

Krause, Gerhard

Article — Digitized Version

Freight Rates and Liner Conferences

Intereconomics

Suggested Citation: Krause, Gerhard (1969) : Freight Rates and Liner Conferences, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 04, Iss. 8, pp. 249-252, <https://doi.org/10.1007/BF02930188>

This Version is available at:

<https://hdl.handle.net/10419/138242>

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.

Freight Rates and Liner Conferences

by Dr Gerhard Krause, Hamburg

At the Second Session of the United Nations Trade and Development Conference held in New Delhi from 1st February to 29th March 1968 (UNCTAD II), a Fourth Committee was established for consideration of item 13 of the Conference agenda. Under the heading "Problems of developing countries in regard to invisibles including shipping" mainly maritime subjects were listed, one of which was "Level and structure of freight rates, conference practices and adequacy of shipping services — progress report on studies by the secretariat".

Basic Research Work

In its Progress Report to the Fourth Committee the secretariat gave a preliminary outline of its research work. At that time several studies were in the process of preparation. All the more was it interesting what the report said about outside activities sponsored or recognised by the secretariat, mainly country studies. These were one on "Liner Shipping in India's Overseas Trade", prepared by Mr T. K. Saragan, Deputy Director General of Shipping, by arrangement with the Government of India, and a second one on "The West African Shipping Range", prepared by Mr Dag Tresselt, of the Institute of Shipping Research, Bergen, Norway. Another on the cost of ocean transport and the trade of developing Asia was being carried out by arrangement with the Department of Applied Economics of the University of Cambridge. Other studies in progress included one on Australian shipping, which was hoped to be ready in 1968, and again others on the Latin American region, which were being carried out in co-operation with the secretariat of the Economic Commission for Latin America (ECLA). So far only the two first-named studies have been published.

A special contribution to the discussion in the Fourth Committee was the expertise on the feasibility of freight rate indices written by an experienced London shipping statistician; it will be dealt with below.

Under the circumstances one could have expected that the Fourth Committee agreed to defer a full discussion of the intricate rate problems and of the conference matters connected with them at a time when the studies the secretariat had embarked on were available. However (as already indicated by the language of the Charter of Algiers) rate making and the machinery for it in the tradition of the established conferences inevitably became again a subject of discussion during which the views already known were repeated. As was recorded in the report of the Fourth Committee to the Conference: "Although generally agreeing that full reports on the subject would facilitate discussion, representatives expressed different views on the question whether action should await the secretariat's reports."

For the market-economy countries, more than ever before, the New Delhi discussions carried a twofold difficulty. While holding that liner conferences are of economic necessity for all areas within a given liner trade, these countries agreed that conferences should endeavour to get adjusted to modern standards, thus also improving their "image" and gaining the confidence they generally deserve. The other and greater difficulty is that the governments, even of states with a special legislation on conferences, do not normally intervene with the conference activities and, therefore, cannot commit themselves to "put pressure" on these bodies.

Compromise on Freight Rates

Like in other international organisations, at the end of discussions in UNCTAD committees some members introduce draft resolutions. Then in a smaller contact or negotiating group attempts have to be made in order to find compromise language making the acceptance possible to as many members as can agree. On freight rates, after lengthy negotiations, a wording submitted by Chile, the UK and the USSR was unanimously adopted. It carries the number 3 (II). Since after New Delhi it is constantly referred to, its operative part may be quoted here in full (paragraph 1–5). The Conference

