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## Report

drawn up on behalf of the Committee on Regional Policy, Regional Planning and Transport

**on the EEC's relations with the COMECON countries in the field of maritime shipping**

**Rapporteur: Mr K. JUNG**



On 10 May 1978 the European Parliament , in compliance with Mr Nyborg's report (Doc. 81/78), instructed the Committee on Regional Policy, Regional Planning and Transport to follow the activities of certain state-trading countries as regards cargo liner shipping and to report to Parliament if necessary (Resolution, see OJ No C. 131, 5.6.1978).

The Committee on External Economic Relations was asked for its opinion. At its meeting of 22 September 1978 the Committee on Regional Policy, Regional Planning and Transport appointed Mr K. Jung rapporteur.

On 19 September 1978 the Council adopted a Decision concerning the activities of certain third countries in the field of cargo shipping.

On 12 October 1978 the Commission submitted amendments to this Decisions (Doc. 415/78), on which the Committee on Regional Policy, Regional Planning and Transport submitted an interim report on 13 November 1978 (Doc. 429/78). In the resolution contained in this report, adopted on 17 November 1978, the European Parliament reiterated its instructions to keep a close watch on developments and to report if necessary.

The Committee on Regional Policy, Regional Planning and Transport considered the present report at its meetings of 22 February 1979 and 3 April 1979.

The motion for a resolution and explanatory statement were unanimously adopted at the meeting of 3 April 1979.

Present: Lord Bruce of Donington, chairman; Mr Jung, rapporteur, Mr Alber (deputizing for Mr McDonald), Mr Albers, Mr Brugger, Mr Corrie, Mr Delmotte, Mr Forin, Mr Fuchs, Mrs Hoffmann, Mr Kavanagh and Mr Osborn.

The opinion of the Committee on External Economic Relations is attached to this report.

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A

The Committee on Regional Policy, Regional Planning and Transport hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

MOTION FOR A RESOLUTION

on the EEC's relations with the COMECON countries in the field of maritime shipping

The European Parliament,

- having regard to the Decision of the Council of 19 September 1978 concerning the activities of certain third countries in the field of cargo shipping<sup>1</sup>,
  - having regard to the report of the Committee on Regional Policy, Regional Planning and Transport and the opinion of the Committee on External Economic Relations (Doc 51 /79),
  - in view of the threat to Community shipping interests from the unfair practices of some COMECON countries,
  - in an effort to make the Community capable of action in the field of maritime shipping, as regards its relations with the outside world,
1. Recalls its resolution of 15 June 1978 on the state of the relations between the EEC and the East European state-trading countries and COMECON<sup>2</sup>, and its earlier resolutions on questions relating to maritime shipping<sup>3</sup>;
  2. Welcomes the introduction of an information system which will keep the Community bodies constantly informed of the activities of the merchant fleets of third countries whose practices are damaging to the shipping interests of the Member States, undermining as they do the principles of healthy competition;
  3. Points out, however, that observation is no help in itself and that the Community bodies and the Member States must therefore prepare a framework for measures which can be taken immediately when information received confirms the impression that discrimination is indeed occurring on a massive scale;

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<sup>1</sup>OJ No. L 258, 21.9. 1978, p.35

<sup>2</sup>OJ No. C 163, 10.7.1978, p.49

<sup>3</sup>OJ No. C 57, 7.3.1977, p.57; C 118, 16.5.1977, p.40;  
C 131, 5.6.1978, p.40; C 163, 10.7.1978 and C.296, 11.12.1978

4. Demands therefore that, above and beyond the existing consultation procedure as regards relations between the Member States and third countries in the field of maritime transport, and related measures in the international organizations, the common shipping policy must be enabled to play a role vis-à-vis non-member countries;
5. Calls on the Council to decide as soon as possible, in cooperation with the OECD countries, on the Community's position on the code of conduct for liner conferences elaborated by the United Nations;
6. Fears that in the long term the Community's external actions will lose their credibility and force if certain minimum conditions are not laid down internally, i.e. in the maritime shipping and ports policy, between the countries of the Community;
7. Calls on Community import and export firms and organizations to take due account of the interests of Community transport undertakings in external trade transactions;
8. Calls on the Commission to submit further proposals regarding a common maritime shipping policy before the two-year observation period expires;
9. Instructs its President to forward this resolution and the report of its committee to the Council and Commission.

