Section I
Introduction

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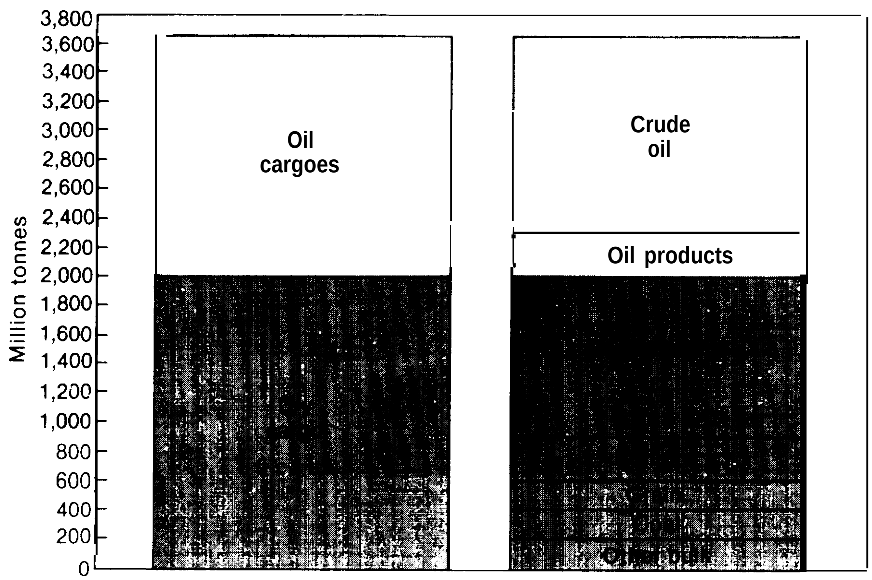
SHIPPING INDUSTRY

Almost all international trade in goods is transported by sea. Thus, ocean shipping plays a central and essential role in the world economy and in world trade. The United States is the world's largest trading nation, and international markets are increasingly important to U.S. industries. Between 1970 and 1980, the value of U.S. international trade more than doubled, and the ratio of U.S. exports to gross national product rose from 4.4 to 8.5 percent.

Maritime trade generally is divided into three broad categories: liquid-bulk, dry-bulk, and general cargo (see fig. 1). Petroleum alone accounts for nearly all of the liquid-bulk trade and for almost half of the total world tonnage shipped. About one-fourth of world tonnage consists of dry-bulk commodities—principally mineral ores, coal, and grain. The remaining one-fourth consists of the variety of manufactured goods and consumer products called general cargo,

The two principal modes of ship operation are the liner mode, which serves the general cargo trade, and the bulk mode, which serves both the dry- and the liquid-bulk trades. The liner industry carries general cargo from port to port at fixed rates and on regular schedules. Modern container ships are typical of the vessels used in liner trade. The liner industry commonly operates within conferences—international groups of private liner companies that collectively agree on routes, schedules, rates, and other aspects of liner service. The bulk industry normally does not form conferences. It employs a variety of ships, usually on a time- or voyage-charter (rental) basis, to carry single, large-volume commodities (e. g., iron ore, grain, coal, crude oil) over fixed and sometimes long periods of time. The liner industry thus tends to manage competition among major companies, while the bulk industry operates under much more open competition. The liner trades involve by far the largest portion of world trade when measured by dollar value, while the bulk trades account for the largest portion by volume or tonnage.

Figure 1.— Principal Commodities in World Seaborne Trade, 1980



SOURCE Fearnleys Review, 1982

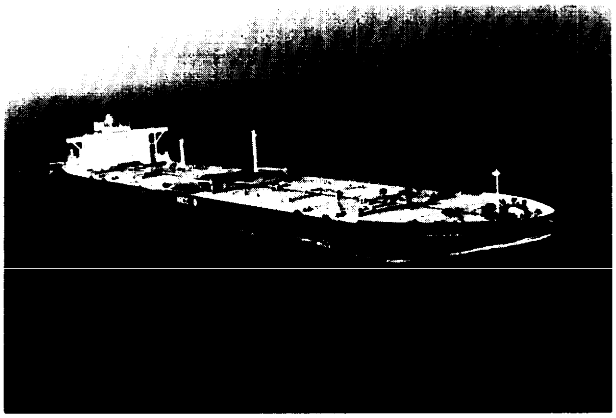


Photo credit: Atlantic Richfield Co.