Recommends that the Governments of States, members of UNCTAD, particularly of those developed maritime nations whose shipowners have a predominant participation in the liner conferences, invite the conferences and equivalent organizations, directly or through the shipowners, members of them, to take into account the following areas of possible action: (a) to review and adjust, if necessary, freight rates which shippers and other interested parties of developing countries consider to be high, bearing in mind the importance of as low a level of freight rates for the traditional exports of developing countries as is commercially possible; (b) to provide special freight rates for non-traditional exports in order to promote the expansion of the trade of developing countries, subject to the provision in sub-paragraph (a); (c) to avoid freight rates set at levels which cannot be justified by the normal criteria for freight rate structures, and also conference practices, which will have the effect of frustrating the export of a product from a developing country in order to encourage the export of the same product from another country served by the same conference, subject to the provision in sub-paragraph (b); (d) to recognize port improvements leading to a reduction in the costs of shipping operations for the purpose of reviewing and adjusting freight rates as appropriate; (e) to make suitable arrangements for authoritative representation of the liner conferences in the ports of developing countries served by them; (f) to make their tariffs and other relevant notices on request available freely to all interested parties;

Invites the UNCTAD secretariat within available resources to pursue the programme of work relating to freight rates, conference practices and adequacy of shipping services and the feasibility of constructing on a regular basis an index of liner freight rates;

Suggests that additional studies regarding freight rates in respect of important primary products, especially any product constituting a major export of a developing country or facing severely depressed market conditions, and also in respect of selected manufactured and semi-manufactured products, be undertaken by the UNCTAD secretariat, consistent with the resources of the UNCTAD secretariat and with due regard to the availability of suitable data, so as to secure a representative sample of products of interest to the developing countries;

Further suggests that Governments of member States of UNCTAD within their legal limitations in matters of this kind: (a) cooperate with the UNCTAD secretariat by providing information relevant to the programme of work; (b) invite shipowners, conferences, shippers and other commercial interests also to co-operate with the UNCTAD secretariat by providing information re-

levant to this programme of work directly through appropriate private channels, or in such other way as their Government requires;

Recommends that the Governments of States, members of UNCTAD, invite liner conferences and equivalent organizations, directly or through the shipowners, members of them, to admit as full members the national flag lines of the developing countries to conferences covering the foreign trade of the developing countries concerned, subject to the rights and obligations of full conference membership.

Freight Rates and Conference Matters

During the months after New Delhi, the question was open whether freight rates and conference matters would be made the principal subject on the agenda of the Third Session of the Committee on Shipping of UNCTAD which was held in April 1969. In fact, the secretariat prepared for this session a remarkable number of documents on freight rate problems and, when the Committee adopted its report to the Board, more than one quarter of it was on rate and conference matters. However, in importance this subject was outdone by that concerning the international legislation on shipping. The interest of all groups focuses on this most controversial item. It also overshadowed another area in which from the beginning of UNCTAD all members of the organization had taken great interest, the improvement of ports. On this, the secretariat had completed a first class research the results of which met with general appreciation.

Soon after UNCTAD II, with reference to resolution nr. 3 (II), the Secretary General had circulated to member governments questionnaires asking for information on the action taken by them with regard to its implementation. As regards the governments of market-economy countries, they had passed on this and the other New Delhi resolutions to their shipowners, had even discussed with them which steps may be taken. However, for the reasons stated above they had it to leave to them to find ways for meeting the requirements of the areas and the trades served by them, especially those of developing countries. Now, at the Third Session of the Committee on Shipping, this limitation of governmental initiative with respect to the implementation of resolution nr. 3 (II) was strongly criticised by some developing countries. Although it could not be said that the views were reconciled by the discussion, the wording of a resolution adopted unanimously as its result limited itself to suggesting amplification of information by governments of developed countries. It went on to request the Secretary General "to amplify the study entitled Freight Markets and the Level and Structure of Freight Rates . . . and to examine more specifically the economic aspects of providing promotional freight rates for a certain

number of non-traditional exports of the developing countries".

