CURRENT WORLD SHIPPING COMPETITION

Shashi N. Kumar, PhD, Master Mariner

The U.S. merchant marine is presently at a critical juncture as concluded in the previous chapter. The merchant shipping fleet of the world's largest exporter and importer has been in a state of decline for the last two decades and its vital commercial shipbuilding infrastructure in a state of prolonged paralysis. There has been no shortage of opinions as to what has caused the depletion of the U.S. merchant marine. Some critics blame it on overly protective promotional policies which became counterproductive[1] while some others consider this to be a result of gross governmental neglect.[2]

The decline of the U.S. merchant marine must be viewed in light of the developments in shipping in other parts of the world. Global shipping is now at an all-time high in absolute numbers as well as in gross tonnage.[3] Furthermore, the total global seaborne trade volume has grown at an annual rate of 1.9 percent from 1975 to 1992.[4] As for shipbuidling, the 1990s has witnessed a significant increase in new construction.[5] Thus, both shipping and shipbuilding industries are expanding globally. This leads to a quintessential question: <u>why is this anomaly</u>? Why is the merchant shipping fleet of some countries expanding while that of some others such as the U.S. in a state of depletion? Is this because of the prevalence of "shipping-friendly" policies of those nations where it is prospering and the "shipping-hostile" policies of those nations where it is withering? Which are the nations where shipping is truly prospering, and why? What has been the policy response of some traditional maritime countries to the contemporary developments? The chapter will attempt answering the above complex questions. It will scrutinize the current shipping and shipbuilding policies and trends, and set the challenges for the U.S. maritime policymakers.

A. GOVERNMENT AIDS TO SHIPPING

Government involvement in commercial shipping has a long history dating as far back as the early eastern Mediterranean civilizations of the Phoenicians, Greeks, Rhodanese, and Romans.[6] One of the first acts passed by the very First U.S. Congress--the Tariff Act of 1789, for the promotion of industry, trade, and shipping--was to promote U.S.-built, owned and operated merchant marine.[7] While postulating the philosophical foundation of laissez-faire capitalistic idealogy, Adam Smith himself considered shipping to be an exception to the rule and was an avid supporter of the Act of Navigation (1651 of Cromwell) which restricted the carriage of English commerce to English bottoms.

Subsequently, as the fledgling shipping entrepreneurs consolidated their fortunes, governmental involvement went out of fashion as implied by the paradoxical British Chamber of Shipping comment in 1923 that they knew of no method by which the government could foster shipping.[8] Thus, while it became increasingly fashionable for those who had already established a dominating presence in global shipping lanes to advocate the cause of liberal shipping policies, countervailing trends began to emerge in other nations who were not so endowed. With the independence of a number of nations during the post-WWII era, the skepticism towards the former colonialists and their shipping supremacy added fuel to the fire especially as shipowners based in some of the newly independent nations were kept out of their own liner trades by the well established liner conference "industrial self-regulation" mechanism. A variety of policy measures have been adopted by various nations of the world for the perceived orderly growth of their merchant shipping fleet. Some of them have borne fruit while some others have become an impediment to growth. A discussion of such policy measures follows next.

1. Shipping-Friendly Policies

Maritime Subsidies 1993, a recent U.S. Maritime Administration publication, lists the following categories of promotional involvement in shipping by various governments: operating subsidies; construction subsidies; restructuring aids; financing programs; cargo preference requirements; bilateral or trade agreements; scrap and build aids; export aids; tax and depreciation benefits; customs duties, levies and requirements; government ownership; cabotage; research and development aids; maritime insurance aids and others. Table 1 (see next page) provides a summary of the above measures as practiced by 57 countries surveyed in 1992.

Table 1. SUMMARY OF GLOBAL MARITIME SUBSIDY MEASURES

Country	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Algeria						x					x	x		x	
Argentina					x	x			x			x		x	x
Australia*		x		x	x			x	x	x	x	x			
Bahamas										x		x			
Bangladesh					x	x					x	x		x	
Belgium*		x		x		x		x	x	x	x	x	x		x
Brazil				x	x	x		x	x	x	x	x		x	
Burma					x						x				
Canada*							x	x	x			x	x		
Chile						x			x	x	x	x			
Colombia												x		x	
Cote D'Ivoire						x					x	x		x	x
Country	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Cyprus									x						x
Denmark*		x		x		x	x	x	x	x	x	x	x		x
Ecuador					x						x	x			
Egypt						x			x			x		x	x
Finland*		x		x		x		x	x	x		x	x		
France*	x	x	x		x	x		x	x			x	x		x
Germany*		x	x	x		x		x	x	x	x	x	x		x
Greece*			x	x			x	x	x	x		x			x
Honduras						x						x			
Hungary											x	x			
India		x		x	x	x	x		x		x	x		x	x
Indonesia					x	x				x	x	x			x
Country	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Israel						x			x		x			x	x
Italy*	x	x	x	x	x	x		x	x	x	x	x	x	x	x
Japan*		x	x	x		x	x	x	x	x	x	x	x		x
Kenya					x						x			x	x
Korea	x		x	x	x	x		x	x	x		x	x		x
Kuwait					x	x					x				
Malta		x							x		x			x	
Mexico	x					x			x	x	x	x		x	x
Morocco	x	x			x	x			x		x			x	x
Netherlands*		x	x	x		x		x	x	x			x		x
New Zealand*									x			x			
Nigeria						x				x		x		x	x
Country	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15

...Continued

Country	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Norway*		x		x		x			x				x		x
Pakistan						x	x		x		x	x			
Panama									x		x				x
Peru		x		x		x			x			x		x	x
Philippines					x	x			x	x		x			
Poland											x	x			x
Portugal*		x	x			x	x			x		x	x		
Romania	x	x				x					x	x			x
Singapore											x				
South Africa				x		x		x							
Spain*		x	x	x	x	x		x	x	x	x	x		x	x
Sri Lanka				x		x				x	x	x			x
Country	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Sweden*	x			x		x			x	x		x			
Switzerland*				x					x						x
Taiwan		x		x	x	x			x	x	x	x			
Thailand		x			x	x			x	x		x			
Turkey*		x			x				x			x			
United Kingdom*		x	x			x			x		x	x			x
United States*	x			x	x	x			x	x		x			x
Uruguay				x	x	x			x	x	x	x			
Venezuela					x	x					x	x			
Country	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15

Key:
1: Operating subsidies
2: Construction subsidies
3: Restructuring aids
4: Financing programs
5: Cargo preference requirements
6: Bilateral or trade agreements
7: Scrap and build aids
8: Export aids
9: Tax and depreciation benefits
10: Customs duty, levies, and requirements
11: Government ownership
12: Cabotage
13: Research and development aids
14: Maritime insurance aids
15: Other aids

Source: Maritime Subsidies 1993.

The promotional measures listed in Table 1 are generally well understood and are intended to assist the respective shipping and shipbuilding industries directly or indirectly. However, whether they accomplish the intended goals is another issue. An examination of the table shows that virtually all members of the OECD group of nations (marked with a * in Table 1[9]) follow these measures rather extensively. But, as shown in Table 2 (next page), most of these nations are facing a serious decline in their merchant fleet. So, are they truly shipping-friendly? Are some of them more "friendly" than the others and if so, which? Perhaps one could make a case that it is the implementation of these policies which has stemmed a complete elimination of the commercial shipping fleet of at least some of these nations, and hence, by that token, they are all shipping-friendly. A detailed examination is therefore essential before one can make value judgments and recommend specific shipping-friendly policy measures. This will be attempted as the state of the shipping industry in various countries and their policy measures are evaluated in the following sections.

2. Shipping-Hostile Policies

An inherent vice of every national promotional measure is that it is hostile towards non-nationals. Thus, all shipping-friendly policies implemented by one nation to promote its flag are explicitly or implicitly hostile towards other flags. It is unlikely that a nation will willingly adopt an industrial policy hostile to its own shipowners. However, unwittingly it does

Table 2. **OECD MERCHANT FLEET AS OF JANUARY 1, 1992 & 1993**

Flag DWT Rank Jan. 1993	January 1, 1992 No.	DWT (1,000s)	January 1, 1992 No.	DWT (1,000s)	DWT % Change
Greece	1423	43,531.1	1407	46,354.0	6.5
Norway(Total)	1225	40,069.6	1194	36,518.5	-8.9
Japan	3833	36,968.2	3792	36,335.6	-1.7
U.S.	514	23,658.1	502	22,435.1	-5.2
Italy	828	10,671.6	791	10,131.9	-5.1
Turkey	688	7,434.7	703	6,878.0	-7.5
Denmark(Total)	494	7,868.3	499	6,739.0	-14.4
U.K.	508	6,781.3	447	6,617.6	-2.4
Germany, FR of	832	6,937.3	720	6,206.2	-10.5
France	199	5,377.5	210	5,552.6	3.3
Netherlands	518	4,368.3	515	4,506.3	3.2
Spain	368	5,059.2	322	3,976.5	-21.4
Australia	127	3,386.6	125	3,558.7	5.1
Sweden	282	3,735.2	273	3,351.1	-10.3
Luxembourg	48	2,624.4	52	2,608.1	-0.6
Finland	117	720.6	121	1,018.2	41.3
Portugal	75	1,341.5	69	897.2	-33.1
Switzerland	22	632.0	24	604.8	-4.3
Canada	158	578.2	155	515.8	-10.8
New Zealand	26	262.5	25	258.6	-1.5
Austria	32	233.6	26	208.5	-10.7
Ireland	67	194.8	62	189.4	-2.8
Iceland	21	62.4	18	55.3	-11.3
Belgium	31	50.2	27	47.1	-6.1
TOTAL					
1992Vs.93:	12,436	212,547	12,079	205,564	-3.3
1986Vs.93:	14,548	248,924	12,079	205,564	-17.4

Note: Ships of 300 gross tonnage and over.

Source: ISL Yearbook 1993 191.

happen such as was the case with the U.S. implementation of an operating differential subsidy system which was tied to a mandated essential trade route system. Furthermore, there may be long run implicit opportunity costs associated with the recipients of even the most well intended subsidy program--a lack of accountability, complacency and inefficiency leading to an erosion of competitive advantage in the marketplace. Thus, altruism aside, policies which are too shipping-friendly may end up as shipping-hostile in the long run.

