage effect of shipping must also be examined.

Shipping policy reappraisal must take into account the distinction between short and long term measures, the complementarity of action programmes between shipping and non-shipping measures, the integration of trade, shipping and development policies and the endogenizing of exogeneous factors wherever appropriate. Such a reappraisal scheme may be more appropriate if pursued in a regional context consistent with the global aspirations of the developing world.

Factors in Planning Perspectives

The most important factor in developing a planning perspective for the future is the drive for national shipping. A large part of the current north-south dialogue is pre-empted by the recognition that developing countries should share more equitably in world commerce. It has been argued that the development of national fleets is one way to move in this direction. The drive for national shipping fleets is partly in response to recurring complaints against the conference system by the developing countries. While developing countries export 60% of sea borne cargo by tonnage, they own only about 8% of world tonnage. Some of the arguments against the conference system are itemized as follows:

- major decisions on shipping services and freight rates are made by conferences accountable only to their members and are inimical to the interest of the national economy.
- liner rates are not subject to free bargaining between carrier and shipper.

- the conference system encourages collusion on price fixing and discriminatory competition to non-conference operators, including "closed shop" admission rules.
- the conference system is based on cross subsidization where freight revenue from the developing world supplements the freight revenue in the more advanced countries based on a ton mile measurement.

These arguments are reinforced by positive arguments for the development of national fleets. Some of these arguments are as follows:

- national fleets may improve the balance of payments either through savings on foreign exchange or foreign exchange earnings especially on cross trades.
- national fleets may earn income directly or via linkage effects in other sectors of the economy.
- national fleets may provide diversification of employment opportunities and generate entrepreneurial qualities in shipping.
- national fleets reduce economic dependence on other nations and provide a security of service even in periods of unusual disruptions.
- national fleets may more effectively influence shipping conferences and the level and structure of freight rates.
- national fleets may be used to promote exports and foster economic integration movements.

A second factor for the planning perspective for the future is the introduction of the Code of Conduct for Liner Shipping. This has not yet received sufficient international support to bring it into operation. The basic objectives of

the Code are, as expressed by UNCTAD^{10/} are:

- "(a) The objective to facilitate the orderly expansion of world seaborne trade;
- (b) The objective to stimulate the development of regular and efficient liner services adequate to the requirements of trade concerned;
- (c) The objective to ensure a balance of interests between suppliers and users of liner shipping services;
- (d) The principle that conference practices should not involve any discrimination against the shipowners or shippers of the foreign trade of any country;
- (e) The principle that conferences hold meaningful consultations with shippers' organisations, shippers' representatives and shippers on matters of common interest, with, upon request, the participation of appropriate authorities;
- (f) The principle that conferences should make available to interested parties pertinent information about their activities which are relevant to those parties and should furnish meaningful information on those activities".

The Code provides for a 40:40:20 formula which is in conflict with the philosophy of liner shipping as it has evolved. It gives the trading partners the carriage of 40% of their trade, leaving 20% for third flag operators. Several traditional Maritime states have not found this proposition acceptable. At the UNCTAD 5 meeting in Manila it was proposed that the cargo sharing principle be extended to bulk shipping and that Flag of convenience shipping should be phased out.

A third factor in the planning perspective is the crucial need to reduce the cost of shipping in the short and long run. This factor is related to the development of national fleets and the adherence to the Code of Conduct. The Code of Conduct enunciates an environmental framework within which national fleets may expand and operate at higher levels of viability. This does not necessarily

^{10/} UNCTAD (14).

mean that the cost of shipping may reduce commensurately.

There are provisions within the Code which may allow for more accountability by ship operators to national governments. It is unlikely that these measures would significantly reduce the cost of shipping. The form of technology, the economic exploitation of scale considerations, the adequacy of infra-structural facilities, the level of shipping expertise and the industrial climate prevailing in the shipping sector are all important factors that would influence the level of cost in the shipping sector. The planning perspective must harmonize the internal and external factors as they affect the cost of shipping to the region.

Conclusion

Control of the Caribbean Shipping Sector is today largely outside the influence of the national or regional economy. It is still too early to say whether the UN Code of Conduct, and the development of National Shipping lines in the region will form the basis for reducing the shipping dependency in the region and the prospects for independent action by the region. A policy reappraisal requires the development of a methodology that incorporates the short and long terms perspective, the reordering of priorities in terms of shipping and other terms of trade factors, the integration of shipping, trade and development policy and the separation of the endogeneous and exogeneous factors in the Caribbean shipping environment. A planning perspective may take these factors into account and in the context of the peculiar features of the Caribbean shipping sector provide a framework within which private and public policy decisions in shipping may be both evaluated and effected.



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