The secretariat report here referred to may be considered as a milestone in the difficult discussion on freight rates. On 232 mimeographed pages it offered a thorough analysis of all the factors influencing rate making in the bulk freight market, the liner freight market and the oil tanker freight market. It gave examples of liner freight rate trends, value-related rates, voyage charter rates for imports into developing countries and exports from them, finally country data on the freight rates and prices of certain commodities over the period 1960–1967, rates and prices as well as commodities important in the export trade of Australia, Canada, New Zealand, Nigeria and Turkey. Following a chapter on the existing freight rate indices the report discussed the incidence of transport costs, their protective effect, the problem of promotional freight rates and—last not least—that of discrimination in ocean freight rates. Very rightly it said "... any base used for fixing freight rates when a portion of the economic costs cannot be directly attributed to the products carried involves discrimination" (para 315). "The problem is to choose the appropriate basis for discriminating. To use elasticity of demand as a basis has the advantages of relating the freight rate directly to the capacity of the product to bear freight. If properly and consistently applied, a rate-making policy of this sort serves the interests of both traders and shipowners" (para 317). On the other hand, in the chapter on the incidence of transport costs, the report comes to the conclusion that the major share of the burden of the cost of transport on the cost of the delivered merchandise is being borne by the developing countries (para 230–249).

Retrospectively seen, there should have been more detailed discussion of this document. However, it may have been the general feeling that this should be deferred to the final discussion of the whole complex for which another set of studies by the secretariat is expected to offer an even wider basis. As at previous occasions, some delegates of developing countries repeated their general complaints on discrimination and on conference practices. Also the point of rising wages in market-economy countries as a reason for the constantly rising level of freight rates was made. No special resolution was introduced.

Freight Rate Indices

As regards freight rate indices, the majority of the Committee felt that, as suggested by the secretariat, the time had come to initiate liner freight indices for important exports of developing countries. This set would relate especially to commodities e.g. iron, ore, tea, cotton, jute, rubber, sugar, phosphate, meat, grain, and timber. Since

in many cases these items are carried by liners and by trampers the rates of which are different in nature, previously it had been doubted whether these two rates could be combined. Now, the finding of the secretariat that "index numbers of freight rates do not constitute a measure or indicator of the actual costs incurred by either the carrier or the shipper" and that therefore the combination in this particular case did not constitute a source of errors, was generally accepted. As regards liner rate indices on imports of developing countries the secretariat admitted in its report that their construction presented some practical problems, namely those connected with the classification of conference rate schedules on an SITC Three-digit basis into which it will be difficult to transform the different descriptions of the existing conference tariffs. The suggestion made by the secretariat that these difficulties should be explored by a pilot study met with the approval of the Committee. Although agreeing to a compromise resolution, some market-economy countries are still fearing that the construction of the indices on export items may incur unexpected difficulties and create mistakes.

In the resolution on freight rate indices the Committee, before instructing the secretariat, took note with satisfaction of the progress of studies on maritime transport of timber, rubber, jute, phosphate and sugar, commodity studies the secretariat is doing now at the request of various UNCTAD committees. Equally there was mentioned the most welcome cooperation given by the Governments of France and Morocco and by the maritime interests of both countries and of the Netherlands in the study of freight rates on the conference route connecting Morocco with the North of France which study is intended to serve as a model for the following route studies.

Requests for Information

In December 1967 / January 1968, the secretariat had sent questionnaires and requests for documents to 42 liner conferences, 15 in Europe, 7 in the UK of which, 3 in Japan, 3 in Hong Kong, 9 in India, 7 in Latin America, 4 in Africa, 1 in Australia. Corresponding questionnaires had gone out to 12 Shippers' Councils in Europe and 18 Shippers' Councils outside Europe and other bodies. In the case of letters to conferences, the questions covered the area of operation, names, nationality and status of the member lines, secretariats, representatives, meetings, rules for meetings, committees, their powers, machinery for scheduling vessels, restrictions as to berthing rights, arrangements for sharing the freight earnings, ports served, the rate fixing procedures, factors influencing the rate making, overall rate changes, details of general increases, similar items concerning rate reduction and the increase of individual rates, shippers contracts and loyalty arrange-

ments. This list is not exhaustive. The documents requested were several kinds of circulars, notes and forms, agreements and contracts including pooling agreements and loyalty contracts.

