

Russia's role in the world shipping crisis

by William Engdahl

The tightly controlled cartels which dominate world shipping are facing what one London observer called "the most serious crisis in the industry in the postwar period." One of Japan's shipping giants, Sanko Shipping, has filed for bankruptcy, with losses exceeding \$150 million; the huge Hong Kong-based Tung Group, with extensive London shipping interests, is in emergency negotiations with its creditors; the Salen Group in Sweden has gone into bankruptcy; Neptune Orient of Singapore and Seatrain in the United States are facing massive losses and potential collapse. From discussions with leading industry sources from Norway to London to West Germany, *EIR* has developed a picture of a crisis, whose dimensions threaten to collapse the infrastructure of world trade-carrying capacity in the immediate weeks ahead.

"This is not a failure of some tiny shipping companies with two or three ships," the editor of the London-based industry journal *Shipping Research Economist* told us. "These are the world's major lines which are going under. The writing is on the wall. In the last two years, their banks have for the first time ever called in their loans. The banks are desperate. Now banks, which do not know how to operate ships, are becoming owners of some of the world's major tonnage. What do they do? Sell them for scrap at auction?" Banks which have major exposure on lending to the shipping industry include Hambros and Midland Bank of Britain; Chase Manhattan, Citibank, and Bank of America in the United States; Bergen Bank and DNC in Norway; and the Hong Kong and Shanghai Bank, to name only a few.

Rate dumping

One leading Norwegian shipper, who operates regularly between the Far East and Western Europe, characterized the dimensions of the crisis facing the industry today: "Shipping rates are disastrous. A typical coal ship, Panama Canal-size—say, 75,000 tons—today fetches a market rate of \$4,500/day for charter. You need about \$9,000/day now simply to cover operating, post, financing insurance, and other costs. With this kind of economics, most shippers simply are forced to let ships lie idle, hoping for better scrap or some future recovery in trade volume. On a typical petroleum product tanker, we will get \$6,000/day, when \$14,000 is needed to break even. It is a disastrous situation for the industry."

To illustrate the dimensions of the crisis, the actual volume of sea-going trade since 1975 has dropped from 15,366

billion ton-miles down to 13,060 billion ton-miles in 1984. Only large shipments of Western grain to the U.S.S.R. have kept the collapse from becoming a total one. Since the combined oil and interest-rate shocks of 1979, world sea-trade tonnage has been reduced fully 16%, while, according to European Community studies, world fleet utilization rate measured in ton-miles, fell by 25%. Major reductions in world energy consumption, as entire sections of the world economy have sunk into depression conditions, are principal causes. IMF and bank credit restrictions on developing-sector countries since the early 1980s, have been a major contributing factor to the collapse of world trade. As a result of this collapse, in 1983 and 1984, for the first time since the 1930s depression, the amount of ship tonnage scrapped or otherwise lost to active service exceeded the total of new ships launched.

According to a leading Oslo shipbroker, as of the first week of January 1986, the idle capacity unable to economically charter freight in the world's oceans, is at staggering levels. He reports a total of 39.650 million DWT (dead weight

"Everybody now is scrapping for a share in the market. It's a real dog fight among shippers," a London observer related. "Other countries are involved in rate-dumping, but the Russians are clearly the worst abusers."

tons) of idle tanker and combination (e.g., oil/grain) carriers lying off major calling ports in Norway, Japan, and elsewhere. This figure includes some 117 of the giant oil super-tankers, over 200,000 DWT each. In the bulk and combination carrier class, there is an estimated 48 million DWT as of the first of the year which is unable to charter. Here a substantial volume of ship tonnage is also being "slow-speeded," in which the travel speed for a cross-ocean delivery is deliberately slowed, simply because the return cargos are not available.

Combining both bulk and tanker idle tonnage figures means that some 88 million DWT of the entire non-communist world's total tonnage, which was 418 million tons in 1984, is presently unable to operate economically. This represents fully one-quarter of the world carrying capacity. Industry sources report record numbers of idle tankers and cargo ships lying in harbor around the world waiting for the scrap heap. "It's a frightening thing. If we lose this capacity to carry on world trade, the crisis will be incalculable," one London-based energy trader declared.