EXPLANATORY STATEMENT

Introduction: The expansionist external transport policy of the COMECON countries

1. The Community's sea transport sector is used to hard competition and the maritime shipping companies of the Member States have achieved their present high level of efficiency as a result of the constant need to make improvements in a free world market on free world seas.
2. For the last few decades this freedom of the seas has been threatened in two ways: by the protectionism of certain countries whose shipping companies were not quite as efficient as those of the Community and which therefore resorted to the fifty-fifty clause and other protectionist measures, and also by flags of convenience granted by certain countries without shipping companies or a shipping tradition of their own which exploited certain legal practices in order to procure relatively substantial tax income - in relation to their national budgets - while causing disproportionate tax losses to the traditional shipping countries. Even more serious is the fact that the lack of legislation or surveillance by the countries issuing flags of convenience has become a source of major risk to world shipping.
3. In addition to these difficulties two other new threats have recently emerged for the shipping of the Community countries; on the one hand many developing countries which understandably want to have a share in the considerable transport business generated by the exportation of their raw materials are crowding onto the world shipping market. In order to steer this development along a path acceptable to both sides, UNCTAD has drawn up a code of conduct for liner shipping conferences which the United Nations has put out for signature and on which the Community is at present negotiating in the Council of Ministers. On the other hand, however, the COMECON countries and other state-trading countries are also pressing for a larger share of the shipping market than the small percentage which they have traditionally enjoyed.
4. The COMECON countries have always been outsiders in world maritime shipping and since the Second World War have consistently undercut the freight rates decided on by the shipping conferences. The impact of this was not serious as long as they operated with outdated tonnage - including many German pre-war vessels confiscated at the end of the war and retained as reparation - and offered only inferior services for their lower rates.

5. Things have not changed since 1945. Large ships from the state-trading countries are today to be found in all the world's ports and the size of their fleet is increasing rapidly year by year.
6. The astonishing growth of the fleets of the USSR and other state-trading countries is due to the fact that, in the context of their planned economies, these countries have given preference to heavy industry and shipping to the detriment of supplies of consumer goods for their people.
7. The Soviet Union has, in the course of the last few decades, considerably expanded its merchant fleet in line with its increasing role in world politics and its constantly growing ambitions. The same applies to its navy, although this does not enter into the present debate.
8. The constantly increasing economic power of the Soviet Union and the COMECON countries and the constantly increasing technical capacity of the industry and labour force of these countries have enabled them to exploit their opportunities on the world market.
9. This applies not only to shipping but also to all the other modes of world transport.
10. In the field of road transport the state-trading countries have also conducted a similar expansionist policy, and this is at present the subject of negotiations between the EEC and these countries.
11. In the field of internal navigation the main scene of conflict so far between west European and east European shipping companies has been the Danube. The result has been the almost complete disappearance of Austrian and German shipping companies from transport operations there.
12. It is known from several sources that the state-trading countries are awaiting with great interest the opening of the Rhine-Main-Danube canal and sound technical and legal preparations have no doubt been made for the full exploitation of the Rhine transport market once the last lock has been completed.

Here your rapporteur thinks it urgently necessary to modify the Mannheim Act.

Mr Fuchs is at present drawing up a report on this subject and there is therefore no need to go into the matter further here.

13. In the field of air transport Aeroflot is flying to more and more airports throughout the world. Its efforts to maintain to some extent the principle of reciprocity in air transport seem to have been successful.
14. Only in rail transport is the expansionist potential non-existent for the COMECON countries on account of the operation of territorial monopolies: at the same time it does seem that by dint of an active price and business policy the Trans-Siberian rail route is competing for both air and sea freight flows with the Far East.

I. The way the state-trading countries operate and why

15. In every case the methods of the state-trading countries are the same and are based on the same principles.

16. No description of these methods would be necessary if they led to fair competition on an equitable basis. There would be no grounds for the Member States of the Community to protect their economies if other competitors were simply better. Business would then just have to adjust to match the competition and try to attain the same level of efficiency as foreign competitors.