As was reported later on, the secretariat had enjoyed in the preparation of these lists of questions and documents the advice of a former shipping official who had believed that none of the questions or requests were touching on business secrets. However, in offering this advice, this expert seemed to have forgotten that when a question is asked the most important aspect is the way in which this is done. As there had been no preparation, the questionnaire came to the conferences as a surprise. They did not know how to react. As a rule, governments in the traditional maritime countries are not caring for all this information. In the only case where liner operators are committed by law to submit a great number of these details to the government for information, sometime for approval, in the United States, no conferences were approached by the secretariat. The feeling was widespread that the secretariat misunderstood its position. Most probably, personal contact as it was established after the Third Session of the Committee on Shipping may have obviated much of the resistance. Under the circumstances, as created by the first action, it was understandable that many replies the secretariat received were not satisfactory, and that other questions were not replied to at all. This was the case especially in respect to all items the answering of which would have necessitated revealing of confidential cost data.

As had to be expected, the discussion of this item by the Committee on Shipping was animated. Again, representatives of developing countries, although their national lines are members of conferences and in some cases play an important role in them, expressed themselves unfavourably on the attitude shown by the conferences. Even the evidence that at least this time the conferences and especially those domiciled in Europe were not responsible for the delay of work, did not impress those who spoke. It will be seen in how far the present efforts of the secretariat in seeking personal contacts with liner conferences and shipping enterprises in Europe with the aim to obtain information will succeed. It may well be that it takes longer time until prejudices confirmed by the original action will be overcome.

Concern Expressed by Developing Countries

The dissatisfaction of the secretariat with the results of its first approach was largely described in a document submitted to the Committee. While supporting the position taken by the secretariat, some representatives expressed themselves in the discussion also on some related points. One European delegate had referred to recent legis-

lation of his government, making information on shipping business of its nationals asked for by foreign authorities subject to approval. In fact, legislation of this kind exists in several countries not only in Europe. The delegate for one developing country immediately described such kind of intervention by a government as discrimination to the detriment possibly also of a developing country. The same delegate complained about one of his national lines being refused membership in a conference not connecting his country with other areas, serving, however, part of the route in question, and raised the problem of membership of lines of developing countries in wayport conferences as an item of general interest. In both cases, the concern expressed and supported by several developing countries was taken into consideration in the wording of the resolution introduced at the end of the discussion on conference practices and adequacy of shipping and agreed upon after a particularly long negotiation. As regards the protective legislation of some market-economy countries, by this resolution the Committee on Shipping expresses the desire that the above-mentioned legal measure should not limit the process of consultation nor restrict the flow of information on conference practices to the secretariat and to interested member countries, particularly developing countries.

The study on wayports, which the same resolution instructs the secretariat to undertake, may offer more problems than its promoters have thought. Basically, and considered to the last consequence, it means that the national line of a developing country has an invested right to participate in any trade without regard for the rights of the developing countries along that other route. There will be no formula for solving the problems except in each case on its own merits.

On the particular subject of freight rates and conferences as a matter of UNCTAD's activity no prediction is possible. There are many developments outside the scope of that organization, trends which existed before and are making themselves felt regardless of their being dealt with by this or another intergovernmental body. To mention only a few, the bloc of fleets operated by state lines of socialist countries in Eastern Europe is no longer completely outside the traditional pattern of conferences. On the other side, bilateral arrangements for safeguarding national interests seem to become the final solution in one of the most important semicontinents. These and other facts are known. It would be unrealistic if the discussion during the Fourth Session of the Committee on Shipping would go on as if liner conferences were the same type of combination as they were years ago, and as if rate making procedures applied by the conferences now were as arbitrary, sometimes outdated, as some critics have come to assume.