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ECONOMIC COMMISSION FOR LATIN AMERICA
Office for the Caribbean

NOTE ON
ORGANIZATION OF
INTER-ISLAND SHIPPING SERVICE
IN THE
CARIFTA AREA

ORGANIZATION OF INTER-ISLAND
SHIPPING SERVICES IN THE CARIFTA AREA

Transport has a dual role in the life of a country. It is at the same time an instrument of economic development and an industry in its own right. Which of these two characteristics predominates depends on political, economic, social and industrial conditions and requirements. While in the CARIFTA region, shipping must now assume predominantly a role as trade promoter, the commercial aspects of its operations must not be neglected if wasteful investment of scarce resources is to be avoided.

2. Efficient economic and adequate inter-island shipping services is an indispensable tool in the development of the countries in the region, and in furthering the process of economic integration. Such shipping services should provide facilities for transport of both overseas trans-shipment cargo and domestic cargo. If these two fields of operations are segregated, a clash of interests could easily develop.

3. To properly achieve its role, the regional inter-island shipping services must be integrated into the framework of new policies, and should be under the overall direction of the area Governments. The nucleus for such an organization already exist in the Regional Shipping Council, and in the West Indies Shipping Corporation.

4. The recent decision by the Governments, acting through the West Indies Shipping Council, to reorganize these operations, provides an opportunity to examine the possibilities of a more permanent basis for operations, that would accord with the aspirations of the countries in the region.

5. In order to achieve the desired objectives, it appears that close co-operation with interested overseas shipowners is a prime requisite, and, in fact, a substance of the proposal. Such a co-operation would contain the element of

- (a) obtaining trans-shipment cargoes;
- (b) obtaining the expertise for the establishment of a shipping company.

This can be best achieved by the overseas shipowners equity participation, possibly by a provision of a ship, and by their active participation in the management of the Corporation.

Some Relevant Considerations

6. The Federal ships are already carrying a certain amount of trans-shipment cargo, particularly ex Bridgetown and Port of Spain. These trans-shipments will gradually increase, as a result of the advance of shipping technology, which make it increasingly costly for the ever larger and faster ocean-going vessels to call direct at small ports. Already it is recognised that it would be less costly to trans-ship cargo carried by these ships in pallets, containers and all the other forms of cargo unitization.

7. This situation is recognized by the majority of overseas shipping companies, and many of them have thought in terms of organizing their own feeder shipping services. Messrs. Bookers Limited have already commenced such service to the north-eastern Caribbean islands. Recently the Saguenay Shipping Company, in conjunction with the KNSM, made efforts to combine plans of individual overseas shipping companies and had some preliminary talks with a major Norwegian owner who was to perform such services on behalf of the above two organizations and any others which might agree to join.

8. The present situation is such that the shipping companies cannot agree on a joint action although there is a general feeling that no one long-haul carrier can establish an effective inter-island system of his own. They also agree that such inter-island feeder services must be organized as an adequate, efficient and economic consortium. The final result of the situation seems to be that these services can be organized only by an organization which is completely detached from the individual overseas companies interests.

9. One of the choices open, and possibly one to which some of the shipping companies, such as the Saguenay and the KNSM, will give sympathetic consideration, would be to reorganize the West Indian Shipping Corporation in a way by which it could perform both tasks, i.e. feeder services for overseas shipping companies and the carriage of CARIFTA area products. Such a proposal would require an agreement of both sides, i.e. the Regional Shipping Council as well as the overseas shipping companies.

10. It must immediately be stressed that under the existing managerial arrangements, the Corporation could not develop as an independent shipping firm based on commercial criteria, and able to perform the tasks within CARIFTA. The decision to detach the Corporation from the tutelage of Furness Withy is therefore, in principle, a step in the right direction not only for political, but predominantly for economic considerations. Having reached agreement in this respect, the important step is to find ways and means by which a viable shipping venture could be created.

11. Basic conditions which must be provided in order to assure the viability of a CARIFTA regional shipping organization to provide these services are:

- (a) modern cargo-vessels suitable for the inter-island and overseas (trans-shipment) trade;
- (b) technical and industrial port facilities geared to assure economic cargo handling methods;
- (c) managerial structure of the Corporation based on commercial criteria.

Suitability of Vessels

12. For many reasons it is quite clear that the two Federal ships are not suitable. The passenger-cargo combination is not a suitable one for the Caribbean trade and these two types of operations should be completely separated. There is, however, a difficulty in disposing of these ships. In terms of alternatives elsewhere they are probably unemployable, and their present scrap value is only in the vicinity of US\$70,000 each. Because of this they (or preferably only the Federal Maple) may be retained in the service as passenger ships. With carefully revised itineraries and with improvements both in respect of cabin class and deck passenger accommodation, they could possibly be employed. The Federal ships could eventually serve only the Eastern Caribbean, north of Trinidad and should co-operate closely as far as Jamaica and Guyana is concerned with the BWIA.

13. An estimate of suitable itineraries and pro forma voyage accounts will be worked out shortly. In addition to passengers, it is envisaged that the ships would carry refrigerated and some other special cargoes including mail. There is no doubt, however, that the tourist potential

in the area is quite considerable and with its present rate of growth could support a modern passenger ship as well as the deck passengers.