The "new" attitude of many developed nations (and its citizens) towards shipping as an industry is sometimes interpreted as a shipping-hostile policy. Technological advances have made shipborne movement of cargo from Bombay to Boston or Vladivostok to Zimbabwe as routine as a commute from the suburbs. Thus, the glamor associated with shipping and the special status that it used to have is part of history now. Unfortunately, the only time the industry receives public attention in developed countries now is in times of catastraphe such as after a major oil spill or a tragic collision. Furthermore, the application of systems theory to business logistics has led to the trend towards treating shipping as just another mode of transportation, or a subsystem of the transportation system. Accordingly, shipowners today are in the transportation business much like the owners of other modes of transportation. This has led to the current diminution in the importance historically attached to shipping particularly in developed countries.

The diminution in the status of merchant shipping in developed countries is compounded by a distinct lack of public awareness of merchant shipping and its role in the global marketplace. For the average citizen, the world fleet of ships facilitating 97 percent of global trade while consuming only three percent of the world's energy and contributing to only seven percent of the global pollution, remains invisible.[10] As postulated by one author, shipping has lost its constituency[11] which has led to an erosion of political support. Thus, the special status enjoyed by shipping in many developed countries has more or less vanished which again is interpreted as being shipping-hostile.

There is no reason why policies which do not keep up with the market developments should not be considered as being hostile however effective they may have been at the time of their original implementation. Persisting with rigid shipping policies of the byegone era may inhibit the entrepreneurial drive of contemporary shipowners. E.g., the ownership requirements for registering a ship under the U.K.-flag have remained unchanged since the 19th century.[12] This is partly responsible for the drastic decline in the British fleet from 1,614 ships in 1975 to 272 ships in 1993.[13]

Shipowners in developed countries frequently comment about the uneven playing field in global shipping. They often see freedoms available to their foreign competitors which are forbidden under their regime. Lobbying for similar freedoms are rarely successful for reasons discussed earlier. This also leads to a perception of the local regime being shipping-hostile which may eventually result in the owners' deserting the home-flag and seeking more friendly regimes. The next section contains a discussion of some new players in merchant shipping who are perceived to have more shipping-friendly shipping policies.

B. NEW MERCHANT MARINES

1. Socialist State Models:

The now extinct Soviet Union built up an impressive fleet of vessels in a relatively short time. According to the USSR Shipping Register, the Soviet fleet consisted of 8,111 (self-prpopelled sea-going ships of over 100 GRT) vessels of 26.5 million gross tonnage and 29.8 million DWT on January 1, 1991 and employed 238,000 seafarers in 1989.[14] The chief strategist of Soviet maritime build-up was Admiral Gorshkov, Head of the Soviet Navy for thirty years. He has reportedly remarked that, "among the factors which characterize our country's military power, its sea power is taking an increasingly significant role. It is in that sea power that is expressed the true scope for actively using the oceans of the world to build Communism."[15] Prior to its disintegration, the Soviets had the fourth largest shipping tonnage in the world. However, as 33 percent of their fleet consisted of non-trading vessels (such as fishing ships, fish factories, icebreakers, research vessels, etc.), their true shipping tonnage was the eighth largest globally.[16]

In the former Soviet Union, the merchant fleet was considered to be a strategic instrument for political indoctrination as well as for earning hard currency. Accordingly, the Soviet Ministry of Merchant Marine--Morflot--controlled and coordinated the country's shipping investments and ensured that a Soviet presence was felt on all trade routes. The fleet increased its market share through drastic under-cutting and also by providing other incentives to shippers. In some cases, through judicious allocation of cargo, they even penetrated the secretive conference boardrooms.[17] Thus, the rationale for the Soviet maritime build-up was more political than commercial. However, centralized coordination and pursuit of non-commercial goals eventually led to a relative decline in the Soviet shipping fortune. Well before the Soviet disintegration, the merchant fleet build-up had come to a halt. Furthermore, the Soviet tonnage had become so outdated that 400 ships were to be demolished during the period 1991-95.[18] The shortage of hard currency, the non-convertibility of ruble and the inability to approach foreign banks for loans stifled their fleet renovation attempts even under "Perestroika" and "Glasnost."[19] The centralized approach also meant that local shipping companies were also responsible for port and ship-repair facilities in addition to the more usual shipping-related tasks compounding their frustration.[20] (Table 3 shows the shipping market share in DWT of all Eastern Bloc nations from 1 July 1980 to 1 January 1993; also refer to Table 4 for GRT information.)

Table 3. SHIPPING MARKET SHARE OF COUNTRIES OF EASTERN EUROPE
(As at 1 July, 1980, 1985, 1988 and 1989, and 1 Jan. 1993)

Country Group	1980	1985	1988	1989	1993
Eastern Europe					
DWT millions	37.8	41.3	43.4	43.6	34.4
Percent of World Total	5.5	6.2	6.9	6.8	5.2

Note:
UNCTAD classification of countries under Eastern Europe include Albania, Bulgaria, Czechoslovakia, German Democratic Republic, Hungary, Poland, Romania and USSR.

Source: UNCTAD Review of Maritime Transport 1989, Table 10, p.18.
ISL Yearbook 1993, 24 and 206-207.
Author's computations

It is worthwhile to track the policy measures now being adopted by the former members of the Soviet bloc. The Maritime Subsidies 1993 did not even survey these nations because of the political uncertainty over there. Recent reports indicate that a Russian Merchant fleet of 830 vessles and 10.6 million DWT was formed in January 1992.[21] A Department of Marine Transport has been established within the Ministry of Transport of the Russian Federation. The Department has undertaken various measures to strengthen its merchant marine including the establishment of a Merchant Marine Revival Fund for subsidizing port and fleet development.[22]

Table 4. DEVELOPMENT OF SHARES OF MAJOR NATIONAL GROUPS IN THE WORLD FLEET, 1981-1992

Country/ Group	Mid-1981 Million GRT	Mid-1981 Percent World Tonnage	Mid-1991 Million GRT	Mid-1991 Percent World Tonnage	Mid-1992 Million GRT	Mid-1992 Percent World Tonnage
OECD	214.7	51.0	147.0	33.7	144.9	32.6
Central Eastern Europe	30.3	7.2	35.5	8.1	33.9	7.6
Developing Asian Economies	17.8	4.2	30.6	7.0	32.6	7.3
China	7.7	1.8	14.3	3.3	13.9	3.1
Open Registry Countries	105.3	25.0	155.2	35.6	168.0	37.8
Developing Market Economy Countries	42.0	10.0	49.1	11.3	45.8	10.3
Others	3.1	0.7	4.4	1.0	5.2	1.2
TOTAL	420.8	100.0	436.0	100.0	444.3	100.0

Notes on Country Groupings and Fleet:

U.S. fleet under the OECD fleet includes Great Lakes fleets and U.S. Reserve fleets.

Central Eastern European Countries include Albania, Bulgaria, Czechoslovakia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Russia and other newly independent states of the former USSR.

Developing Asian Economies include Hong Kong, Malaysia, Singapore, South Korea, Taiwan and Thailand.

Open Registry Countries include Antigua and Barbuda, Bahamas, Bermuda, Cayman Islands, Cyprus, Gibralter, Honduras, Lebanon, Liberia, Malta, Mauritius, Oman, Panama, St. Vincent and Vanuatu.

Others include Cuba, Falkland Islands, Indonesia, Israel, North

Korea, South Africa and Vietnam.

Source: OECD Maritime Report 1993, 174.

People's Republic of China, another state socialist model, has made spectacular advances in its shipping fleet in a very short time span. From a meager fleet of 34,000 tons in 1949 when the country was formed,[23] it has grown to an enormous 12.95 million DWT--3 percent share of the total world fleet as at January 1, 1993.[24] It is their centrally planned goal to carry as much of their seaborne cargo as possible on their own ships. Thus, Chinese-flag ships have a phenomenal 40 percent market share in the seaborne movement of their foreign trade.[25] The two major players in China's shipping and shipbuilding activities are the Ministry of Communications and the China State Shipbuilding Corporation. The Maritime Traffic Safety Law of the People's Republic of China and the Measures for Control of Ships Engaged in Foreign Trade are two major instruments of Chinese maritime policy.

The Chinese governemnt strongly advocates and implements the "import FOB, export CIF" philosophy which allows them to divert cargo to their own vessels.[26] Furthermore, they also make extensive use of bilateral agreements for shipping, negotiated and implemented by the Bureau of Foreign Affairs, a division of the Ministry of Communications.[27] Their basic liner policy is to operate as an independent, i.e., non-conference operator and prices significantly lower than conference rates.[28]

The Chinese-flag is dominated by COSCO (China Ocean Shipping Compnay) and its subsidiaries. Under the policy of liberalization introduced by Deng Xiaopeng, some fringe competition has sprung up for COSCO from local and provincial shipping companies. However, more importantly, the pragmatism of Chinese policymakers also saw to their investment in open registry vessels for a variety of reasons ranging from political acceptability to shortage of trained humanpower.[29] Thus, they established a significant presence in Hong Kong through Ocean Tramping and Yick Fung and later, Ming Wah as well in the traditional open registries such as Liberia and Panama.[30] The China State Shipbuilding Corporation is on a modernization trend to enhance its shipbuilding capability and has the third shipbuilding orderbook now. With regard to seafarers, beginning with the shortages of the 1960s and 1970s, their meticulous planning and investment in maritime education has resulted in catapulting China to become the potential reservoir of seafarers for the rest of the world.