17. A further preliminary note: The fact that the COMECON countries are capturing an increasing share of the world market in transport services is due not to the often claimed superiority of their economic system, but primarily to the fact that they are exploiting the advantages of the free world market without granting western countries concomitant advantages in their own market, and secondly that the lack of democratic supervision of their economic policy enables them to disregard much more easily and on a much larger scale the interests of consumers and the rules of economic efficiency.

The activities of the COMECON countries - often described as cryptic - in fact take the form of quite straightforward breaches of the principle of reciprocity which must underlie any trade, and the granting of state aid for political objectives at the cost of the 'tax-payer' - something which can happen in western countries too.

18. Regarding the question of reciprocity, the COMECON countries have generally been very quick to give their approval to the restoration of normal conditions if this is requested energetically enough. In the field of transport most examples of this are to be found in air transport. It is more difficult to overlook the question of the subsidizing of shipping, internal navigation and road transport for political and military reasons, as this affects price policy.

19. The COMECON countries make use of the freedom of establishment and capital movements in many western countries either to set up their own branches of shipping companies or transport agents, or to buy shares or controlling interests in existing firms. Consequently they are able to benefit from the whole range of possibilities offered by the free access to the transport market in the country concerned. But no such freedom of establishment is offered in return to western firms in the Soviet Union: and western firms have even less opportunity to buy shares in Soviet firms since these are all state-owned.

20. Even if the western firms were able to bid freely in the COMECON countries they would be hamstrung since all the charterers are state-owned firms which use the 'cif-fob trick' to keep out foreign firms. This means that they import only fob and export cif, in other words, the COMECON firm always pays cost, insurance and freight and consequently has the right to choose the shipper. This disregard for maximum economy causes the state-trading countries losses running into thousands of millions per year and is one of the reasons why they cannot develop more rapidly than they are doing.

21. While on the one hand western transport undertakings are thus excluded from bilateral business with the COMECON countries by disregard for the principle of reciprocity, on the other COMECON transport undertakings resort to price undercutting in cross-trade.

When it appears politically advantageous to show east European flags in a certain area, a line is introduced regardless of whether there is a cargo, and the cargo is obtained in due course by undercutting. The conference system of the western countries which is designed to hold prices at a steady level is exploited by the COMECON countries in the following way: on most routes they operate as 'independents' and undercut the conference rates. In political negotiations in the United Nations they support the developing countries' desire to take part in the conferences. This means that in future the conferences will be obliged, under the terms of the code of conduct, to include shipping companies from developing countries, whether they have the proper capacity or not. Another consequence is that the conference rates increase and can be undercut at less of a loss by the shipping companies of the state-trading countries which themselves have no intention of joining the conferences to which their government give such warm support in the UN.

22. In principle, the reason for the undercutting by COMECON ships is that their prices are political prices and really have nothing to do with costs. At the same time certain press sources maintain that a part of or even perhaps whole crews of Soviet ships and barges are made up of military personnel for which the shipping companies have to pay very little, if anything at all.

Possible further sections:

## II. The information system

23. On 19 September 1978 the Council adopted a decision concerning the activities of certain third countries in the field of cargo shipping (78/774/EEC, OJ No. L 258, 21 September 1978), which was supplemented by the decision of 19 December 1978 on the collection of information concerning the activities of carriers participating in cargo liner

traffic in certain areas of operation (79/4/EEC, OJ No. L 5, 9 January 1979).

24. The basic effect of these decisions is to set up an information system which, for the first time, will enable the governments of the Member States and the Commission to obtain conclusive statistical information on the activities of carriers in liner service.

25. The Commission's proposal that the operation of the system should be limited provisionally to two years (1979 and 1980) was confirmed by the Council in its decision of 19 December 1978. The delicate problem of which carriers would be required to comply with the information system was resolved in the Commission's proposal by making the system binding on all carriers serving Community ports (not just carriers from state-trading countries). The number of areas of operation was reduced from four to two by the Council: Europe-East Africa and Europe-Central America. The Commission had also proposed Europe-USA and Europe-Far East.

