

**INFORMATION****TRANSPORT****THE EUROPEAN COMMUNITY AND SEA TRAFFIC WITH NON MEMBER STATES**

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In a Communication to the Council (document COM(76)341 final), the Commission advocated that the Community should take steps to counter the growing discrimination, increasingly frequent market-disrupting practices and the dumping methods to which Community shipping is being exposed by the policies of other countries. To halt the spreading distortions of competition in sea transport, the Community should not only resort to bilateral and multilateral agreements to deal with the problem, but should also, where necessary, envisage limiting shares of traffic and imposing compensatory levies.

Shipping is of considerable importance to the Community's internal and external trade. Since the accession of Britain, Ireland and Denmark to the European Community, about a quarter of intra-Community trade has been carried by sea, while the figure for Community trade with the rest of the world is 90%. The value of Community sea-borne trade in 1973 was 150 000 million u.a., of which around half was carried by Community shipping lines.

In 1974 the shipping lines of the European Community had a turnover of 13 000 million u.a., including 11 000 million u.a. in trade between ports outside the Community (cross trade). This amount represents the gross contribution of the sea transport sector to the Community's balance of payments.

310 000 people are employed in this sector (250 000 on board ship and 60 000 on land). To this can be added jobs in shipbuilding and repair, and in auxiliary trades.

Changes have, however, occurred in the position of the Community merchant marine, which, although unquestionably efficient and operating the most advanced vessels with the lowest average age, today represents only 24% of world fleets compared with 40% in 1959 (for the nine present Community countries). Over this same period world merchant fleets have tripled. The fleets of the state-trading countries have contributed most to this unprecedented growth, having increased by 400% since 1959. The fleets of countries flying a flag of convenience have expanded by 330%, those of developing countries by 280% and those of the other developed

industrial countries by 240%. While the supremacy of Community shipping lines has been declining, trade between the Community and other countries has risen by 400%. This means that during the last fifteen years the Community shipping lines have not been able to take full advantage of this expansion in trade.

The Commission, in its Communication to the Council, describes this situation as very serious, as apart from affecting the shipping sector, this decline could also harm the external trade of the Community. For instance, the discriminatory measures practised by some states on regular routes have already been partly responsible for considerable increases in freight charges.

The difficulties facing the structurally efficient Community-based shipping arise from the determined efforts of some foreign governments to obtain a greater share of world maritime trade for their own fleets. They resort to measures which considerably distort the conditions of competition in the traffic market: flag discrimination, dumping, subsidies, tax concessions and considerable laxity in applying safety regulations.

Since the mid-sixties, the Asian and Latin American developing countries above all have endeavoured to have a significant proportion of their trade carried by their own fleets. The developing countries have managed to build up a 15% share of the world fleet of cargo liners, simply because they have discriminated against foreign flags, either directly, by reserving cargoes for their own fleets, or indirectly, by selling exports cif and buy imports fob, leaving the choice of vessel to the exporter or importer respectively. Since the UN Convention on a Code of Conduct for Liner Conferences has not yet received sufficient ratifications to enter into force, the Community must still agree on a joint procedure.

The greatest problems are, however, caused by the rise of the merchant fleets of the state-trading countries. The economic system of the East Bloc countries, in which costs play a different role from in free market economies, enables their shipping lines easily to underquote freight rates even though no real competitive advantage exists.

Capital costs, the most important cost factor in this capital-intensive industry, thus play a subordinate role in the fleets of the state-trading countries. Insurance premiums, sometimes quite considerable, are paid by the state. Bunker fuel is supplied in Soviet ports at much lower prices than in the West. These three factors together make it possible for the shipping lines of the state-trading countries to apply freight rates which are on average 30% below the market level. The system of selling cif and purchasing fob offers further scope for influencing the choice of vessels.

Although the Member States of the Council for Mutual Economic Assistance account for only 5% of world trade, as a result of these dumping practices their share of the world fleet of cargo liners is 16%. In trade between the USA and the Federal Republic of Germany, Eastern European freighters are already carrying 13% of total freight. In ports in the Netherlands, they take on nearly as much cargo as Dutch vessels, while in German ports their share is already half of that of the German shipping lines. The attempt of the Soviet merchant marine to gain a footing on the route between Western Europe and East Africa is also significant.

Soviet vessels now carry 70% of sea-borne trade between the Community and the USSR. It should also be noted that vessels from the state-trading countries may load and unload freely in Community ports, but Community countries' fleets may not do likewise in ports in state-trading countries.

As a result of dumping by the state-trading countries, Western European shipping lines are suffering a growing loss of revenue, which reduces the returns on investments in shipping and will eventually lead to a further relative decline of the Western European merchant fleet. Dumping also entails a political danger. If the fleets of the state-trading countries should ever get into a dominant position, they could one day be in a position to impose their conditions on Community countries' trade.

All these practices raise political problems. The Commission therefore takes the view that the Community must act. Up until now, some Member States, basing themselves on the Treaty of Rome, have been unwilling to recognize that the Community has any competence in shipping matters. Nevertheless, such matters have recently been mentioned in the exchanges of letters relating to trade agreements. In GATT, flag discrimination has at the insistence of the Commission been included in the list of non-tariff barriers to trade. The Commission feels that Community action would clearly be more effective than moves by individual member countries. Shipping problems should therefore be discussed at future bilateral negotiations with non-member countries and should also be brought up at multilateral level. Where necessary, countermeasures should also be taken to maintain the efficiency of Community shipping lines.

GROWTH OF WORLD MERCHANT FLEETS

<u>1959</u>	(million gross Tonnage register tons)	Proportion of world fleet	
World	100.5	100	
OECD	73.5	73.1	
EEC	40.1	39.9	
Developing Countries <sup>1</sup>	5.7	5.6	
Flags of convenience <sup>2</sup>	17.1	17.0	
State-trading countries	4.3	4.2	
<u>1975</u>			<u>Percentage growth</u>
World	300.7	100	199
OECD	184.2	61.3	151
EEC	71.3	23.7	78
Developing countries <sup>1</sup>	21.4	7.1	278
Flags of convenience <sup>2</sup>	73.4	24.4	330
State-trading countries	21.7	7.2	410

<sup>1</sup>Excluding flags of convenience.<sup>2</sup>Liberia, Panama, Honduras, Costa Rica, Lebanon, Hong Kong, Singapore, Cyprus, Somalia, Bermudas.