14. The carriage of cargo is far more complicated. Here we would need carefully designed ships which would incorporate modern navigational and automatic devices and cargo handling methods geared to handle unitized cargo and be equipped with side ports to enable them to handle cargo by fork-lifts. Such ships are expensive to build, although the financial terms granted by major overseas shipyards can be obtained usually at 20% deposit and repayment in 16 half-yearly instalments at $5\frac{1}{2}\%$ interest. Preliminary estimates suggest that the supply of cargo should be able to make such a service viable.

15. A start could be made with bareboat charters of cargo ships for which a monthly rental would be paid. It is doubtful, however, that suitable ships could be found on the market. It would be advisable for orders for new buildings to be placed at an early stage, especially as it appears from preliminary investigations that the trade could support initially two ships and that their cargo carrying capacity could be in the vicinity of 2,000 freight tons each.

Some Implications

16. Cargo handling facilities: Adequate and economic cargo trans-shipment facilities will have to be worked out. At this stage it should be mentioned, however, that ways towards reduction of cargo handling costs in Port of Spain and certain other ports must be found. In addition to the introduction of large scale cargo unitization, it is felt that all cargo handling services in Port of Spain should be in the hands of the Port Authority in order to avoid costly fragmentation and to achieve the economies of scale. Similar

arrangements will have to be made in other trans-shipment ports.

17. Freight rates: The inter-island domestic cargo is carried by WISS Corporation boats and by a number of usually small crafts operating at very competitive freight rates. With the Federal ships the Corporation provides a service at freight rates which for the several main commodities are uneconomical and in some cases do not even cover stevedoring costs. Generally operational costs are high because the ships are not suited for modern cargo handling methods, and because their overhead costs are very high. For these reasons losses are unavoidable and have to be covered by subsidy contributions of the CARIFTA Governments.

18. Preliminary study of freight rates tariff gives an impression that it is not sufficiently related to the transport and terminal costs, and in spite of this does not take sufficient account of the principle of charging "what the traffic can bear". A revision of the freight rate tariff seems to be necessary and as it appears that in respect of several commodities where the rates are low in relation to the value, they could be increased without a marked effect on the flow of cargo.

19. The new service would demand that tariff rates for domestic cargo should be related to their structure and level to the freight rates for trans-shipment cargo. They be related too whenever possible, to the transportation costs; and wherever for developmental policy purposes lower freight rates are required, these should be subsidized commodity-wise. In other words, it is strongly suggested that the present across-the-board subsidy arrangements be substituted by subsidies for commodities essential for economic development, particularly

in the Associated States. It is quite conceivable that such methods would eliminate many anomalies and will save quite a lot of taxpayers money.

The Corporation

20. In its new role the Corporation must operate as a shipping company directing commercial affairs, under the policy guidance provided by the Council. It is also suggested that the present structure of the Corporation should be revised by limiting the membership to representatives of the governments and of port authorities, as well as by inviting to join few top level men from overseas shipping companies operating in the Caribbean. In this way the Corporation would be able to comply with the governmental requirements and at the same time rely on the expertise and knowledge of overseas shipowners in order to provide a guarantee that the services provided will fully meet the modern cargo shipping requirements.

21. The executive should be vested in the general manager responsible to the Corporation. As it would be necessary for political reasons that he and his staff be citizens of member states of CARIFTA and as it is realised that it would be extremely difficult (if not impossible) to find men experienced in running a shipping company, under such a restraint, it is also recommended that the general manager be assisted for the first few years by a team of experts comprising managerial, economic and cost accounting, and technical experts. Such experts could be provided either by the UN or by overseas governments as technical aid.

Consultations

22. In order to decide on ways and means by which the Corporation could be established as an effective shipping firm capable of efficient and economic operations, a meeting will be held in Port of Spain commencing on Saturday 22 February 1969, at 9.00 a.m. The participants will be on the one hand, the Chairman of the Regional Shipping Council and any other Council members who would be able to attend, assisted by Governmental and international (UN) experts; and, on the other hand, heads of these shipping companies who have indicated their interest in the organization of feeder services. While it is intended that the Corporation will perform these duties as a common carrier and that the feeder services offered would be open at equal terms to any overseas shipping company, it would be a tactical error to invite at this very early stage shipowners who could be a priori critically or negatively disposed to the plan as presented to the Chairman of the Regional Shipping Council on 22 January 1969.

23. It is understood that as at present the following shipping personalities, being aware of the proposals, have expressed their willingness to participate in the preliminary discussions and in consequence should be invited by the Chairman to attend:

Mr. John L. Eyre, President, Saguenay Shipping Limited
Mr. Martin C. Kieft, Managing Director, KNSM
Mr. M. Nicholson, Chairman, Booker Line Limited.

24. It should be noted at this point that there is a difference of approach between these three companies. While the representatives of the first two rather agree to organize independent feeder services, Messrs. Bookers Limited have already commenced own feeder operations.

It is thought, however, that this could provide an opportunity for co-operation either in the form of a joint service or equity participation:

25. While the character of the meeting commencing on 22 February should take rather the form of a friendly ventilation of difficult problems, it would be equally essential to reach an agreement in principle on the basic problems which agreement should then be open for accession of any other, British, German, Japanese, etc., shipping companies operating to and from the Caribbean Basin. Consequently, it is proposed that the agenda should stipulate discussions in the following order:

- (a) organization of the Corporation;
- (b) acquisition of tonnage;
- (c) terminal arrangements;
- (d) the level and structure of inter-island and overseas freight rates, including promotional rates.

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