26. Thus, although emphasis is placed on only two areas of operation, the Community has created a non-discriminatory mechanism that should make it possible to shed some light on the murky waters of international liner shipping. However, the introduction of this information system should not be used as an excuse for waiting until the end of the two years specified to see what the results are, and failing to take effective action from the start.

27. The Soviet Union at any rate was quick to react. According to press reports<sup>1</sup>, it had given its minister for shipping full authority to intervene in charter contracts and contracts on bilateral liner services by 29 January 1979.

### III. The consultation procedure

28. The most important instrument of common shipping policy is still the Council decision of 13 September 1977 setting up a consultation procedure on relations between Member States and third countries in shipping matters and on action relating to such matters in international organizations (77/587/EEC, OJ No. L 239, 17 September 1977).

29. The Community should not hesitate to act on the basis of this consultation procedure whenever the situation so requires.

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<sup>1</sup> Deutsche Verkehrszeitung, 1 February 1979

17. The UN Code of Conduct

20. If the common shipping policy is to retain any credibility however, it is essential that a common position on the UN Code of Conduct for Liner Conferences be found as soon as possible.

21. The prospects of this happening are hardly encouraging. Following its meeting of 23 November 1978, the Council of Ministers issued the following statement in its press release (1356/78 (Presse 156) page 11):

The Council held a substantive discussion on possible accession to the United Nations Convention on a Code of Conduct for Liner Conferences and the major problems which were raised during the examination of this dossier.

Following its discussions, the Council instructed the Permanent Representatives Committee to continue its work on the matter so that the Council could conclude it in the very near future.

Nor was any progress made at the Council's last meeting on 20 February 1979. The press release (4987/79 (Presse 16) page 4) stated that the Council had given careful consideration to the proposal for a regulation on the accession of the Member States to the United Nations Convention on a Code of Conduct for Liner Conferences.

The Council had sought to reach a common position which would allow the wishes of the developing countries in relation to access to liner conferences and the allocation of cargoes to be taken into account as far as possible, while maintaining trading agreements between Community carriers and between the Member States of the OECD on the allocation of cargoes between carriers that were members of the conference.

The Council had concluded that although considerable progress had been made in the form of an overall compromise, a definitive agreement on this problem was unattainable at the present stage. It had agreed to reconsider the problem in the near future in the light of further study by the Commission.

Your committee urges the Commission to do everything possible to ensure that the Council can reach a decision at its next meeting.

V. The common shipping policy of the EEC in general

32. The above items, together with the Council recommendation of 26 June 1978 on the ratification of Conventions on safety in shipping (78/584/EEC, OJ No. L 194, 19 July 1978) approximate to the beginnings of a common shipping policy dating from September 1977.

33. This could lead to a measure of solidarity in the face of the threats to the Community from the proliferation of flags of convenience, discriminatory practices and the expansionist policy of the COMECON fleets.

34. The COMECON fleets expanded by 7.2% in 1977. This expansion is played down by the Soviet Union, which points out that the share of COMECON fleets in world shipping has fallen from 8.5% to 7.4% over the last ten years. But this has to be seen against a background of massive expansion in world tonnages, which have increased by 76%.

The following figures apply for the end of 1977:<sup>1</sup>

<u>Country</u>	<u>million GRT</u>	<u>Country</u>	<u>million GRT</u>
Soviet Union	12.0	Bulgaria	0.8
Poland	2.7	Cuba	0.6
East Germany	1.3	Czechoslovakia	0.2
Romania	1.2	Hungary	0.1

These tonnages do not yet seem disproportionate by comparison with EEC fleets. The decisive factor, however, is their rapid rate of growth.

35. It is in the Community's interests, as well as the best long-term economic interests of the COMECON countries themselves, that they should not allow their fleets to grow on the basis of false assumptions, because the EEC countries are only now beginning to realize what is happening and will soon demand reciprocity and fair competition.

36. Energetic representation of our joint interests vis-à-vis COMECON fleets under a common shipping policy would therefore seem to be necessary, and your committee accordingly calls on Parliament to adopt the motion for a resolution included in this report.