From 1986 to 1993, the Chinese fleet has been growing in DWT at an average rate of 3 percent while the global DWT growth rate has been only 0.8 percent.[31] This is not at all by accident or through the benevolence of an invisible hand in the marketplace, but through a carefully structured maritime industrial policy. They have not been a major cross trader; but as stated by one author, it is only because they so much to carry of their own![32]

The Chinese government has initiated some measures to increase competition for COSCO. E.g., in 1989, COSCO's status as a preferred carrier for certain cargoes and its monopoly in bidding for international cargoes were terminated.[33] However, COSCO with its fleet of 630 owned and/or long-term chartered ships is still strongly supported by the Ministry of Communications and dominates the Chinese market. In response to the U.S. Federal Maritime Commission's threat to impose sanctions against Chinese ships, some concessions have been recently made for foreign shipping companies. These include ending the higher prices for handling foreign ships in Chinese ports, eliminating the restriction of certain Chinese ports for foreign ships, and also allowing foreign shipowners to set up independent subsidiaries locally.[34]

2. THE ASIAN "NEW" MERCHANT MARINES

The true new order in global shipping is represented by the dynamic Asian economies of Hong Kong, Singapore, South Korea and Taiwan. A discussion of the maritime policy and fleet development in these countries follows next.

a) Hong Kong

Hong Kong is a British dependent territory which is expected to revert to Chinese control on July 1, 1997. A British dependent registry has existed in Hong Kong which has historically provided the opportunity for British shipowners and others to flag their vessels and take advantages of hiring low-cost Asian crew. As defined in the 1984 Sino-British joint agreement, a new independent Hong Kong register was established on December 3, 1990.[35] After 1997, the register will be administered from Hong Kong under existing Hong Kong laws.[36] Thus, the ships under Hong Kong registry are technically British ships until July 1997 after which they will become Chinese.

Presently, there are very little restrictions on registering a vessel under the Hong Kong registry. The flag is not considered to be an open register although the ITF may consider a ship flying the Hong Kong-flag to be such when the beneficial ownership is not in Hong Kong.[37] There are no nationality requirements with regard to the crewing of vessels. Furthermore, foreign earnings of Hong Kong flag-ships are exempt from profit tax with retrospective effect from December 3, 1990. The register is reported to be "expanding rapidly"[38] primarily because local owners are switching over from traditional open registers.[39] The Hong Kong register is expected to become China's international register after 1997.[40]

b) Singapore

A Singapore registry was established in 1966. In order to provide employment opportunities for local citizens, the registry was made "open" for foreign shipowners in 1969. Some of the typical benefits of Singapore registry included absence of nationality restrictions on crewing, tax exemption of foreign earnings of vessels and that of seafarers income in addition to its strategic location.

After the early 1980s recession, the Singapore government made a major policy shift in 1985 in deciding to promote service industries rather than manufacturing industries. In order to make Singapore a broad-based maritime center for which it was naturally endowed, it was essential to attract more shipowners to relocate there. The attempt began with a marketing mission to Hong Kong and Japan, and later London and Oslo. The Singapore Trade Development Board formalized those successful missions in the form of an Approved International Shipping Enterprise Scheme in 1991. The scheme provides renewable ten-year tax exemption for recognized, good quality shipowners on income from the operation of all their vessels regardless of where they are flagged provided at least ten per cent of their fleet--or one ship--is flagged in Singapore and they spend at least S$4 million per annum over there. As more ship-owners move their operations over to Singapore, the requisite shipping milieu--consisting of shipbrokers, surveyors, lawyers, banks, P&I clubs, and other supporting services--are also expected to relocate. As of March 1994, the AIS scheme had attracted 23 shipowners to Singapore including four from Hong Kong and a small fleet of China's state-owned COSCO.[41] It has been reported that the scheme has already met its initial objective of attracting 100 ships operated from Singapore, which contributed directly about S$125 million to the local economy.[42] However, the scheme was introduced for its long-run multiplier effect in the service sector rather than any immediate financial gain for the local economy. The actual tonnage brought to Singapore through AIS remains uncertain because of non-disclosure provisions. In addition to the AIS scheme, Singapore will also permit foreign shipowners to set up and run their own shipping agencies. It is also intended to attract more foreign shipowners to make a local presence and eventually shift their operations to Singapore. In 1993, the merchant fleet registered in Singapore consisted of 1,068 ships and 10.2 million gross tonnage.[43]

c) South Korea

The South Korean government pursued an aggressive maritime industrial policy to promote its shipping industry. Some elements of that policy included cargo reservation schemes, tax exemptions, preferential loans for the government financed shipbuilding program, direct government investment in maritime infrastructure, legalization of bareboat charter with purchase option and subsidizing maritime education.[44] As a result, gross tonnage of the Korean fleet grew at an average rate of 22.8 percent per annum from 1962 to 1981.[45] Furthermore, timely action on the part of the the South Korean government during the 1980s recession streamlined their shipping industry. As a result, the South Koreans have a strong, efficient and relatively young fleet of vessels today.[46]

The current South Korean government, led by Kim Young-Sam, has embarked on an ambitious deregulation campaign. One of Kim Young-Sam's campaign promises was to create a new shipping ministry to replace the powerful bureaucracy of Korea Maritime and Ports Authority.[47] Some important shipping deregulatory measures adopted by the present South Korean government include elimination of ownership restrictions, opening up road haulage throughtout the country to foreign companies, complete relaxation of cargo reservation system by 1995, abolition of ship acquisition restrictions, elimination of cargo route licensing arrangement and privatisation of port and terminal operations.[48]

As of January 1, 1993, the South Korean fleet consisted of 645 ships (of 300 GRT and over) and 10.34 million DWT.[49] Approximately 32 percent (by volume) of Korean exports and imports were carried on Korean bottoms in 1992.[50] However, faced with the elimination of government supports, South Korean shipowners are making a strong case for an NIS-style second register.[51]

d) Taiwan

When the People's Republic of China joined the U.N. in 1971, Taiwan (Republic of China) was diplomatically wiped off from the earth's surface. It is not a member of the IMO, the UNCTAD or any U.N. agency. As such, none of the U.N. reports provide any statistical information on Taiwan. Other sources (such as the ISL Yearbook) indicate that the shipping fleet of Taiwan has been increasing steadily. Currently, its fleet consists of 276 ships (6.6 million gross tons and 10.12 million DWT).[52] Taiwanese seafarers who used to crew many open registry vessels have become increasingly expensive. Accordingly, their number has dropped from 14,000 seamen in 1980 to 1,413 in 1993.[53] Furthermore, the number of open registry vessels with beneficial ownership in Taiwan is increasing faster than the number of vessels in the Taiwanese registry. The Taiwanese government is reducing its ownership in Yang Ming Line, the state-owned container operator, to 51 percent and is expected to accomplish it by mid-1994.[54]

3. OTHER DEVELOPING COUNTRIES

a) India

Statistics show that the Indian shipping fleet, the 17th largest DWT in the world, has been contracting. In 1986, the Indian register consisted of 391 ships (of 300 GRT or over) and 10.56 million DWT; corresponding statistics for 1993 are 347 ships and 10.05 million DWT.[55] However, the main reason for this decline is the scrapping of dated general cargo vessels which have typically constituted a significant component of the Indian fleet. Tankers registered in India have increased in number as well DWT and its bulk carrier fleet has been more or less stable. But the weakest component of Indian shipping continues to be its liner sector with a bare token of two container ships. The present Indian government is making up a significant attempt at opening the nation's economy and liberalizing its trade. The Indian Rupee is expected to become fully convertible very soon. These developments and a general attempt to reduce bureaucracy are expected to make Indian shipowning more efficient and competitive.

b) Brazil

Brazilian shipping fleet has also been declining (408 ships and 10.03 million DWT in 1986 to 277 ships and 8.5 million DWT in 1993).[56] Similar to India, the decline has been primarily because of the reduction of general cargo vessels from 207 (in number) in 1986 to 90 in 1993. Brazil also has a relatively weaker container shipping tonnage.

C. UNCTAD SHIPPING POLICIES

1. The UN Liner Code Controversy[57]

The United Nations Conference on Trade and Development (UNCTAD) was established in 1964 for assisting developing countries through trade and aid. It gave a first-hand opportunity for delegates from developing countries to vent their general frustration concerning the business practices of liner conferences.[58] As members of liner conferences were typically well established shipowners from developed countries (most of them also being ex-colonialists), the UNCTAD deliberations on shipping began to take the shape of an idealogical conflict between developed countries upholding the role of market forces--albeit distorted by the presence of conference system--and developing countries advocating the cause of governmental involvement to ensure fairness. A Code of Practice for shipowners was introduced by the CENSA group of nations in 1971 which was unsuccessful in placating some of the concerns of developing countries. The need for a "universally acceptable" code was recognized in 1973 although the deep schism between developed and developing countries regarding its principal elements continued to worsen. It was settled that year itself by a majority vote in the UN General Assembly in favor of a binding and enforceable code. Two preparatory commissions and two conferences of plenipotentiaries later, the code was adopted on April 7, 1974.[59] However, it took almost another decade for the Code to come in to force by which time liner shipping had undergone a significant structural change.[60] Notable opponents of the Code have been the U.S., Japan, Brazil, Switzerland and until 1979, all members of the EC except West Germany, France and Belgium.[61]

The Code and all its provisions came under severe criticism right from its very inception. For example, one critic refers to it as a document which is "poorly drafted, internally - contradictory, and ambiguous ..."[62] At the same time, proponents of the Code consider it to be a simple "instrument of compromise which minimized unhappiness and maximized nothing ...."[63] It is beyond the scope of this chapter to scrutinize all the controversial provisions of the U.N. Code of Conduct. However, one provision which received significant attention was the so-called 40-40-20 division of cargo between trading partners and cross traders. The Code does not state such a rule for cargo distribution; 20 percent share for a cross trader is only given as an example in article 2(4b) of the Code. While critics believe that the ambiguity of provisions such as this is likely to result in abuse,[64] proponents argue that all what the Code does is to simply provide flexible ground rules for "intra-cartel carve-up" and that 40-40-20 is "better than" a 50-50 distribution of cargo between two trading partners.[65] Thus, the very flexibility of the Code of Conduct for liner conferences which its framers aspired would lead to its practicability, acceptability and longevity appears to have inadvertently become its biggest handicap.

Liner shipping under the Code of Conduct in a post-Brussels Package era facilitated anything but the orderly expansion of world seaborne trade.[66] A 1985 study showed that even a rigid 40-40-20 division of cargo would not have provided a positive redistribution of welfare for developing countries and that it would lead to overall long-run inefficiency in liner trades.[67] Above all, between 1964 when the idea originated and 1983 when the Code went into effect, liner shipping underwent a revolutionary change structurally as well as technologically.

Technologically, the container revolution which was in its infancy in the 1960s had matured by the 1980s at least on all arterial trade routes.[68] The basis of the UNCTAD policies was ships of 12,000 DWT, doing a speed of 16 knots.[69] The larger and faster container vessels which replaced the traditional liners of the 1960s were far superior in productivity. The new breed of liner operators began to provide value added services for their customers such fixed-day-of-the-week service which was soon followed by the organizational revolution of providing seamless door-to-door intermodal services.[70] All these developments made a liner Code of Conduct based on mandated cargo shares somewhat of an antiquity.

From a structural perspective, the market power of conferences which dominated almost all liner routes began to wane much like all other transnational cartels in the post-WWII era.

As containerization began to change rules of the game, independent non-conference operators, primarily based in Asia, began to provide services competitive with that of conference operators and at a lower cost. In some routes, the market share of independents even began to exceed that of liner conferences.[71] Furthermore, by this time, conferences had radically changed their policy towards the admission of shipping lines based in developing countries into the conference mold. Thus, a Code of Conduct for liner conferences became a non-issue in many trade routes.

It was under these circumstances that a required Review of the Code of Conduct was held in Geneva in 1989 (five years after the Code went into effect). Ardent supporters of the Code, primarily the West African nations, postulated the possibility of expanding the Code to cover all liner cargo and perhaps even bulk cargoes. However, the three week review session was so chaotic that a trade journal referred to it as "three weeks to nowhere in Geneva."[72] The conference could not proceed with its agenda and was bogged down by basic procedural issues such as whether it was open only to those who had ratified the Convention and if not, would the others have voting right. After significant diplomatic effort, it was reconvened in 1991. It was somewhat of an anticlimax for those who were anticipating more confrontations as in the past. The conference did not even consider the issue of expanding the provisions of the Code. Furthermore, the historic rift between developing and developed countries began to close somewhat during this conference with many of the former espousing free market ideals. Above all, in 1992, when the next UNCTAD session was held (UNCTAD VIII at Cartagena, Columbia), all its existing committees (except two) were disbanded including the Committee on Shipping. The four new committees which were established will facilitate better interaction with the private sector. Shipping services now fall under the purview of a committee which strives to create a competitive service sector in developing countries. Thus, the entire episode of the Code of Conduct for Liner Conferences fizzled into "much ado about nothing."

2. Other UNCTAD Policies

Other important UNCTAD policy initiatives in shipping include the U.N. Convention on International Multimodal Transport of Goods, the U.N. Convention on Carriage of Goods By Sea and the (Hamburg Rules) and U.N. Convention on Conditions for Registration of Ships. For the purposes of this book, only the last one is relevant and is discussed next.

The number of ships under open registry began to increase phenomenally starting from late 1960s primarily at the expense of the shipping tonnage of the developed nations and their revenue from shipping.[73] A majority of both developing and developed countries began to view this with some amount of concern. The increasing number of maritime casualties many of which involved ships in open registries added fuel to the fire. In a 1971 meeting in Tokyo, the Consultative Shipping Group (CSG) ministers expressed their concern over this development and the absence of a "genuine link" between open registry ships and their flag state contrary to the requirements of 1958 Geneva Convention on the High Seas. In 1974, the developed nations suggested that the UNCTAD Shipping Committee look into the issue of open registries. This received the immediate support of developing countries--except those which provided open registries--who expected to benefit from the substantial redistribution of shipping tonnage should open registries be disbanded. After all, where else could all those bulk ships end up with the rising cost of running them from a traditional maritime country?[74] This would not only swell their national register but also provide significant job opportunity for their citizens at a relatively low cost.

In 1978, an ad hoc working group of the UNCTAD Shipping Committee reported that open registries were adversely affecting other registries including those of developing countries. Thus, a momentum was created towards the phasing out of open registries.[75] However, by that time, faced with supply shocks in the energy sector, many traditional maritime countries--undoubtedly pressed by their shipowners--began to question the wisdom of their original intent. Remedial measures taken by open registry countries to improve the safety record of their ships also helped the shift in thinking. By 1980, traditional maritime countries had "turned their policy, ..., 180 degrees in under 10 years."[76] A clear manifestation of this policy shift can be seen from the gist of a resolution, adopted in 1981, which aimed at a gradual transition of open registries into normal registries rather than their sudden death as was originally advocated.

After a series of prolonged deliberations similar to those which took place as in the case of the Liner Code of Conduct,[77] -- much of which was boycotted by the U.S., Panama and Liberia-- the U.N. Convention on Conditions for Registration of Ships was adopted in 1986.[78] The Convention contains "a set of minimum conditions which should be applied and observed by States when accepting ships on their ship register(s)." Its primary thrust is to "strengthen the genuine link between a ship and its flag state" (in accord with the 1958 Convention on the High Seas and the 1982 Law of the Sea Convention) so as to enhance the flag state's "effective control in administration, technical, economic and social matters of ships flying its flag." Articles 8, 9 and 10 of the Convention clarifies the controversial elements of the genuine link, i.e., the management, ownership and crewing of vessels. As defined, these articles state that the owning company <u>must</u> have a presence in the flag state at least through a representative who is a domicile of the flag state for the management of the vessel/s; that there should be appropriate participation by the flag state in the ownership of vessels flying its flag to the extent that there is effective control over those vessels; and that flag state residents constitute a satisfactory proportion of the crew of those vessels if available subject to the sound and economical operation of those ships.[79] Each flag state is also required to establish a competent and adequate national maritime administration.

The Convention will enter into force twelve months after the date on which 40 states controlling 25 percent of gross world tonnage (of ships over 5,000 GRT) have ratified it. As at end-March, 1993, only the following countries had ratified or acceded to it: Cote d'Ivoire, Egypt, Haiti, Hungary, Iraq, Libya, Mexico and Oman.[80] So, the possibility of this Convention coming into force any time in the near future is questionable. However, the Convention has had the effect of legitimizing open registries and also sanitizing them. Indeed, the most recent and innovative ship registry concept of setting up alternate registers--also known as second register or international register--within the jurisdiction of a traditional maritime country (such as what the Norwegians and their followers have done and discussed in subsection E.1) reflects a manifestation of the genuine link concept advocated by this Convention.

D. SHIPBUILDING TRENDS RECENTLY

The golden era of commercial shipbuilding was during the early 1970s. The downward slide in new orders bottomed out in 1986 and is on the ascent once again.[81] However, the present leaders in commercial shipbuilding are of a different breed and the industry is plagued with accusations and counter-accusations of unfair governmental involvement. Shipyards typically employ a large number of workers of varying skill levels. As such, it is politically astute for elected representatives to advocate the cause of commercial shipbuilding whether the venture is economically justifiable or not. An unfortunate consequence of subsidized shipbuilding is that it precipitates the global overtonnaging of shipping capacity, adversely affecting shipowners of all countries including those which subsidize the shipbuilders. This will lead to overall long-run inefficiency in shipping markets.

The Japanese shipbuilders had the largest gross tonnage under order as at December 31, 1993--11.5 million gross tons--followed by South Korea with 10.9 million gross tons and China, a distant third with 1.9 million gross tons.[82] Although the appreciating Japanese Yen has affected Japanese lead over South Korea in shipbuilding, Japanese officials remain confident that they will continue to lead global shipbuilding market because of their "favorable weather, industrial linkage, labor and innovation."[83] The government-owned Chinese shipbuilding industry, after early teething problems, is now streamlined and well organized for making a perceptible impact as indicated by the current size of their orderbook. Perhaps the only thing which may keep them from accepting a large number of foreign orders as of now may be the voracity of their own fleet for new tonnage. It has been reported that the China Shipbuilding Trading Company can offer attractive financing terms similar to those available from other major shipbuilders.[84]

Ever since the U.S. shipbuilding industry lost its construction differential subsidy in 1981, its role in commercial shipbuilding has been almost negligible[85] and has depended almost entirely on lucrative navy contracts. With the current reductions in defense spending, the shipyards are being forced to re-enter commercial shipbuilding market once again for their survival. However, they face two major hurdles. First, they have to make-up for their prolonged absence from commercial shipbuilding and go a long way up the learning curve to be competitive with foreign shipyards. Second is the controversial issue of subsidies. In a 1993 testimony before the U.S. Congress, the Shipbuilders Council of America stated that six major shipbuilding nations of today are subsidizing shipbuilding to the tune of $9 billion per year with South Korea accounting for $2.4 billion; Germany $2.3 billion; Japan $1.9 billion; Italy $940 million, Spain $897 million; and France $634 million.[86] Since 1989, the OECD has been coordinating a global discussion to deal with the elimination of international shipbuilding subsidies involving Japan, South Korea, the European Union, the Nordic countries and the U.S. The negotiations are aimed at ending direct and indirect government subsidies and establish a procedure for handling disputes and an enforcement mechanism. There were high expectations of the most recent round of negotiations (held in March, 1994 at Paris).[87] Although the multinational negotiation made provisional progress in key areas such as direct subsidies, predatory pricing and export credits, it did not reach a concensus for two reasons. One was the

Japanese refusal to make a key concession involving a three-year interest payment grace period of "home credit scheme" for Japanese shipowners building ships in Japanese yards.[88] The other was the U.S. Jones Act requirement of building ships domestically for its coastal trade. The EU nations oppose this indirect U.S. shipbuilding subsidy while the U.S. negotiators maintain that it does not distort the global shipbuilding market unlike the EU's practice of providing 9% direct aid.[89] However, it has been reported that this is a strategic move by the E.U. nations for negotiating leverage with the U.S.[90] where the Clinton administration has launched a National Shipbuilding Initiative in 1993.[91] The National Shipbuilding Initiative would make available $3 billion of loan guarantee for five years or until there is a global agreement to eliminate such guarantees in shipbuilding.[92] The participating nations will decide whether or not they should meet one more time in Paris to break the deadlock after receiving an OECD document which will summarize all unresolved issues and possible compromises.[93]

Meanwhile, the colossal use of subsidies in shipbuilding continues. For example, state-owned shipping companies in France are being forced to order ships from the higher priced and in at least one case, less technically advanced French shipyards.[94] Unless there is a significant reversal of position by some of the players in the next round of multilateral negotiations to end shipbuilding subsidies, there is a good likelihood of the Gibbons Bill (HR 1402) and its Senate counterpart, the Breaux Bill (S

990) getting legislative approval in the U.S. It would impose severe penalties on ships from countries that subsidize shipbuilding through curbing their trading rights in the U.S. and imposing enormous fines. One critic has commented that the effect of S 990 will be "immediate and disastrous" for the U.S. economy while that of HR 1402 will be "severe, but gradual."[95] Accordingly, shipper groups are protesting severely over the proposed legislation. A recently announced opponent to the Gibbons Bill is the Chicago Board of Trade.[96] However, the passage of these bills appear so certain that Consultative Shipping Group, a governmental organization of most West European nations and Japan, has already initiated efforts in Washington to amend the impending legislation and soften its punitive blow.[97]

Thus, based on this discussion, if any conclusion can be made on recent trends in shipbuilding, it is one of confusion over subsidies, threats and counter-threats with some very likely change in lead players on the horizon.

E. POLICY RESPONSES OF SOME TRADITIONAL MARITIME COUNTRIES

1. The Norwegian Model and Its Followers

Among developed countries, Norway is an oddity--it takes shipping seriously. A good reflection of this is the Oslo stock market where about 40 shipowners are listed. The nation has recognized that a long maritime heritage need not necessarily lead to a guaranteed comparative advantage in contemporary international shipping. As the cost of running a Norwegian-flag shipping fleet began to escalate in the late 1970s, Norwegian shipowners joined the others in seeking open registers. It has been reported that the Norwegian fleet declined 50 percent in tonnage from 1977 to 1987.[98] In July 1987, the Norwegian government made a significant policy shift to stem the mass desertion of its shipping tonnage and introduced a second Norwegian registry called the Norwegian International Ship (NIS) register. The NIS register gave an opportunity for shipowners to make use of the rich Norwegian maritime tradition and reputation while enjoying some of the freedoms typically provided by an open register. There are some ownership restrictions with ample leeway for non-Norwegians to meet the requirements. There are no crewing nationality requirements except that the master must be a Norwegian citizen.[99] Some other attractive features of NIS include non-taxation of foreign owners, low level of registration fees, and the liberalization of currency requirements and regulations.[100] Above all, the NIS is a good example of a shipping-friendly regime; it is "supportive and professional."[101]

The introduction of the NIS register had a magnetic effect on expatriate Norwegian shipowners and about 70 percent of them were enticed to return back to the Norwegian flag.[102] Within two years, NIS became the second largest tanker registry, the seventh largest dry bulk registry and the fifth largest fleet overall.[103] In January 1994, the NIS fleet consisted of 799 vessels totalling 19.3 million gross tons out of which about a quarter are owned by foreign registered companies.[104] Between 1983 and

1987, the number of Norwegian seafarers had decreased from 24,150 to 10,000. However, by the beginning of 1993, the number went up to 11,500 despite the increased automation and manning reduction on board vessels.[105] It has been stated that the NIS has created 20,000 jobs either directly or indirectly in the high cost Norwegian service sector.[106]

From a strategic perspective, Norwegian shipowners are carving out special niches such as industrial shipping besides dominating the car carrier service.[107] Faced with declining profit margins, they are also mounting a campaign for tax concessions to facilitate new investment. Part of the reason for this was the Norwegian Tax Reform of July 20, 1991 which virtually cut off the flow of k/s funds into shipping.[108]

Following the Norwegian lead, other countries are also setting up international registers. The Danish International Register was created by an Act of Parliament in July 1988 and became effective on August 23, 1988. Unlike NIS, DIS is primarily meant for Danish shipowners. A foreign shipping company must have at least 20 percent Danish interest to make use of the DIS register. The freedom to hire foreign crew is considered to be its main advantage. There are no special tax concessions for DIS shipowners. However, DIS seafarers, both local and foreign, are exempted from the payment of personal income tax. The DIS fleet consisted of 510 ships of 5 million gross tons on July 1, 1993.[109] Although the initial growth of DIS came at the expense of the traditional Danish registry, more recent growth has come from new buildings and also purchases in the second-hand market.[110]

Germany also introduced an International Shipping Registry (ISR) to stem the exodus of its owners to open registries. However, its effectiveness was halted in 1991 through resistance from labor unions. Subsequently, the German fleet has been depleting and more German owners are flagging out.[111] A French second register was set up in the Kerguelen Islands also for reasons similar to that of the NIS. There are tight eligibility requirements but it provides crewing flexibility. Other nations planning the second registry track include Argentina, Canada, Macao, South Korea, and Turkey. Furthermore, in 1997, Hong Kong is expected to become the equivalent of an international register for China. If the Macao register also catches on, China may have yet another international register by the turn of the century as the Portuguese are expected to hand over control in 1999.[112]

2. The British Model

The British fleet dominated global merchant shipping for centuries. The success of their shipping business is said to have lulled the British shipowners into prolonged complacency and neglect some time after WWI.[113] The subsequent decline remained unchecked until the mid-1960s when the then British government made a significant effort to revitalise it. Although it failed to bring entrepreneurs back to the business, the British fleet reached a crescendo of 1,614 U.K.-owned and registered deep-sea ships in 1975 and depleted very rapidly since then to its present size of 272 ships.[114] All British-owned fleet, regardless of their flag, is said to be in a state of decline and likely to be as low as only 5 million DWT by the year 2010.[115]

The perceived general weaknesses of British registry which has kept entrepreneurs away from it are its overly restrictive ownership requirements, expensive crewing restrictions, and an absence of fiscal incentives.[116] The British have set up "dependent" registries in colonial outposts such as Bermuda, the Cayman Islands, Gibralter, the Isle of Man, Channel Islands, British Virgin Islands, Montserrat, Turks and Caicos Islands, and Anquilla. Ships registered in these countries are considered to be British and are entitled to fly the red ensign. But these countries are autonomous and their registries are dependent only in name. Similarly, Hong Kong-registered ships will also be considered British until 1997. However, U.K.-shipowners have to expatriate themselves to those registries to take advantage of the freedoms available under those flags.

From the standpoint of British shipping, what is really at stake is not just the inability to attract new investments in shipping, but the very continuation of London as the maritime capital of the world. London has been the center of a variety of maritime-related activities such as insurance, law, ship classification, ship management, salvage, ship brokerage and financing. Furthermore, it is the headquarters of the International Maritime Organization, the International Chamber of Shipping, the Baltic Exchange and a number of other shipping organizations.

The British shipping industry has embarked on a strong lobbying effort for government support. A new Merchant Shipping Act was implemented in 1993 which makes some concessions such as a new bareboat charter register which gives the freedom to bareboat-in tonnage, streamlining registry procedures and a revised fee schedule. Furthermore, the Baltic Exchange has submitted a recent proposal to the U.K. Secretary of State for Transport to add a new section to the U.K. ship register. The new registry, called British Open Registry (BOR), will not have the ownership and crewing restrictions of the conventional register. Furthermore, there will be tax exemption for companies registering their vessels in the BOR.[117] While BOR may attract some of the present U.K.-flag vessels, the main goal is to bring back U.K.-resident owners of bulk tonnage who left for open registers.[118] The right wing pro-business lobby group, "Aims of Industry" which was the crusader for privatisation of British industries, has also joined the Baltic Exchange in support of BOR.[119] A consultant for the Baltic Exchange has reported that over the first five years, the BOR would attract somewhere between 400 to 800 ships (20 to 40 million DWT), provide the City of London with additional shipping services worth 5 to 20 percent increase in revenue (excluding income from insurance services), and provide the government with an income of 4 to 8 million sterling pounds per year from registration fees.[120] It has been reported that the British Department of Trade and Industry is in favor of the proposal."[121] However, the British Department of Transport has rejected the proposal so far while agreeing to make some concessions with regard to the nationality of officers on British vessels.[122] They have also recently approved a significant tax concession for British shipowners--rollover relief--which will avoid their being "at a disadvantage when trying to compete with foreign shipowners."[123]

3. The Japanese Model

Japan is another country with a long maritime heritage. However, more than 60 percent of Japanese-owned vessels are under open registers today and the tonnage under Japanese-flag continues to decline despite various promotional measures adopted by the government. E.g., from 1986 to 1993, Japanese-flag DWT has declined at an average rate of 7% per annum.[124] There are two main reasons for this: the high appreciation of Yen during the last decade and the high cost of employing Japanese crew.

As the Japanese shipowners began to desert the national registry in large numbers, a compromise was reached between the Japan Shipowners' Association (JSOA) and the All Japan Seamen's Union (AJSU) in October 1989. This resulted in what is referred to as KONJOH ships, or ships with mixed crewing for Japanese-flag ships which are newly constructed "in principle." Through this compromise, Japanese seafarers were guaranteed a certain number of jobs per year which would not have been the case had the trend of massive flagging-out were to continue.[125] The compromise to run Japanese-flag vessels with a mixed crew was expected to halve their direct operating cost.[126] Although the original compromise was to run ships with a minimum of nine Japanese officers and ratings, further negotiations have lowered this number to a minimum of six officers subject to a case-by-case approval from the AJSU.

Japanese shipowners also make extensive use of bareboat chartering arrangements. A Japanese shipowner can build a vessel in a local yard with government subsidies and then bareboat charter it to a foreign subsidiary. The foreign subsidiary will in turn crew the vessel with cheaper foreign crew and then time charter the vessel back to the principal. These operations have the approval of the Japanese Ministry of Transport.[127]

It is also possible for a foreign shipowner with connections to a Japanese shipping company to build a ship in a Japanese yard, and then time charter it to the Japanese company with a cheaper foreign crew. Another version is a Japanese shipowner selling a ship to a foreign owner and then chartering it back. The former arrangement is referred to as "tie-in" and the latter "charter-back."[128]

4. The Greek Model

Greek-controlled fleet decreased from 4,000 ships in 1980 to around 1,800 towards the end of the decade.[129] But, since then, it has been increasing significantly and consists of 3,019 ships today of over 120 million DWT, i.e, they carry one out of every six tonnes of cargo transported by ships today.[130] They dominate virtually every shipping market controlling 20 percent of the world's tanker fleet,[131] 27 percent of the combination carrier fleet and 20.5 percent of the ore and bulk fleet in DWT terms.[132] From March 1993 to March 1994, Greek controlled tonnage increased by a phenomenal number of 270 ships. Furthermore, about 6 percent of all new constructions are also for Greek owners.[133] The Greeks have the largest shipping fleet among the traditional maritime nations and it ranks behind only the open registry Liberian and Panamanian fleets.