Liquid bulk—the supertanker *Arco Alaska* at sea.

Photo credit: C&H Sugar Co.

Dry bulk—the *Sugar Islander*, owned by the C&H Sugar Co.

Photo credit: American President Lines, Inc.

General cargo—two containerships being loaded in Seattle.

CARGO POLICIES

All trading nations have a self-interest in expanding their exports and controlling their imports. As nations try to manage trade policy to their best economic advantage, they tend to increase governmental involvement in shipping. Shipping policies tend to mirror trade policies. As might be expected, increasing protectionism in trade has spawned a variety of restrictive and protectionist policies in the maritime area—unilateral, bilateral, and multilateral.

Historically, all maritime nations have protected their national maritime interests through the implementation of some forms of cargo policy, generally by reserving some or all of the carriage of certain commodities for their own national carriers. In the case of established maritime countries, this is sometimes achieved through closed conferences— industry groups that are sanctioned by their respective governments. Such conferences are able to assure national lines of full or "fair" participation in their trade. In the case of less developed countries (LDCs), more overt government intervention is usually involved, such as government ownership of shipping lines and trading firms, Both conferences and more overt government participation have been more common in the liner trades than in the bulk trades up to now.

Many nations, particularly LDCs that are attempting to capture more export trade and bolster their national-flag fleets, are pushing for the establishment of bilateral and multilateral cargo-sharing agreements. The latter objective has recently been achieved for liner trades by the United Nations Conference on Trade and Development (UNCTAD) in the form of a Code of Conduct for Liner Operations (or UNCTAD Liner Code), which went into effect in October 1983. It calls for an even division of liner conference cargoes between trading partners, with a small percentage possibly reserved for vessels of other nations, if agreed by the national-flag lines engaged in the trade. The United States is not a signatory to the code and has opposed it since it was first proposed in 1972.

U.S. ship operators face a significant disadvantage in dealing with countries where industry and government have established closer ties, and where national and corporate goals are better meshed, than in the United States. U.S. shipping companies find it increasingly difficult to compete in markets that are protectionist. Many foreign governments also tend to intervene specifically on behalf of their national interests and their own carriers. The U.S. Government has tended to disavow interference in international trade and cargo allocation.

CARGO PREFERENCE IN THE UNITED STATES

The practice of cargo preference can be direct or indirect. In some cases, a country mandates that a certain percentage of its imports or exports must be carried on its national-flag vessels. Provision may be made for bilateral or multilateral cargo-sharing, with the larger shares reserved for the national-flag lines of the trading partners. Indirect cargo preference can be accomplished by a government mandate requiring imports to be purchased on an f.o.b. basis and exports on a c.i.f. basis.[1] In addition, governments frequently grant

[1] When imports are purchased "free on board" (f.o.b.) the cost quoted does *not* include ocean transportation from the exporting country. When exports are sold "cost, insurance and freight" (c.i.f.), the cost quoted includes ocean transportation. This policy allows a nation to control transportation costs in all its import and export transactions, and therefore to retain a government's right to select its own flag ships to carry this cargo.

various tax deductions and other fiscal incentives to importers and exporters that utilize their national-flag carriers.

The United States has enacted three cargo-preference laws concerning the movement of Government-impelled (shipped by Government agencies) and Government-financed cargoes. These are the Cargo Preference Act of 1954, Public Resolution 73-17 (P.R. 73-17), and the Military Transport Act of 1904.

The Cargo Preference Act of 1954 mandates that at least 50 percent of all U.S. Government-impelled cargoes must be carried on privately owned U.S.-flag vessels. It applies to Government cargoes shipped for U.S. Government account (e.g., military support cargoes) and to any cargoes shipped under Government grant or subsidized loan, such as cargoes shipped by the U.S. Agency for International Development (AID).

P.R. 73-17, passed in 1934, requires that 100 percent of any cargoes financed by loans made by the U.S. Government to foster exports must be carried on U.S.-flag ships, This primarily concerns commodities backed by loans from the Export-Import Bank. There is provision for waiver of the law by the Maritime Administration (MarAd), so that up to 50 percent of such shipments may be carried on the flag vessels of the recipient nation.

The Maritime Transport Act of 1904 requires that all supplies shipped for use of the U.S. Armed Forces must move on U.S.-flag ships. This law interacts with the Cargo Preference Act, with the result that one-half of all such military shipments must move on privately owned U.S. vessels.