37. Since the national measures cannot always be expected to achieve everything, your committee has included a paragraph in the motion for a resolution calling on Community exporters and importers to help circumvent the 'cif-fob trick' worked by the state-trading countries, though it fully appreciates that this in itself will not solve the problem.

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<sup>1</sup> Source of all figures: Deutsche Verkehrszeitung, 11 January 1979

OPINION OF THE COMMITTEE ON EXTERNAL ECONOMIC RELATIONS

Draftsman: Lord KENNET

At its plenary sitting of 10 May 1978 the European Parliament instructed its appropriate committees to keep under review the activities of certain state-trading countries in the field of cargo liner shipping.

On 20 June 1978 the Committee on External Economic Relations appointed Lord KENNET draftsman.

It considered the first draft opinion at its meeting of 19 September 1978. The revised draft was examined and unanimously adopted at the meeting of 3 April 1979.

Present: Mr KASPEREIT, chairman; Lord KENNET, draftsman; Mr BERSANI, Lord CASTLE, Mr DIDIER, Mr L'ESTRANGE, Mr MARTINELLI, Mr McDONALD (deputizing for Mr MONT), Mr SANDRI, Mr SCHMIDT and Mr TOLMAN.

## Introduction

1. In its report on the state of relations between the EEC and East European state-trading countries and COMECON (Doc. 89/78), and the opinion of the Committee on Regional Policy, Regional Planning and Transport on the same subject, the Committee on External Economic Relations has already made a thorough examination of problems in the transport sector with the abovementioned countries, and drawn attention to their dumping practices.

2. The Council adopted on 19 September 1978 a decision concerning the activities of certain third countries in cargo liner shipping (78/744/EEC OJ No. L 258 of 21.9.1978). This decision was amended by another decision of the Council of 15 December 1978 concerning a monitoring system on certain routes of cargo-liner shipping.

The European Parliament had a first debate on this particular subject already at its sitting of 9 May 1978 and instructed its appropriate committees to pursue this matter further.

## Reciprocity and equality necessary in transport arrangements with East European countries

3. The Committee on External Economic Relations has always advocated reciprocity and balance in foreign trade relations, just as much with the state-trading countries as with others. This applies just as much to transport, without which foreign trade would be impossible, as it does to the goods which may be carried.

If, however, dominant positions are built up by the state-trading countries in one sector or on certain routes, equality of trading terms is undermined, the economy is distorted, and Western transport undertakings are progressively squeezed out of business. At the end of the line, the process could even result in an unfavourable change in the balance of military security.

4. These considerations are causing growing opposition in Western countries to the apparently unlimited operating opportunities of Eastern transport undertakings (described in detail in the above-mentioned report, Doc. 89/78).

The Committee on External Economic Relations therefore urges further efforts by the Community to implement effective means of action. Measures taken by individual Member States would in fact only lead to counter-productive trade dislocations, and could open more opportunities to the East European countries of playing them off against one another.

5. The Committee is of the opinion that the recent Council decision represents a dilution of the Commission's original proposals, especially as the provision for concerted counter-measures has been dropped and as the geographical scope of monitoring has been reduced by cutting out the Europe to United States route and the Europe to Far East and Pacific routes.

The procedure adopted for exchanging national information on cargo-liner shipping should be regarded as the first in a series of measures which would cover other means of transport as well. But a monitoring system as it now stands is not a remedy, and the Committee on External Economic Relations urges:

- (1) that this monitoring system should be extended to other important routes, especially those to the United States, the Far East and the Pacific;
- (2) that a study of possible counter measures should be carried out forthwith so that measures could be adopted if need were established;
- (3) that furthermore a comprehensive Community policy to correct the present imbalances and other handicaps should be developed and applied as a matter of urgency;
- (4) that the efforts to reach an outline agreement between the Community and COMECON should be stepped up so that trade agreements can be concluded between the Community and the individual COMECON countries that incorporate provisions affording adequate protection for the shipping interests of the Community Member States.

6. The Committee responsible is asked to consider these remarks in its report and report them to the Commission, the Council, as well as the Member States of the Community.