Greece is a country where entrepreneurs still play a very active role in shipping. A policy of governmental interference which drove out many of these entrepreneurs to foreign locations has been replaced with a truly "shipping-friendly" environment. The Greek government did this by creating an offshore company structure in Greece itself through Law 814/78 which allows foreign economic interests, including shipping companies which may or may not be controlled by Greek interests, to relocate to Greece.[134] Furthermore, Greek tax laws allow significant exemptions for vessels constructed and registered in Greece.

Much of the increase in Greek tonnage has been through the acquisition of second hand tonnage. As a result, the average age of Greek-controlled vessels is 18.7 years while that for the world fleet is 15.8 years.[135] As many of these ships are purchased with little debt, it allows a typical Greek owner to overcome economic adversity somewhat easier than that of others.

F. AN INTERNATIONAL PROFESSION OF MARINERS

Seafaring is a glorious profession with little room for error. Contemporary trends in management philosophy such as total quality management and reengineering are really nothing new to the repertoire of a well-trained, qualified and conscientious seafarer. Following umpteen check lists and standing orders and being prepared to face the worst adversity during the best of times as well as the worst of times is very much a seafarer's lifestyle.

It takes a unique individual to be a successful seafarer. The uniqueness comes not from the possession of any extraordinary intellectual capacity but from the possession of simple commonsense (euphemistically referred at sea as behaving in a "seaman-like manner") and from the willingness to subject oneself to the rigors of self-discipline of the highest order and separation from near and dear ones for prolonged periods of sailing.[136] It also comes from the individual's mental and physical aptitude to face the unknown, be that hurricane force winds at sea or militant stevedores trying to pilfer cargo in port. The sea is certainly no place for incompetence, negligence or complacency for it can be tranquil one day, and ruthless the other. The only way a seafarer can gain respect from fellow shipmates is by knowing his/her job and carrying it out in the most professional manner. They know very well that when they go to sleep every night, their precious life is truly in the hands of their fellow watchkeepers. And for every conscientious seafarer who takes over a watch at any time of the day or night, nothing could be more satisfying than the confidence of fellow shipmates in his/her professionalism.

There is a common bondage among seafarers from all over the world that far surpasses distinctions based on color, creed, nationality, religion or socioeconomic stature. That bondage comes from their professional pride and their wider view of the world which their land-based colleagues often do not understand. If there is anyone worthy of being called an international citizen, it is a seafarer for he truly is a citizen of the world.

Unfortunately, the last few decades has seen a tarnishing of the image of some seafarers, in particular those from less developed countries who crew a majority of the open registry and international registry vessels. In every walk of the society, there are people who misuse the system and exploit it in every which way they can, and shipping is no exception. Barring people with such an attitude towards life in geneal, how many seafarers truly want to go out to sea and work on board a ship without the expectation of coming back to their near and dear ones? So, where does the fault really lie? Does it lie with the seafarers who crew open registry vessels, or with those responsible for putting them on those vessels in the first place without adequate training and proper quality control? But, above all, how true is the argument that seafarers from developing countries are to be blamed for all maritime disasters? The 1993 Casualty Statistics of the Institute of London Underwriters shows that the U.S. and Spain lost more shipping tonnage than the global average loss for the year.[137]

Can seafarers from less developed countries who are adequately trained and qualified navigate a vessel or crew its engine room as efficiently as seafarers from developed country? It is hard to find a reason why they cannot. Will the productivity of a merchant vessel go up if it is crewed with relatively expensive seafarers from a developed country? It is highly unlikely. Even if it were to be true, there will be a breakeven point beyond which cost increases will exceed productivity enhancements at which stage they become non-competitive. One writer has commented about the high long-run social opportunity costs associated with the shipping in low cost countries.[138] But, it is difficult to justify this if one is dealing with crews of similar training and competence. From the standpoint of social opportunity cost, what that matters is not the flag at the stern of a vessel but the competency and reliability of its crew.

If one were to follow the above line of argument, one would wonder what role exists for seafarers from developed countries. Simply left to the dictates of the invisible hand in the marketplace, there is truly none. So, does this mean that developed countries should give up on maritime activities or that all existing seafarers from developed countries should hang up their hat? Not necessarily, but that may indeed happen if remedial policy measures are not adopted at the earliest possible time. This is where a significant policy shift is essential particularly in the U.S. and these challenges will be laid out in the concluding section of this chapter.

G. <u>CHALLENGES FOR THE U.S.</u>

Shipping is an industry with relatively low sunk costs. When shipowners perceive that their competitors registered elsewhere are encountering a more "shipping-friendly" environment, they are apt to go in pursuit of it too. When shipowners leave their home flag, they are often followed by all others who provide the assortment of allied services thus taking away the vital shipping milieu of that country. This is the dilemma that the OECD countries are facing today.

A prolonged overall decline in profit margin (due to the continued imbalance between the forces of supply and demand in shipping markets) has caused most shipowners to strive for increased cost control and operational efficiency. The drive for controlling costs has come to such a point now that there is very little left to control. One most glaring item which is still perceived discretionary by most shipowners is the crewing cost. It often accounts for more than 50 percent of total running costs of a ship. A recent International Shipping Federation Earnings Survey (1993) has shown that a U.S. chief officer working on a U.S.-flag vessel costs 19 times as much as a Pakistani chief officer working on a Pakistani vessel (and Pakistani crew wages are by no means the cheapest).[139] While this differential may prove to be the case for other professions as well, because of the mobility of shipping the industry can be taken over to where it can be run cheaply while a local hospital administrator does not have the same privilege. If the higher paid U.S. chief officer were to be 19 times more productive than the foreigner, perhaps the re-flagging could be avoided. But as discussed in the earlier section, that is unlikely to be the case.

In the context of the declining European shipping industry, one observer has very eloquently stated that industrial dislocation and spatial reorganization of economic activity is acceptable as long as trading partners reciprocate allegiance to market forces and do not indulge in unfair business practices failing either of which a "quixotic adherence to the virtues of liberalization correspond to nothing less than economic suicide with irreversible long-run effect."[140] The statement could be interpreted as "if you can't beat them, join them." Unfortunately, we live in an imperfect world and the options are rather limited. What the U.S. has to do is to create a "shipping-friendly" environment that prevents volunatry and involuntary "poaching" of its shipowners. Presently, even Canada, the most important trade partner of the U.S. is "poaching" the U.S. shipping milieu across the border because of the special treatment they give to shipowners. Canada altered its tax rules in 1991 which made shipping companies based in Canada and engaged in international shipping operations to be non-residents.[141] Also, there are no flag or crewing restrictions.[142] Some key elements essential to accomplish a virtual catharsis of the current negative image of the U.S. register are discussed below.

It is becoming increasingly clear that international registers are the way of the future for traditional maritime nations. A recent study on ship costs concluded that they will rise sharply in the 1990s.[143] It will be foolhardy of the U.S. not to learn from what is being done by its competitors. The Nordic countries themselves provide an excellent contrast in style. Norway, with its creative NIS register has revitalised its shipping tonnage. At the other extreme is Sweden. All attempts at creating an international register in Sweden has been defeated by the Swedish seamen's union[144] and the conservative government is repeating more of the former--government subsidies.[145] The Swedish shipowners have responded with placing virtually all their newly acquired tonnage under open registers. The Swedish open register fleet which was the 18th largest in 1990 had climbed to the tenth largest by December 31, 1992,[146] and is the fastest climbing open registry fleet now.[147]

The first challenge for the U.S. will be to set up a U.S. International Ship (USIS) register. The register should be open for <u>deep-sea</u> vessels owned by any shipowner with a business base in the U.S., thus ensuring a genuine link with the flag. Owners using the register should receive a deferral on their U.S. taxes as long as the profit is reinvested in USIS shipping and should receive the benefit of accelerated depreciation of their assets.

With regard to crewing, the present system must be completely overhauled. A mixed crewing system must be permitted for the USIS vessels. All vessels must be crewed at least one-third with U.S. seafarers at all ranks, three of which must be the Captain, the Chief Engineer and the Chief Officer. The U.S. seafarers must have their allegiance to their employer although they should the freedom to join any seafarer union that they want. All income of U.S. seafarers earned outside the U.S. must be tax free. The income that they earn while in the U.S. should be subject to the usual tax payments.

The U.S. Maritime Administration (Marad) must negotiate with the appropriate governmental agency in foreign countries from where the foreign crew is to be hired. All incomes of all foreign crew should be free of all taxes. In order to ensure the professional competency of the foreign seafarers, the Marad should provide a month-long training program coordinated by the nation's maritime academies and financed by the USIS companies. Both foreign and local U.S.-citizen seafarers should be exposed to bridge simulators and bridge resource management techniques such as the three day course presently offered by the Flight Academy of Scandinavian airline SAS in Stockholm. Only those crew members who can prove their competence should be allowed to sail on USIS vessels. Such training should be offered periodically such as once every three years. The U.S. maritime academies should be streamlined and their academic offerings diversified to prepare the next generation of transportation specialists. They should have the option of choosing a career at sea or ashore in the rapidly expanding intermodal and logistics sector.

The Marad itself must be relocated to its original location--in the Department of Commerce. As long as the Marad remains in the Department of Transportation, it will remain as an insignificant player compared to its bigger brethren, the trucking and railroad industries. The demand for shipping will always be derived from the needs of international commerce and hence, that is where the Marad should be. There is no reason why the Marad should not negotiate bilateral agreements with the country's trading partners to make sure that USIS carriers will have a cargo base at all times. But, that should be the end of bureaucratic involvement in shipping. The USIS register must be run professionally and provide efficient services for its customers.[148]

These are some suggested challenges for the U.S. maritime policymakers. It is true that some of the changes recommended are truly radical. But, repeated iterations of a policy concocted in 1936 has left this nation with precious little shipping tonnage. What is required is a radical change in policymaking and it is fully justifiable in the contemporary era. In a period of escalating budgetary concerns, it is not being suggested that more public funds be allocated for shipping. What should be done is to make it possible for shipowners based in the U.S. to have the same competitive advantage as their competitors so that at least one-half of the 685 U.S. beneficially-owned vessels of 40 million DWT can come back from their respective open registers.[149] Unless the nation takes some radical new measures such as what are recommended, the U.S. may lose its home-flag deep-sea shipping fleet forever.

ENDNOTES

1. Clinton H. Whitehurst, The U.S. Merchant Marine: In Search of An Enduring Maritime Policy (Annapolis, Maryland: U.S. Naval Institute, 1983), p. 43.

2. Leslie L. Kanuk, "Politics of Merchant Shipping Lecture Series," Lectures at Maine Maritime Academy, Castine, Maine, 20 Sept. 1986.

3. "Total Merchant Fleet Development (1921-1992)," Shipping Statistics Yearbook 1993 (Bremen: Institute of Shipping Economics and Logistics, 1993) 15. Hereafter referred to as ISL Yearbook 1993.

4. "Total Seaborne Trade, Volume in Tonnes, (1975-1992)," ISL Yearbook 1993, 100.

5. "Merchants Ships on Order by Principle Types, 1975-1992," ISL Yearbook 1993 293.

6. For a brief review of the early development of the law of the sea and maritime policy, see Bruce Farthing, International Shipping (London: Lloyd's of London, 1993) 1-9.

7. For more details on U.S. maritime policies from 1789 to 1979, see Irwin M. Heine, The U.S. Maritime Industry in the National Interest (Washington, D.C.: National Maritime Council, 1980) 3-27.

8. Ian Middleton, "Wearing Tradition Lightly," Seatrade Review Feb. 1994: 6.

9. All OECD nations are included in Table 1 except Luxembourg, Austria, Ireland Iceland, and the recently invited Mexico.

10. Michael Grey, "U.K. Maritime Fleet: How Public Awareness Can Help Save the Fleet" Lloyd's List 11 Mar. 1994: 6.

11. Grey 1994, 6.

12. Stephen Chapman, "Features of a Successful International Register" Lloyd's Shipping Economist Sept. 1993: 22.

13. Janet Porter, "Europe View: U.K. Shipowners Get No Relief" Journal of Commerce 7 Dec. 1993: 8A.

14. Alexander V. Klementiev, "The Soviet Fleet in World

Shipping." Seatrade Soviet Maritime Guide 1991: 61. Also see "Fleet Statisitcs," Seatrade Soviet Maritime Guide 1991: 68.

15. Patrick Gautrat, "Eastern-Block Shipping Policies and European Shipping Industries," Shipping Policies For An Open World Economy, G.N. Yannopoulos, Ed. (London: Routledge, 1989) 147.

16. Klementiev, 61.

17. Gautrat, 146.

18. "Getting the Balance Right," Seatrade Soviet Maritime Guide 1991: 3. Another report states that 50 percent of the Soviet ships are more than 15 years old. Source: "The Future of Soviet Bloc Shipping: Still More Potential than Profit," International Ship Registry Review 5.4 (Apr. 1992): 6.

19. The fact that Soviet shipyards could only meet half the needs of the Soviet merchant fleet was not well understood by westerners. Source: "Getting the Balance Right," 3.

20. Source: Comments of Sergey Terekhin, Director of Joint Ventures at Novorossiysk Shipping Compnay. Cited here from "Getting the Balance Right," 5.

21. OECD Maritime Report 1993, 47. Another report states that Russia has retained 56 percent of the Soviet maritime infrastructure and 46 percent of the fleet. Source: ITF Statistics, quoted here from "Russia Assumes USSR Registry, IMO Seat," International Ship Registry Review 5.2 (Feb. 1992): 12.

22. OECD Maritime Report 1993, p.47.

23. Zu Zengjie, "The Development of China's Ocean Shipping," a paper presented at the meeting of the Economic and Social Commission for Asia and the Pacific, Oct. 19-30, 1981, Beijing, 12. Cited here from Irwin M. Heine, China's Rise to Commercial Maritime Power (New York: Greenwood, 1989) 9.

24. ISL Yearbook 1993, 261. This does not include the open registry vessels which are owned and controlled by the Chinese Ministry of Communications.

25. Heine 1989, 1. If one were to add the cargoes carried by ships chartered by the Chinese government and also those carried by Chinese vessels registered elsewhere (such as Hong Kong and Panama), the market share will go up significantly. Unfortunately, no such data is available. Furthermore, China did not respond to the recent MARAD survey of shipping subsidies.

26. Heine, 2.

27. Heine lists 33 bilateral shipping agreements which were in effect in 1989. See Heine 1989, Table 5, 150-151.

28. Heine (1989, 3) quotes that the Chinese price their liner services 15 percent below the conference rates.

29. For further details, see Heine 1989, 21.

30. Until 1976, one-half of Somalia's merchant fleet was Chinese-owned. It was when Somalia terminated this provision that the Chinese sought Liberian and Panamanian registries. Source: Heine 1989, 21.

31. ISL Yearbook 1993, pp.21 and 24. From 1960 to 1986, the Chinese fleet grew at an astonishing average rate of 13.3 percent. Source: Heine 1989, Table 2, 146.

32. Heine 1989, 3.

33. "COSCO: Competive Challenge," Lloyd's Shipping Economist Compnay Analysis, Mar. 1992: 28.

34. "COSCO: Competitive Challenge," 31.

35. "Colony's Future Remains Open," Lloyd's List 30 mar. 1994: 10.

36. Guide to International Ship Registers and Ship Management Services 1993, 26.

37. Guide to International Ship Registers and Ship Management Services 1993, 25-26.

38. "Colony's Future Remains Open," p. 10.

39. P.T. Bangsberg, "Fleet Increases in Hong Kong, But Capacity of Ships Plummets," Journal of Commerce 9 Feb. 1994: 7B.

40. "Colony's Future Remains Open," 10.

41. "AIS: Trying to Narrow the Choice," Lloyd's Maritime Asia Mar. 1994: 47-51.

42. David Hughes, "World In Focus: Singapore--Being Useful," Fairplay Special Report, 29 July 1993, pp. 34-44.

43. ISL Yearbook 1993, 21.

44. Tae-Woo Lee, Tae-Woo Lee, "Some Reflections on the Causes of Growth of Korean Shipping," Current Issues in Maritime Economics K.M. Gwilliam, Ed., (Dordrecht, Holland: Kluwer, 1993): 10-20.

45. Tae-Woo Lee, 8.

46. E.g., the average age of the ships of Hyundai Merchant Marine, a large South Korean shipping company, is only six years. Source: David Hughes, "World in Focus: South Korea--Owners Call for Second Register," Fairplay Special Report 12 August 1993: 31-32.

47. Hughes 1993, 30.

48. OECD Maritime Report 1993, 45.

49. ISL Yearbook 1993, 267.

50. Author's computations based on data from ISL Yearbook 1993.

51. Comments of Cho Sang-Wook, Chairman, Korea Shipowners' Association. Cited here from "Owners Call for Second Register," 31.

52. ISL Yearbook 1993, 21.

53. "Shifts in Taiwan Affect Flag and Crew," International Ship Registry Review 6.11 (Feb. 1994): 6.

54. OECD Maritime Report 1993, 45.

55. ISL Yearbook 1993, 23.

56. ISL Yearbook 1993, 23.

57. This is often referred to as the UNCTAD Liner Code. But as emphasized by Farthing (1993, 115), although the groundwork was done by the UNCTAD Shipping Committee, it was in fact accepted by a majority vote at a diplomatic conference called by the UN. The official title is "Convention on A Code of Conduct for Liner Conferences."

58. For a good discussion of the early years of UNCTAD, its Committee on Shipping and the circumstances which led to the Code of Conduct, see S.G. Sturmey, "The Code of Conduct for Liner

Conferences," Maritime Policy and Management 13.3 (1986): 187-88.

59. Farthing 1993, 116.

60. The requisite number of countries representing 25 percent of the total volume of world trade in 1974 ratified the Code by April 6, 1983. Six months later, on October 6, 1983, the Code became effective.

61. Through an agreement reached between the EC nations in 1979 at Brussels, members of the EC disapply the cargo sharing provision among themselves (EC Regulation 954/79). For example, an EC nation following 40-40-20 division of cargo with its non-EC trading partner will set aside 40 percent for the trading partner and 20 percent for cross traders. All EC countries will have the right to participate in transporting the 40 percent share of the EC nation under consideration. This agreement is referred to as the Brussels Package.

62. Leslie Kanuk, "The UNCTAD Code of Conduct for Liner Conferences: Trade Milestone or Millstone--Time WIll Soon Tell," Northwestern Journal of International Law and Business Perspective 6.2 (Summer 1984): 357-372.
While Kanuk (1984) provides a good criticism of the Code from a U.S. perspective, Sturmey (1986) who was personally involved in its drafting provides an indepth view of the deliberations which went into it and also some justifications for its controversial provisions.

63. Sturmey 1986, 200.

64. Kanuk 1984, 364.

65. Sturmey 1986, 202.

66. Farthing (1993, 120) considers it as one of disorder and difficulty for liner operators.

67. "UNCTAD Liner Code: 40-40-20--Potential Redistributional Effects for Liner Vessels," Lloyd's Shipping Economist Feb. 1995: 6-9.

68. For a good discussion on the technological revolution of containerization and its competitive ramifications, see N. Shashikumar, The Impact of Containerization and Intermodalism on Competition and Contestability in Deep-Sea Liner Shipping, diss., Univ. of Wales College of Cardiff, 1993.

69. Sturmey 1986, 211.

70. For a discussion on the development of liner-oriented intermodal services, see N. Shashikumar 1993.

71. For further details, see N. Shashikumar 1993.

72. Julian Bray, "UNCTAD: Three Weeks to Nowhere in Geneva," Seatrade Business Review Jan./Feb. 1989: 47-49.

73. The open registry fleet increased from 8.1 million GRT in 1955 to 111 million GRT by 1977. Source: Farthing 1993, 122.

74. See Kanuk 1984, especially note 8 on p. 360. Also see Rex S. Toh and Sock-Yong Phang, "Quasi-Flag of Convenience Shipping: The Wave of the Future," Transportation Journal Winter 1993: 31-39.
However, there are some factual errors concerning ship registries in the Toh and Phang (1993) article.

75. For a full discussion, see Farthing 1993, 121-123.

76. Farthing 1993, 123.

77. For a discussion of these developments, see Farthing 1993, 124-25.

78. (Ship Reg. 1986) U.N. Convention on Conditions for Registration of Ships, Document TD/RS/CONF/23. 7 Feb. 1986.

79. For further details, see The United Nations Convention for Registration of Ships 1986. Also see Toh and Phang (1993, 35) or Farthing (1993, 125).

80. OECD Report 1993, Annex I, pp. 152-154.

81. ISL Yearbook 1993, 293.

82. Janet Porter, "South Korea Narrows Japan's Lead in Shipbuilding, Lloyd's Figures Show," Journal of Commerce 25 Feb. 1994: 8B.

83. Comments of Shigeru Goda, Chair, Sumitomo Heavy Industries Ltd., cited here from Mark Magnier, "Japanese Shipbuilders Withstand South Korean Surge, Official Says," Journal of Commerce 10 Mar. 1994: 7B.

84. Heine 1989, 49.

85. The total commercial shipbuilding undertaken by U.S. yards from 1988 to 1992 comes to 93,000 gross tons. Source: ISL

Yearbook 1993, 296.

86. International Shipbuilding Aid, (Arlington, Virginia: Shipbuilders'Council of America, June 1993): Exec. Summary, i. Also see Tim Sansbury and Stephanie Nall, "Final Countdown Nears on Shipbuilding Subsidy Talks," Journal of Commerce 25 Feb. 1994: 1A.

87. Steffan Sohlman, the Swedish diplomat who chairs the negotiations had threatened to resign and suspend the negotiations should there not be a breakthrough in the Paris talks. Source: Bruce Barnard, "Shipyard Subsidy Tide Ebbs, Flows As EU Considers Pact to Outlaw Aid," Journal of Commerce 8 Mar. 1994: 8B.

88. Terry Brennan, "Fight to End International Shipyard Subsidies Head Towards Congress After Paris Talks Fail," Traffic World 28 Mar. 1994: 26.

89. Tara Patel, "Tough U.S. Stance Helped Doom Shipbuilding Talks," Journal of Commerce 22 Mar. 1994: 1A.

90. Brennan, 26.

91. This was launched by the Clinton administration when the 1993 OECD multilateral talks to end shipbuilding subsidies failed.

92. For a good discussion on the National Shipbuilding Initiative, see James A. Rossi, "Structuring Aid to U.S. Shipyards," Journal of Commerce 17 Mar. 1994: 6A.

93. Tim Sansbury, "Shipbuilders Urge U.S. Sanctions Against Vessels of Subsidizing Nations," Journal of Commerce 22 Mar. 1994: 10A.

94. Tara Patel, "French lines Pushed to Buy Domestic Ships," Journal of Commerce 11 Apr. 1994: 8B.

95. Michael B. Berzon, "Who Will Pay for the Gibbons Bill? YOU," American Shipper Apr. 1994: 49.

96. Tara Patel and Tim Sansbury, "Global Shipbuilding Talks to Enter Last Round May 23 in Paris," Journal of Commerce 25 Apr. 1994: 7B.

97.Bruce Vail, "The Gibbons Black List," American Shipper Mar. 1994: 82-83.

98. "Norway: Nihil Nisi Optimum? (Nothing But the Best)," International Ship Registry Review 3.7 (July 1990): 3.

99. However, it is possible to get a dispensation to sail a NIS-flag ship without a Norwegian master. One complaint against the NIS by Norwegian seafarers has been that the NIS has been too liberal with its dispensations.

100. Karen Fossli, "Rallying Under Fire," Seatrade Review June 1993: 6-9.

101. Editorial comment on NIS, 1993/94 Official Guide to Ship Registries.

102. "NIS List Grows to 799 Vessels," Lloyd's List 30 Mar. 1994: 7.

103. "NIS Success as World Fleet Grows," Lloyd's Shipping Economist May 1990: 27.

104. "NIS List Gorws to 799 Vessels," 7. Many of the foreign registered companies are controlled by Norwegians.

105. Source: Rolf Saether, Director General of Norwegian Shipowners' Association. Quoted here from Tony Gray, "British Open Register--Ghost that Haunts Shipping Industry," Lloyd's List 9 Sept. 1993: 5.

106. Comments of Leif Nygaard, the head of the Shipping Division, Norwegian Maritime Directorate, cited here from "NIS List Grows to 799 Vessels," 7.

107. "Owners: Crossing the Great Divide," Seatrade Review Norway Report, Dec. 1993: 51.

108. It is believed that the tax reform was undertaken to prevent the explosive speculation in shipping which was diverting resources from other sectors of the Norwegian economy such as agriculture and construction. Source: "Norway: Nihil Nisi Optimum?" 3.

109. Source: "Danish International Ship Register," Guide to International Ship Registers and Ship Management Services 1993: 19.

110. "Denmark Attributes Fat Orderbook to Second Registry," International Shipp Registry Review 4.7 (July 1991): 1.

111. "Shipowners in Germany Continue Flagging Out," Lloyd's List 1 Apr. 1994: 3.

112. Andrew Guest, "Ship Registry: Structured Change,"

Lloyd's Maritime Asia Mar. 1989: 23-26.

113. Middleton, 6.

114. Janet Porter, "U.K. Shipowners Get No Relief," Journal of Commerce 7 Dec. 1993: 8A.

115. Comments of Edmond Vestey, President of the British Chamber of Shipping. Quoted here from "U.K. Merchant Fleet in danger of Disappearing," International Ship Registry Review 6.6 (Nov. 1993): 5. The present British DWT is 13.5 million while it was 36 million DWT in 1980. Source: "U.K. Shipowners Get No Relief," 8A.

116. Stephen Chapman, "Features of A Successful International Register," Lloyd's Shipping Economist Sept. 1993: 22.

117. "AIMS Adds Backing for BOR," Lloyd's List 30 Mar. 1994: 8.

118. Lucy Hine, "Baltic Exchange Acts to Boost UK Flag," Journal of Commerce 9 Dec. 1993: 7B.

119. "British Open Registry to Materialise?" Asian Shipping Mar. 1994: 5.

120. "Baltic Refines Its British Open Register Proposals," Lloyd's List 11 Mar. 1994: 7.

121."Aims Adds Backing for BOR," 8.

122. "Relief for U.K. Shipping," Fairplay 28 Apr. 1994: 6.

123. Details unknown. Source: "Relief for U.K. Shipping," 6.

124. ISL Yearbook 1993, 20.

125. "Union Agrees Mixed-Manning Compromise," Lloyd's Ship Manager Feb. 1990: 7.

126. "The Japanese Flagging Out Dilemma--Men and Ships," Internatioanl Ship Registry Review 1.10 Oct. 1988: 12.

127. This scheme is referred to as "Maru-Ships." There are about 160 such ships in the Japanese fleet. Source: John Crichton, "Japan's Economy Crews," Containerisation International Feb. 1992: 37.

128. For details, see Crichton, 37.

129. "Q: Would Odysseus Flag His Ship in Greece or Cyprus? A: Greece, If He was Planning to Sail to Troy," International Ship Registry Review 4.5 May 1991: 1.

130. Ian Cochran, "Greek Fleet Grows for Fourth Year in a Row," Lloyd's List 24 Mar. 1994: 7.

131. "Tanker Fleet Rises to No.1 in Greece," Journal of Commerce 24 Feb. 1994: 1A.

132. Cochran, 7.

133. Cochran, 7.

134. U.S. Maritime Administration, Maritime Subsidies (Washington, D.C: U.S.G.P.O., 1988): 57-58.

135. Cochran, 7.

136. The author spent a good decade at sea. His longest stay on any ship was 14 continuous months!

137. Thw world average for tonnage lost in 1993 as percentage of total tonnage was 0.147. The U.S. lost 0.161 percent of its total tonnage (3 ships of 22,916 GRT) and Spain, 0.152 percent (3 ships of 2,867 GRT). Source: Casualty Statistics 1993, (London: Institute of London Underwriters, 1993) 10.

138. Hercules E. Haralambides, "A New Future for European Shipping Inaugural Address," Erasmus University, Inaugural Address, Rotterdam, the Netherlands, 9 Mar. 1993.

139. "Savings on Crew Costs," Lloyd's List 30 Mar. 1994: 8.

140. Haralambides, 18.

141. Jean T. Castonguay, "A Tax Haven?" Fairplay Special Report, 9 Dec. 1993: 34-35.

142. Canadian relaxations has resulted in the poaching of at least one major ship manager, Teekay Management from Southern California to Vancouver, B.C. Source: "Canada in Bid to Attract Shipping Companies," International Ship Registry Review 4.5 (May 1991): 6.

143. Jim Mulrenan, "Ship Costs 'Set to Rise Sharply,'" Lloyd's List 26 Mar. 1994: 1.

144. Bill Box, "Swedish International Register: SIR Stumbles

at Final Hurdle," Seatrade Review Sweden Report, Apr. 1994: 85.

145. "Flagging Out A Trend Growing in Popularity," International Ship Registry Review 6.5 Oct. 1993: 10.

146. "Unctad Analyses Fleet Ownership," Lloyd's List 30 Mar. 1994: 10.

147. "Flagging Out A Trend Growing in Popularity," 10.

148. For example, the Singapore register is said to be able to handle a ship registration in two hours. Source: "Singapore: Maritime Law," Lloyd's ASEAN Shipping Directory 1991/92 (Hong Kong: Lloyd's of London (Far East)): 146.

149. "Unctad Analyses Fleet Ownership," Lloyd's List 30 Mar. 1994: 10.