Russian-Greek collusion

In this context of collapsing volumes of world trade, the role of the considerable Russian merchant fleet in undercutting Western shipping rates is substantial, by all informed accounts of people contacted in the industry. According to the Brussels-based Association of Shipowners of the European Community, the Soviet Union operates 23 million DWT of carrying ships for commercial trade in the West. By comparison, Norway, one of the major shipping countries in Europe, operates 27 million DWT. The United States operates 25 million DWT under its own flag. But, more significant than the absolute tonnage size of the Russian merchant fleet, is the leveraged deployment of that fleet to target and bankrupt vital Western ship lines. Reliable reports indicate that the Australian merchant fleet was one such victim of Soviet rate dumping several years ago.

Since 1980, the problem of Russian rate dumping has become so serious that the European Community in Brussels has launched official investigations. According to an EC spokesman, those reports remain "confidential." One reason why they should be considered sensitive, could be reports that one member country of the EC, Greece, has secretly (and illegally) entered into a series of cartel-type rate and market agreements with the Soviets. One such deal was reported last summer, in which Greek-Soviet trade would only be divided between the flag carriers of those two countries. Reliable sources close to the EC report that the agreements are probably actually far more substantial. If true, this would mean that Western Europe's largest flag carrier, Greece, with almost 60 million tons fleet capacity, would give the Russians a staggering advantage over Western competition.

"You have an industry rule-of-thumb today," one Oslo shipper said. "Fifty percent of your total cost is for financing the ship. Another 25% is for crew costs. The rest is food, insurance, parts, repairs. The Russians have no financing costs to cover and their labor costs are negligible. Their cost advantage is such that they can undercut anyone they choose." For several years, Greece has been the favored source for Soviet charter of bulk carriers to carry grain, according to one EC source, who declined to comment further on the reports of Russian-Greek collusion. The principal advantage the Russians have, is the fact that their entire merchant fleet is deployed out of their military fleet. The vessels and crew are all dual-purpose, ready for mobilization for military purposes. This is an advantage shared by no Western shipper.

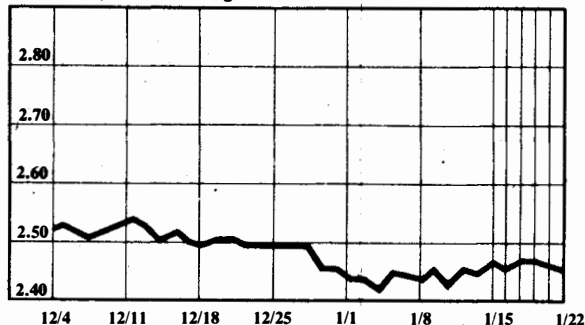
One source close to the debate raging within the European Community reports that an investigation into rate-dumping problems in the industry is presently being blocked by Greece. The reason reportedly involves the illegality of the Greek arrangements with Russia.

"Everybody now is scrapping for market share, the Japanese, Taiwanese, everybody. It's a real dog fight among shippers," a leading London observer related. "Other countries are involved in rate-dumping, but the Russians are clearly the worst abusers."

Currency Rates

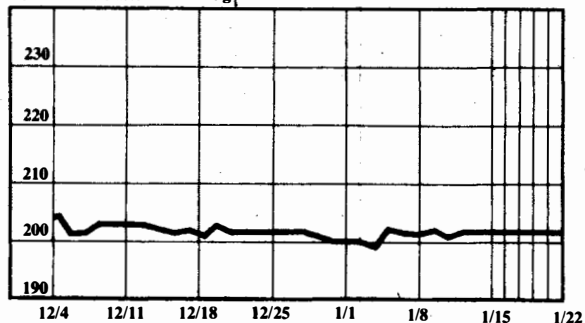
The dollar in deutschmarks

New York late afternoon fixing



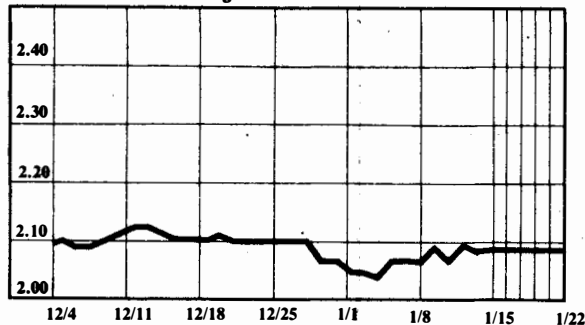
The dollar in yen

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing

