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**CLARIFYING TRADE COSTS IN MARITIME TRANSPORT**

By OECD

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TRADE AND AGRICULTURE DIRECTORATE  
TRADE COMMITTEE

## Working Party of the Trade Committee

## CLARIFYING TRADE COSTS IN MARITIME TRANSPORT

*Purpose of paper and action required: This paper is intended to inform Delegations on the newly compiled OECD Maritime Transport Cost database and provides an overview of some salient characteristics of the structure and evolutions in maritime transport as they may impact trade. It is made available more widely as a background paper to the database.*

*Cooperation: Earlier versions of this document have been presented to and commented on by experts in maritime transport and trade costs in a WTO/Graduate Institute of Geneva/UNCTAD/Université de Genève seminar, a workshop at the World Bank and USITC, the International Economics Association world congress, the European Trade Study Group and the Singapore Economic Review Conference.*

*Link to the programme of work and resource implications: This paper responds to 2009/10 PWB output result 3.1.1.3.3 under Advocacy for Freer Trade and has been carried out with the designated resources under Part I of the budget.*

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## EXECUTIVE SUMMARY

This paper is part of a project that aims to improve understanding of the factors contributing to trade costs by examining maritime transport costs and their impacts on trade. The present paper represents a preliminary part of the project: it describes the maritime transport sector and some of the determinants of shipping costs, and outlines the methodology, describes the data, and underlines some of the limitations of an extensive new database compiled on maritime transport rates. This dataset is used in a number of companion papers to examine the impact of transport costs on trade.

Maritime transport matters. Ninety percent of world trade by volume is carried by ship. Maritime traffic in 2007 was almost double its 2003 level. Operation of merchant ships generated an estimated annual income approaching US\$ 380 billion in 2007, equivalent to about five percent of total world trade.

There are a number of clearly-defined determinants of maritime transport costs. The most studied is distance from major markets. Recent evidence suggests that distance is imperfectly correlated with transport costs: their relationship may be non-linear and is influenced by many factors. A more closely correlated component of transport costs is the time spent getting goods to market. Other components of maritime costs that are less widely studied and understood are trade imbalances, volume of trade, port infrastructure, competition among carriers and risk. Rising fuel prices are also a determinant of shipping rates, and have been particularly volatile in recent years. Many of the determinants of shipping rates are intertwined and their combined effect on transport costs is complex.

In order to analyse evolutions in the maritime transport sector and the impact of transport costs on trade, a database has been compiled from a variety of sources. This is the most comprehensive dataset on maritime transport rates known to date and includes original customs data as available and detailed data estimated from carriers' actual rates. The data set now compiled includes close to four million data points for products at the HS-6 digit level for 43 importing countries from all 218 countries of the world from 1991 to 2007. It is planned that the dataset will be updated and maintained within the OECD.

The analysis in this paper is used in companion papers to ascertain more fully the impact of maritime transport costs on trade flows. These papers combined aim to shed light on the importance and evolution of this trade cost and also improve on some of the methodology used in gravity models to simulate the effects of policy phenomena on trade.

## Glossary and List of Abbreviations<sup>1</sup>

**Backhaul:** To haul a shipment back over part of a route which it has already traveled; a marine transportation carrier's return movement of cargo, usually opposite from the direction of its primary cargo distribution.

**Bulk cargo:** Loose cargo (dry or liquid) that is loaded (shoveled, scooped, forked, mechanically conveyed or pumped) in volume directly into a ship's hold; e.g., grain, coal and oil.

**Cabotage:** Shipment of cargo between a nation's ports is also called coastwise trade.

**Capesize:** cargo ships that are too large to traverse either the Suez Canal or Panama Canal. To travel between the oceans, such vessels must traverse either the Cape of Good Hope or Cape Horn.

**CIF:** cost, insurance, freight. Refers to the valuation of imported goods, i.e., including international transport and insurance costs.

**Conference:** An association of ship owners operating in the same trade route who operate under collective conditions and agree on tariff rates. **Container:** A box made of aluminum, steel or fiberglass used to transport cargo by ship, rail, truck or barge. Common dimensions are 20' x 8' x 8' (called a TEU or twenty-foot equivalent unit) or 40' x 8' x 8', called an FEU. In the container industry, containers are usually simply called boxes.

**Containerization:** The technique of using a container to store, protect and handle cargo while it is in transit. This shipping method has both greatly expedited the speed at which cargo is moved from origin to destination and lowered shipping costs.

**Dead Weight Tonnage (DWT):** Maximum weight of a vessel including the vessel, cargo and ballast.

**FOB:** free on board. Refers to the valuation of exported goods, i.e, excluding international transport and insurance costs.

**Handysize:** dry bulk vessels with a deadweight of about 15000-35000 tonnes. Handysize ships are flexible because their small size allows them to enter smaller ports, and in most cases they are 'geared', i.e., fitted with cranes which means they can load and unload in ports that lack cargo handling systems.

**Panamax:** ships classified as Panamax are of the maximum dimensions that will fit through the locks of the Panama Canal. These dimensions are 294.1 m in length by 32.3 m. in width by 57.91 m. in height measured from the waterline to the vessel's highest point. Such vessels typically transport 5000 TEU.

**Post-Panamax:** or "over Panamax" refers to ships that are larger than Panamax (see above), which do not fit in the original canal.

**Service Contract:** As provided in the US Shipping Act of 1984, a contract between a shipper (or a shippers association) and an ocean common carrier (or conference) in which the shipper makes a commitment to provide a certain minimum quantity of cargo or freight revenue over a fixed time period, and the ocean common carrier or conference commits to a certain rate or rate schedule as well

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1. This glossary is designed to include terms that are used in this paper. More general shipping glossaries exist, for example the Glossary of Shipping Terms by the US Dept. of Transportation, [http://www.marad.dot.gov/documents/Glossary\\_final.pdf](http://www.marad.dot.gov/documents/Glossary_final.pdf)

as a defined service level (such as assured space, transit time, port rotation or similar service features). The contract may also specify provisions in the event of nonperformance on the part of either party.

**Stevedoring:** the loading and unloading of ships. Also referred to as longshoring.

**Tonnage:** a measure of the size or cargo capacity of a ship. It refers specifically to the calculation of the volume or cargo volume of a ship and not the weight of a loaded vessel.

**Tramp:** A ship operating with no fixed route or published schedule. Tramp shipping usually involves shipping in bulk, often of a single product carried for a single carrier.

**Transshipment:** The unloading of cargo at a port or point where it is then reloaded, sometimes into another mode of transportation, for transfer to a final destination.

**Twenty Foot Equivalent Unit (TEU):** A unit of measurement equal to the space occupied by a standard twenty foot container. Used in stating the capacity of container vessel or storage area.

## I. Introduction

1. The economic consequences of increasing globalisation of the world economy, that is, closer integration of production and markets, have been discussed intensively over the last decade. The growing interdependence of countries around the world has often been largely attributed to lower trade barriers and to a fall in transportation and communications costs. In some areas, this is obviously true – the revolution in information and communications technologies, for example, cannot be disputed. The lowering of tariff barriers, too, due in part to successive rounds of multilateral trade negotiations, is evident. As tariffs have fallen, other trade costs have taken on greater significance. However, the common knowledge and stylized facts that are widely accepted as regards lower tariffs are in direct contrast to the level of understanding of the evolution in many other types of trade costs.

2. This paper is part of a project which aims to narrow that knowledge gap in the area of maritime transport and its impact on trade. The present paper represents an initial part of the project: it describes the maritime transport sector and some of the determinants of shipping costs, and outlines the methodology and describes the sources that were used to compile an extensive new database on maritime transport rates. This information shall be used in separate analytical papers which have one of two objectives: i) To examine the impact of transport costs on trade, or ii) To examine the impact of different components of transport costs on the level of these costs.<sup>2</sup> The analytical papers underway examine total trade as well as the agriculture sector separately.

3. Maritime transport matters. Ninety percent of world trade by volume is carried out by sea. Maritime traffic in 2007 was almost double its 2003 level but grew much more slowly in 2008 and 2009 (UNCTAD, 2009). Operation of merchant ships in 2007 generated an estimated annual income approaching US\$ 380 billion, equivalent to about five percent of total world trade.<sup>3</sup> As a result of the technological advances in the sector and increased demand, ships deployed today are now 2-½ times the size of the largest ship a decade ago.<sup>4</sup>

4. Not only is maritime transport a key economic sector, it is an important facilitator of world trade. Access to a global network of reliable, efficient and cost-effective maritime transport services is necessarily beneficial. This is particularly true of developing and least developed countries whose trade in price-sensitive goods often comprises a significant component of their export potential (WTO, 2003). A well-connected maritime transport sector implies vast positive spillovers in terms of increased trade. Given the importance of time delays and the growth in vertical integration worldwide, low cost and easy access by sea to suppliers and export markets necessarily has an add-on effect in terms of trade and growth.<sup>5</sup>

5. In light of the importance of trade costs in an increasingly integrated global economy, there has been a call among academics and some policymakers for a greater understanding of these costs. Obstfeld and Rogoff (2000) argue that the six major unresolved problems of international macroeconomics can be explained by explicitly accounting for trade costs. Anderson and van Wincoop (2004) specify that “Better measurement of trade costs is highly desirable ... transport cost data could ... be improved greatly.”

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2. Throughout this and companion papers, maritime transport costs refer to the cost to the exporting firm, not costs to the shipping firm. The latter are regarded here as underlying determinants of transport costs. For the purposes of this project, the unit transport cost is equivalent to the unit transport rate.

3. <http://www.marisec.org/shippingfacts/keyfacts/?SID=c64eefee1ee91e1b862878eb2d09c35e>.

4. *Seeking new ways to deliver the goods*, Financial Times, 10 December 2007.

5. An analysis of the effect of distance and other trade costs on vertical trade and FDI can be found in Miroudot and Ragoussis, *Vertical Trade, Trade Costs and FDI*, OECD Trade Policy Working Paper no. 89, July 8, 2009.

6. Gravity models, the “workhorses” of trade flow models used today, generally use distance as a proxy for transport and other trade costs. Some recent studies, corroborated with evidence in this study, have found that distance is imperfectly correlated with transport costs. In light of these suppositions, some trade analysts have very recently underlined the importance of obtaining better data on transport costs. Clark (Sept. 2007) and Martinez-Zarzoso and Nowak-Lehmann (Sept. 2007) find that distance is a poor proxy for transport costs and incite other analysts to refrain from using distance as a proxy for such costs in gravity models.<sup>6</sup> This project, which has compiled an original dataset bringing together available data on maritime transport costs, is a response to this appeal.

## II. Determinants of maritime transport costs

7. There is a growing literature on the determinants of transport costs. The most studied determinant of transport costs is distance from major markets. Some studies also include data or proxies for port infrastructure or for the time necessary to get goods to market. Less reviewed elements are trade imbalances, volume of trade, competition among carriers and risk involved in getting goods to market. Rising fuel prices are also a determinant of shipping rates, and a particularly important one in recent years. Findings in the literature regarding the determinants of maritime transport costs are reviewed here. This section will show that many of the underlying elements of shipping rates are intertwined – for example, the effect of distance on trade costs is different depending on the size of ship used; port infrastructure in many cases determines the maximum size ship that can dock and thereby the extent of economies of scale, etc.

### *Distance*

8. The effect of distance from one market to another is the most studied element of transport costs, and is the most widely used proxy for transport costs in gravity models that attempt to explain trade flows. The distance usually measured in these models is that between the capitals of each of the two countries in a bilateral trading pair “as the crow flies”. It shall be seen in this study that distance is in fact a highly inaccurate proxy for transport costs, particularly the most widely used measurement of distance.

9. Some of the early work on transport costs by Radelet and Sachs (1998) finds that an increase in sea distance of 10 percent implies an increase in shipping costs of 1.3 percent. The authors use CIF/FOB ratios from the IMF International Financial Statistics database as a proxy for shipping costs and distance by sea to the closest major market to measure distance. It shall be seen in the following section that CIF/FOB ratios are too imprecise to be used as a proxy for transport and insurance costs.

10. Limao and Venables (2001) find that shipping an extra 1000 kilometres by sea raises transport costs by US\$ 190 per container. They find a much larger increase in transport costs when the extra 1000 kilometres are overland. All in all, the authors find that using distance alone as a proxy for transport costs accounts for only 10 percent of its variation. Limao and Venables use a unique source of shipping data: they have obtained shipping quotes from the firm that ships World Bank employees’ belongings from Baltimore, Maryland (United States) to selected destinations of the world. In order to generalize the data from/to Baltimore with rates experienced on other shipping routes, CIF/FOB ratios are used for bilateral trade between other countries.

11. Evidence that suggests that transport costs are only vaguely related to distance should not be confused with the finding that distance is correlated with trade flows. Indeed, Hummels (2006) notes that

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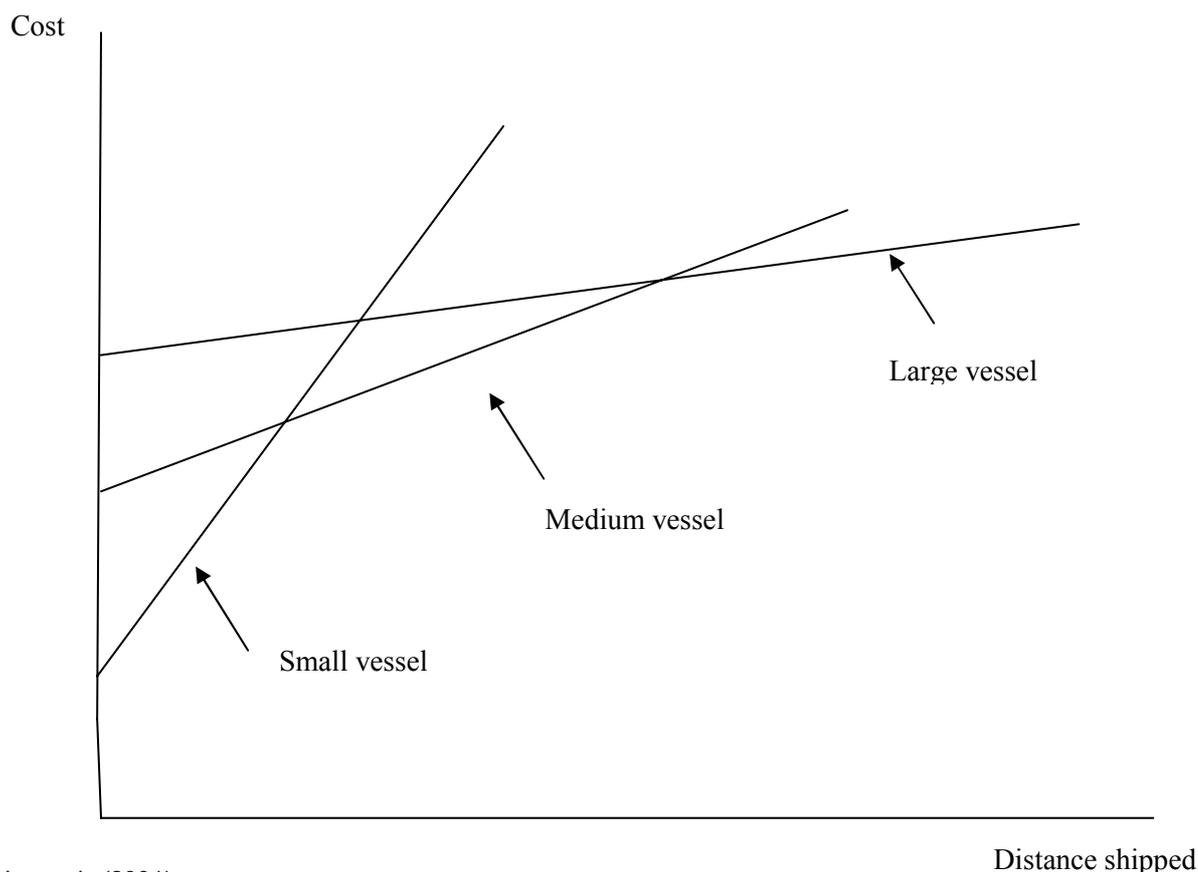
6. Distance may be a proxy for other types of trade costs, however, and has the advantage of being truly exogenous of the volume of trade in goods.

roughly a quarter of world trade takes place between countries sharing a common border and half of world trade occurs between partners less than 3000 kilometres apart. It is not clear however whether the effect of distance on trade volumes can be ascribed to transport costs or to other trade determinants such as historical ties, cultural proximity or business networks.

12. The correlation of distance to transport costs has evolved over time due to technological innovation. As containerships have become more prevalent, and ships have become bigger and faster, economies of scale have been realized to substantially reduce the price per tonne-kilometre while the ship is at sea. They incur higher indirect costs when arriving in large ports, however, due to longer loading and unloading times and potentially more idle time spent in ports.

13. The trade-off between time spent at sea and at port implies that the effect of distance on the shipping cost is related to the size of ship bearing the exported goods. Smaller ships are more cost-efficient over short distances, and larger ships more cost-efficient over longer distances (Figure 1). The depth of the ports for loading and unloading also determines whether larger, faster ships can enter ports directly thereby increasing the efficiency of transfers of goods.

**Figure 1. Technological Relationship: Shipping Cost and Distance**



Source: Hummels (2001).

14. Other components of transport costs impact on the relationship between distance and transport costs at a given speed. Some have a linear impact, like fuel costs for example, which increase

proportionally with increases in distance on a given vessel. Some elements have a non-linear effect – size of ship, for example, as seen in Figure 1 above. Some elements have a mixed effect: the cost of ship location for example, which is a function of the number of days spent at sea and at portside, which is somewhat related to distance between ports, but also depends on a number of other factors such as port infrastructure and the speed of loading and unloading. Some costs are fixed and somewhat related to distance – the cost of using Panama and Suez Canal services, for example, which is generally only an element of cost on long haul trips. Some elements of transport costs however are fixed and unrelated to distance at all such as the cost of loading and unloading at portside. The cost of loading and unloading is a function of port infrastructure which in turn determines the size of ship that will transport the cargo. The size of ship in turn determines (in a non-linear fashion) the effect of distance on transport costs. ***The aggregate effect of distance on transport costs is, to say the least, complex.***

15. Indeed, the use of distance as a proxy for transport costs is the subject of two articles, which come to the same conclusion. In an article entitled “Is Distance a Good Proxy for Transport Costs?” Martinez-Zarzoso and Nowak-Lehmann (Sept. 2007) find that it is not, and that it is a particularly poor proxy for maritime transport costs.<sup>7</sup> Clark (Sept. 2007) states clearly that “Theorists should re-evaluate the role of distance in trade models and refrain from using distance as a proxy for transport costs.”

### ***Time***

16. It has been suggested that the time it takes for goods to get to markets is a better proxy for transport costs than is distance. “Trade costs have both a financial and a time dimension and the latter has become increasingly important. This is best understood at the firm level where non-core activities are increasingly outsourced to outside suppliers who are expected to deliver their inputs just in time” (Nordas et al, 2006).

17. Hummels (2001, 2006, 2007) estimates the effect of time in transit on transport costs. He estimates the tariff equivalent in transit is 0.8 percent per day which amounts to a tariff equivalent of 16 percent on a 20 day sea transport route, which is the average for imports to the United States. This represents a significant barrier to trade and is much higher than estimates for any trade policy variables. Hummels (2007) finds that every day in ocean travel that a country is distant from the importer reduces the probability of sourcing manufactured goods from that country by one percentage point.

18. Nordas et al. (2006) find that “geography ... matters less when time for exports is controlled for, suggesting that geography matters partly because it is related to time. Countries can therefore to some extent overcome geographical disadvantages by reducing the behind the border time for exports.”

19. Djankov et al. (2006) find that each additional day in transit reduces trade by one percent. Put another way, each additional day is equivalent to a country distancing itself from its trading partners by one percent, or about 70 kilometres. Goods that are determined to be “time-sensitive” are even more directly affected by delays: a 10 percent increase in the relative time of moving goods reduces relative exports of time sensitive goods by five percent.

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7. Martinez-Zarzoso and Nowak-Lehmann analyze maritime and road transport costs for Spanish exports to Poland and Turkey, markets for which maritime and road transport are competing modes. The choice of mode of transport is endogenous and depends on relative costs in terms of direct freight costs as well as cargo handling and time. They find that distance is not a good proxy for transport costs overall, and that it is a better proxy for road transport than for maritime transport costs.

20. Wilmsmeier and Hoffmann (2008) find that transit time is more closely correlated with freight rates than is direct maritime distance. They attribute this to the necessity of transshipment to ports that are not hubs, therefore losing time that is not included in distance variables. The authors find that on average each additional day of transit leads to an increase in the freight rate of 56 US dollars.

21. In any case, shipping is necessarily a relatively slow process. Shipping containers from Europe to the Midwest United States requires 2-3 weeks; from Europe to Asia requires five weeks. Demand for some products is generally more elastic with respect to time in transit. Demand for goods that are shipped in bulk and for simple manufactures is less dependent on the time it takes to get to market; overall, however, transportation accounts for a larger share of the final price of these heavy goods.

### *Trade imbalances*

22. Directional imbalance in trade between countries implies that many carriers are forced to haul empty containers on their return trips. As a result, the price of shipping in one direction is not the same as that on the return trip. Fuchsluger (2000) shows that this phenomenon is observed in the bilateral trade between the US and the Caribbean. In 1998, for instance, 72 percent of containers sent from the Caribbean to the United States were empty. This excess supply of containers on the northbound route implied that a United States exporter paid 83 percent more than a United States importer to ship the same type of merchandise between Miami and Port of Spain (Trinidad and Tobago). Similar phenomena occur in the Asia-US and the Asia-European trade routes, where excesses of supply mean that Asian exporters pay more than twice as much as suppliers in the United States and Europe (Table 1).

**Table 1. Imbalance on freight routes: differences in average freight rates and cargo flows between eastbound and westbound legs of major trade routes, 2007**

	Average freight rates (\$/TEU)	Estimated cargo flows (mln TEUs)	Difference in freight rates between eastbound and westbound routes, pct <sup>1,2</sup>	Difference in cargo flows between eastbound and westbound routes, pct <sup>1,2</sup>
Asia-USA	1683	15.4		
USA-Asia	769	4.9	46	32
Asia-Europe	1803	17.7		
Europe-Asia	795	10.0	44	56
USA-Europe	1090	2.7		
Europe-USA	1709	4.5	64	60

Source: UNCTAD Secretariat from Containerisation International data, [www.ci-online.co.uk](http://www.ci-online.co.uk). Asia refers to all major ports on the East Asian coast stretching from Japan and Korea to Indonesia. Europe refers to major European ports, including the Netherlands, the United Kingdom and Southern Europe. The United States is a weighted average of major US ports (West Coast, East Coast and Gulf ports). Data include vessel charges (total sea freight costs: including fuel surcharges, currency surcharges, etc.) but not costs on land side (e.g., port charges).

1. Figures can be interpreted as follows: The cost of shipping a container from the United States to Asian ports in 2007 was on average 46 percent (i.e., less than half) of the cost of shipping a container of goods from Asia to the United States. The amount of cargo exported from the United States to Asia in 2007 was just under one-third (32%) that exported from Asia to the United States.

2. For the purposes of this study, eastbound routes refer to US-Europe, Europe-Asia and US-Asia. Westbound routes are Europe-US, Asia-Europe and Asia-US.

23. Table 1 shows that differences in price of containers between eastbound and westbound journeys are strongly determined by the volume of trade on the eastbound route as compared to the westbound one. The greatest trade imbalances occur on the US-Asia route where exports from the United States to selected ports in Asia were only one-third the volume of those on the return trip. Shipping rates to Asia were very much reduced as a result: the cost of shipping a container from the United States to Asia was 46 percent the price of moving a container the opposite way on the same route. The differences in one-way container rates on a given route as correlated with the differences in volumes being shipped in one direction as opposed to the return trip.

24. The importance of directional imbalances is one of the specificities of the shipping industry. This is particularly the case for container shipping as carriers must return not only the ship, but also all the containers. Carriers often lower prices below cost in order to bring containers back to their original port of loading. In order to partially cover costs, some carriers agree to ship goods with a negative value added. A large export from the United States to China is waste. Carriers typically charge 200 US dollars to transport a container filled with waste paper to China from the United States – an amount that does not come close to covering the cost of the journey (International Herald Tribune, 2006). Often after transporting goods such as waste paper or scrap metal, however, a container needs cleaning, an extra step that slows down the turnaround time. Some shipping firms do not bother to fill the containers: a shipping executive of US Lines indicates that its ships almost always travel empty from the United States to China “because it is more lucrative to steam back quickly and unencumbered than to take on cheap and unprofitable cargo” (International Herald Tribune, 2006). Ships returning empty on the backhaul also use less fuel than those carrying cargo.

### *Trade volume and vessel size*

25. An important determinant of transport cost is the volume of trade. Maritime transport is a classic example of an industry that faces increasing returns to scale. Alfred Marshall, a neoclassical economist in the beginning of the 20<sup>th</sup> century said, "... a ship's carrying power varies as the cube of her dimensions, while the resistance offered by the water increases only a little faster than the square of her dimensions."<sup>8</sup>

26. Besides increasing returns at the vessel level, economies of scale may be captured at the seaport level. For instance, at the port of Buenos Aires (Argentina) the cost of using the access channel is \$70 per container for a 200 TEU vessel but only \$14 per container for a 1,000 TEU vessel (Clark, Dollar and Micco, 2004). In general, even though economies of scale are at the vessel level, in practice they are related to the total volume of trade between two regions. Economies of scale can be realized if utilization ratios are high. One consequence is that maritime routes with low trade volumes are serviced by small vessels and those with large trade volumes by large vessels.

27. Maritime transport costs are determined in part by the demand for shipping services but also constrained by a relatively inelastic short-term supply. Since it takes a number of years to build a ship and there are a finite number of ship-building facilities worldwide, the industry cannot react quickly to increases in demand. Prices necessarily rise as exporters compete for space on the most travelled routes. When demand falls sharply, as in the case of the economic crisis in which sharp falls in trade started in Q2 2008, excess supply prompts carriers to discount their rates to retain or grow their share of a declining market.

28. Trade value is also determined by trade composition. Because of the insurance component of transport costs, products with a higher unit value have higher charges per unit of weight. On average, insurance fees are between 1.5 and 2 percent of the traded value, and they represent around 15 percent of total maritime charges. Therefore, the insurance component of the transport costs for goods with high value per weight is higher than that for goods with low value per weight.<sup>9</sup>

### *Competition*

29. Competition on routes is a major determinant of transport costs, and is closely related to the total trade volume. Trade growth along a route promotes firm entry with rival liner companies competing away transportation markups thereby lowering costs for importers and exporters. On routes with low trade volumes, however, shipping firms are often in a monopolistic or oligopolistic situation. In 2006, one in six importer-exporter pairs was served by a single liner service, and over half the routes were served by three or fewer (Hummels, Lugovsky and Skiba, 2007).

30. Shipping conferences, which were put into place to establish shipping rates and were not subject to anti-trust legislation in major export markets, have lost in influence in recent years (see Appendix I for a fuller explanation of the workings of shipping conferences). Shipping companies have merged, in order to create economies of scale and offer integrated services. Overly restrictive regulations and anti-competitive practices can induce inefficiencies and monopoly power in ports. Workers in many countries for example are required to have licenses for providing stevedoring services. In the cases that the granting of these licenses is accompanied by high fees or implemented in a non-transparent manner, they imply higher port costs and lower productivity.

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8. Alfred Marshall quoted in Micco and Perez (2002).

9. [http://www.iadb.org/res/publications/pubfiles/pubB-2001E\\_3850.pdf](http://www.iadb.org/res/publications/pubfiles/pubB-2001E_3850.pdf).

### ***Infrastructure***

31. There is much literature on the importance of port infrastructure in transport costs. Port infrastructure is an important element of transport costs, also influencing the size of ship that can enter any given port and the time required to load and unload vessels. Additionally, however, this is one element of transport cost that can actually be changed through trade and infrastructure policy changes and increased investment.

32. A much-quoted finding is that of Limao and Venables (2000) for whom onshore infrastructure accounts for no less than 40 percent of predicted transport costs for coastal countries. They indicate that if a country with relatively poor infrastructure such as Ecuador or Brazil, ranked 75<sup>th</sup> internationally, were able to upgrade to the 25<sup>th</sup> percentile (the level of infrastructure in France or Sweden), it would reduce transport costs by between 30 and 50 percent. Clark, Dollar and Micco (2004) find that ports that are ranked 75<sup>th</sup> internationally are equivalent to being 60 percent farther away from markets for the average country than those ranked in the 25<sup>th</sup> percentile.

33. Wilmsmeier, Hoffmann and Sanchez (2006) examine six different port characteristics as possible determinants of international transport costs in Latin American countries. They find that port efficiency<sup>10</sup> is the most determinant element, followed by port infrastructure, private sector participation and inter-port connectivity. According to their findings, doubling port efficiency in a pair of ports involved in bilateral trade has the same impact on international transport costs as halving the distance between them.

### ***Piracy and other risk***

34. Piracy is an unresolved threat to ship owners and mariners. The geography in the Strait of Malacca, for example, makes that region susceptible to piracy. It was, and still is, an important passageway between China and India, and is used heavily for commercial trade. The strait is narrow, contains thousands of islets, and is an outlet for many rivers, making it an ideal location for pirates to hide and evade capture.<sup>11</sup>

35. Although the numbers of ships actually attacked may seem minimal, their potential risk exerts an upward pressure on shipping rates. In 2008, the number of reported piracy attacks off the coast of East Africa rose astronomically. In the first quarter of 2008, there were 11 piracy attacks in that region, rising to 23 in the second quarter and to 50 in the third and 51 in the fourth quarters, making a total of 135 attacks during 2008, resulting in 44 ships having been seized by pirates and more than 600 seafarers having been kidnapped and held for ransom.<sup>12</sup> In 2009 and 2010 the figures have remained high with 46 and 49 ships taken hostage respectively. Ships pass near Somalia on the well-traveled route between Asia and Europe on their way to and from the Suez Canal. The risk of pirate attack in that region prompted the International Maritime Bureau to issue a warning in 2008 to ships not to come closer than 200 nautical miles to the Somali coast.<sup>13</sup> Recently however, attacks have been recorded up to 1400 nautical miles off the Somali coast. They are becoming increasingly violent and sophisticated as pirates are becoming wealthier and links to terrorist groups seem to be increasing. Insurance costs rose tenfold in 2008 and are very likely to

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10. Port efficiency is defined as the perceived efficiency of the importing and exporting ports, respectively. The source of this indicator is the World Competitiveness Report.

11. [http://en.wikipedia.org/wiki/Piracy\\_in\\_the\\_Strait\\_of\\_Malacca](http://en.wikipedia.org/wiki/Piracy_in_the_Strait_of_Malacca)

12. [www.imo.org](http://www.imo.org)

13. <http://newsinfo.inquirer.net/topstories/topstories/view/20080408-129113/6-Filipino-seafarers-among-30-seized-off-Somalia---DFA>

have remained at similar levels since then.<sup>14</sup> The US Government estimated additional costs of US\$ 100,000 per trip for additional insurance and deterring equipment.<sup>15</sup> Some researchers have estimated the costs of piracy in terms of lower trade to be \$US 25.5 billion dollars in 2008, although they indicate that this number is likely to be much higher (Bensassi and Martinez-Zarzoso, 2010).

36. Some carriers internalize the risk of piracy on certain sea lanes in their transport costs; in other cases they add surcharges to cover extra costs entailed by added risk. Exporters or freight forwarders may also purchase more insurance coverage when exporting through known pirate-infested waters, increasing overall transport costs. Similarly, weather risk brings greater costs to carriers which they presumably pass on at least in part to their clients. Even if maritime transportation has experienced remarkable improvements in its safety and reliability, maritime routes are still hindered by dominant winds, currents and general weather patterns. The North Atlantic and the North Pacific are subject to heavy wave activity during the winter that sometimes impairs navigation, and may cause ships to follow routes at lower latitudes, thereby increasing the length of time at sea. During the summer monsoon season (April to October), navigation may become more hazardous on the Indian Ocean and the South China Sea. Increased safety measures and the potential risk of being idle at portside during such seasons exert an upward push on transport prices.

### III. Data collection

37. Transport costs are calculated in a variety of ways in the literature. Some early studies use export values (CIF) minus import values (FOB), i.e., mirror trade data, and assume that the difference represents transport and insurance costs.<sup>16</sup> This approach is erroneous due to many statistical errors, and problems of mismatched mirror data. Indeed, the IMF suspended publishing these data in a readily accessible fashion so as to avoid this particular error.<sup>17</sup> More recent studies have attempted to use better estimates for transport costs. Hummels and Lugovskyy (2006) compare these mirror data with actual transport costs for US and New Zealand and find that the CIF/FOB ratios are “badly error-ridden in levels, and contain no useful information for time-series or cross-commodity variation.”

38. Limao and Venables (2001) use transport data obtained from the moving company that re-locates World Bank employees. The firm in question provided the authors with the cost of moving one container (TEU) from Baltimore, United States to destinations to which Bank employees may be re-located. Although this is an inventive source of data, its drawback is that the data does not exist for other countries of the world (which the authors then estimate econometrically) and may not be significant for other types of commercial cargo.

39. Some other studies (e.g., Hummels, various years, and Bradford, 2006) use detailed data compiled by the US Census from customs records. These data indicate at the product level which products are imported by sea, rail or air, the transport costs, the quantity imported and its value by country of origin and by customs district of entry.

40. The cornerstone of the OECD project on maritime transport costs is an extensive data collection exercise that unites maritime transport cost data from a variety of different sources. The data base created includes original customs data where available. These data provide full information – transport costs at the

14. “Shipping insurance cost soars with piracy surge off Somalia”, The Times, Sept. 11, 2008.

15. “Economic impact of Piracy in the Gulf of Aden on Global Trade” Maritime Administration of the United States, 2009. <http://www.marad.dot.gov>

16. Radelet and Sachs (1998) for example use data calculated in this way.

17. Discussions with OECD trade statisticians.

most detailed product level from all destinations. Product-level transport cost data is used for only those items that have arrived by sea. These data are available for a number of countries: Argentina, Australia, Brazil, Bolivia, Chile, Colombia, Ecuador, New Zealand, Paraguay, Peru, United States and Uruguay (see Appendix II.A). The data collected refer to trade and transport costs of imports into these countries from all countries of the world. These comprehensive data are then combined with shipping rates actually charged on other routes that are available at a more aggregated level (i.e., not for specific products) to estimate actual transport costs at the product level for imports into a number of other countries. These data have been compiled using the methodology outlined below to provide estimates at the detailed product level for transport costs to and from as many countries of the world as possible. The dataset includes about four million data points for products at the HS-6 digit level for 43 importing countries in total (including EU countries as a single customs union<sup>18</sup>) from all 218 countries of the world from 1991 to 2007.

41. The challenges in compiling these data are numerous. They have been collected at a very detailed level – by country of origin and destination, by product and year: the dataset quickly becomes very large. Two indicators of maritime transport costs have been calculated: unit value transport costs (i.e., cost for transporting a given volume of goods) and ad valorem equivalents (i.e., transport costs divided by total import value). Unit value data give a consistent picture of the transport cost over time regardless of fluctuations in the price of the good shipped. Ad valorem equivalents, on the other hand, are used to calculate a tariff equivalent of transport costs, and can be compared with other trade costs such as tariffs in order to have a comparable measure of transport cost and its effect on the final price of traded goods. However, the original data are not always in a form that can easily be used to calculate either of these indicators. One of the data sources used in this study, the Containerisation International/UNCTAD series for trans-Atlantic and trans-Pacific rates, expresses freight rates as the price to transport one container of goods (\$/TEU) from one port to another.<sup>19</sup> The underlying data of the Baltic Dry Index (BDI) of industrial raw material transport costs is expressed in terms of the cost per day to hire one ship to transport coal or iron ore in bulk. The challenge faced in this project was to use these valuable data and transform them into a harmonized form that can be readily utilized for analysis of trade flows and costs.

42. This study makes use of detailed customs data for Argentina, Australia, Brazil, Bolivia, Chile, Colombia, Ecuador, New Zealand, Paraguay, Peru, United States and Uruguay (see Appendix II.A). These datasets record the export (FOB) value of goods, the cost of freight and insurance and the corresponding import (CIF) data for all imports from all destinations at the product level by mode of entry (ship, air or rail). In this way, the transport and insurance costs of only those imports that have arrived by ship can be analysed. The detailed customs data available for the 12 countries listed above are used to calculate transport unit costs (US\$ required to transport one tonne of merchandise) as well as ad valorem equivalents of transport costs (% of the total import value (CIF) of the product<sup>20</sup>) at the product level.

43. Data that have been obtained through carriers and freight forwarders are of a different nature to the customs data described above for 12 countries. Freight rates are available for containerized data to and from a number of destinations. They are expressed however, in cost per container (TEU), and as such are difficult to combine with trade values and volumes. Container freight rates were obtained from different sources: Containerization International, a private firm that calculates rates on six major freight routes; and

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18. Background data for estimating transport cost data are not available for individual European countries.

19. Although difficult to use in standard empirical economic analysis, this is the most commonly used form of data in the shipping industry to measure changes in container rates over time.

20. This study calculates the ad valorem equivalent of transport costs using the import values of goods, i.e., valued cif. This is in order to be consistent and comparable with calculations for other trade costs such as tariffs which are generally levied and valued CIF, although definitions are not strictly harmonized across countries. In any case, the ad valorem values calculated using this method would, if anything, underestimate the importance of shipping costs.

Drewry Consulting, which calculates container rates on about 100 freight routes. (See Appendix II.B for detailed information on data series for containerized data and Appendix Table II.2 for data availability).

44. In order to calculate the transport unit cost per containerized product and its ad valorem equivalent, a methodology was developed based on relative shipping rates and relative unit transport costs. The methodology consists of calculating a unit transport cost of every good on a given route (e.g., United States to the EU) using detailed import data to the United States. The relative price of transport of a container from the United States to the EU, in the example, is calculated as compared to the price of transporting a container from the EU to the United States. This comparison is used as a conversion factor and is multiplied by the transport cost per unit of merchandise imports into the United States to obtain the unit transport cost per product for the EU- United States route.<sup>21</sup> An illustrative example of the methodology is included in Box 1.

**Box 1. Illustrative example using average transport cost data per container to calculate transport costs of exports of shoes from the United States to the EU**

We have detailed data at the product level in the United States import data set. As an example, we use the data for a given product, say shoes, coming from a given destination, say the European Union. Assume the US data set is as follows:

Import value of shoes from the EU (FOB): \$95,000  
 Import volume: 10,000 units  
 Transport cost: \$5,000  
 Import value of shoes from the EU (CIF): \$100,000  
 From this data, we can calculate:

Unit value: \$10  
 Transport cost per unit: \$0.50  
 Transport cost as a percent of the total value of the imports:  $5\% = 5/100$

The next step is to obtain a simple ratio of transport costs overall (for container shipping) for the return direction of trade. We know, from the UNCTAD/Containerization International data set that for the year in question, that container transport overall from the EU to the US is twice (2 times) the price of container transport from the US to EU.

We also know, from trade flow data in the World Bank's WITS (World Integrated Trade Solution) or UN Comtrade databases:

The import value of shoes to the EU from the US (CIF): \$50,000  
 Import volume: 3333  
 We can therefore calculate the unit value: \$15

Using the above information, we can calculate the transport cost per unit of shoes from the US to the EU:  $2 * \$0.50 = \$1.00$ .

The total transport cost of shoes exported from the US to EU is therefore  $\$1 * 3333 = \$3333$

The transport cost as a percent of the total value of the imports of shoes is  $\$3333/\$50,000 = 6.67\%$  ad valorem equivalent.

A similar calculation can be done using transport costs overall for container shipping from any origin and destination, as long as they can be compared with the transport cost of imports to the United States from a given destination. The United States unit transport cost data have been used to estimate transport costs for all countries for which overall data for container transport rates exist.

21. It should be kept in mind that this is an estimate using aggregate price wedges on disaggregated data and should be used with caution. Estimates are used only when product level data are not available.

45. As regards bulk shipping, transport cost data are available from two sources: the Baltic Dry Index for timecharter routes and shipping of industrial raw materials, and the International Grains Council (IGC) for grains and selected oilseeds shipped in bulk. Freight rates are expressed in US dollars per tonne for transport of grains, so the calculations outlined in Box 1 are not necessary. The ad valorem transport costs of imports of grains are simply calculated using the unit freight rates and import data for all countries for which data are available.

46. The data used in calculation of transport costs of industrial raw materials such as iron ore and coal are expressed in dollars per day to timecharter a Capesize ship. Calculations are then made for the tonnage shipped and the number of days in transit to arrive at a figure for maritime transport costs per tonne of merchandise. More details of the data coverage and manipulations to the bulk shipping data are included in Appendix II.C and data availability in Appendix Table II.2.

47. No calculations are made in this study to estimate data for transport costs of tankers which are used in their vast majority to transport petroleum products. Although petroleum and petroleum products are important commodities in terms of both value and volume shipped, the tanker segment of maritime transport is subject to particular practices. Petroleum is generally traded on the spot market while in transit. The captain of a tanker fully loaded with oil from the North Sea, for example, often does not know where he/she is going when heading off to sea. The tanker may change course numerous times during its journey as its contents are bought and sold on the spot market. It is also assumed that there is no substitution effect of tankers with the other segments of the maritime transport industry (containers, “clean bulk” or “dirty bulk”).

48. This data set includes comprehensive data collected by customs authorities for 12 countries’ imports from all countries of the world and all products. This is more data than has been used in any published study thus far. In addition, the dataset is augmented with estimated data using indicators at a more aggregated level such as described in Box 1, and estimates for product-specific data such as grains and oilseeds and industrial raw materials for an additional group of countries. It should be kept in mind that the latter data are estimates and are therefore of a somewhat lower quality than the customs’ data. Coverage for these additional countries is also incomplete since the data are available only for, e.g., manufactures and processed agricultural products generally shipped in containers; or grains and oilseeds shipped in bulk; or industrial raw materials such as iron ore and coal shipped in large bulk vessels. The dataset covers an estimated 11% of world trade in value by all modes of transport for 2007; data coverage is skewed toward imports into North America, South America and Oceania from all countries of origin. Trade between developing countries is particularly badly represented in the dataset. Intra-EU trade is not included (although much of that trade is land-based).

#### IV. Evolution in maritime transport costs

49. A number of factors contribute to the evolution of maritime transport costs. There have been significant technological advances in the shipping industry, not least of which the advent of containerisation and increasing automatization. Economies of scale due to the phenomenal growth in ships’ size are evident over the past decades. These changes however mean that transport costs are more differentiated between hubs -- deep ports that host large ships and are fully automated -- and small out-of-the-way ports that are far from markets and have benefitted less from investments in infrastructure.

50. These evolutions also imply that the effect of distance on trade has changed in a variety of ways. Larger, faster ships are capable of transporting large volumes of merchandise long distances. Yet larger ships may need to use longer sea routes to avoid the Panama and Suez canals that restrict access based on ships’ size. Since the greatest economies of scale will be realized on routes with very large volumes of trade, a greater gap is potentially created between transport costs of large trading nations and small ones.

At the same time, opportunities are created for countries that are located along major trading routes to act as hubs thereby creating value added through their maritime transport and logistics services, and facilitating access to markets for their domestic exporters and importers.

51. The new database on maritime transport costs can be used to shed light on the evolutions in maritime transport costs, bearing in mind the caveats outlined above concerning data coverage and the necessity of estimating some of the data. A few of the major questions concerning maritime transport costs are listed below. A detailed analysis of the database to shed some light on these questions is undertaken in companion papers to this one.<sup>22</sup>

### ***Have maritime transport costs fallen?***

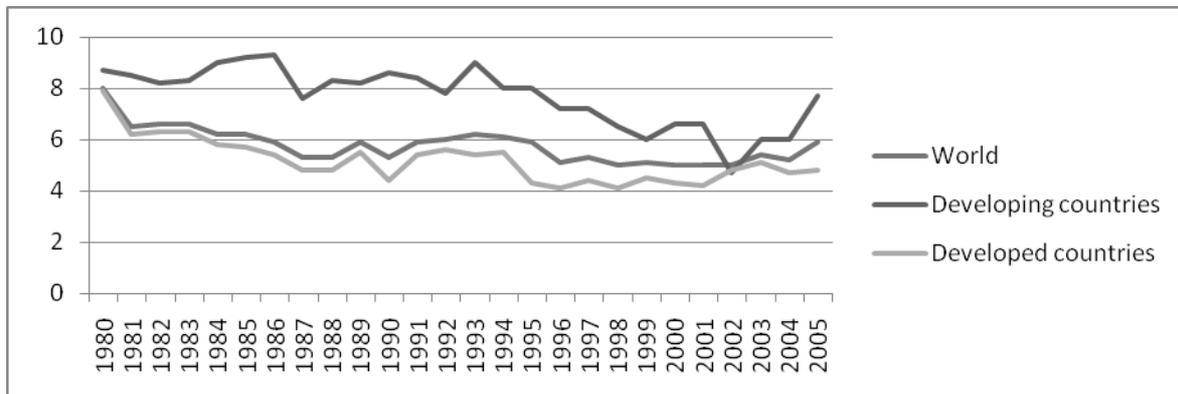
52. One of the most pertinent questions regarding long-term trends in maritime transport costs is: have they fallen? Some of the information contained in previous sections of this paper would suggest this should be the case. However, the question is more difficult to answer than it seems. There are two main ways to measure this: using transport costs measured in cost per kilo of merchandise (price data), or measured as a percent of the final cost of goods (ad valorem equivalents). Of course, over the long term, the components of both of these indicators have changed. Manufactured goods, for example, have become lighter over time. Heavy, cumbersome manufactures have often been replaced by smaller, lighter goods. Trade consists of more and more processed foods and light manufactures, thereby increasing the price per weight of goods. Additionally, over time, the (FOB) price of some goods has fallen due to a number of factors – increases in efficiency, variations in labour costs, technological advance.

53. Concomitantly, the overall price of goods has evolved over time. The prices of some goods have dropped drastically due to evolutions in production processes such as vertical integration. On the other hand, better quality and more targeted branding and marketing of goods have contributed to an increase in the prices of some other goods. The basket of goods imported by a given country, which necessarily evolves from one year to the next, therefore plays a large role in determining the extent and evolution of its transport costs. Similarly, evolutions in the country of origin of imports may change the results of any attempt to quantify changes in maritime transport costs over time.

54. Some of the literature counters the claim of the shipping industry that maritime transport rates have fallen steeply (in particular Hummels, various years). A broad overview of freight rates over the long term by UNCTAD indicates that maritime transport rates have fallen only slightly in the 25 years between 1980 and 2005, expressed either in transport unit values or in ad valorem equivalents. In 1980, maritime transport accounted for about 8 percent of the final cost of goods, and just under 6 percent in 2005 (Figure 2). Corresponding figures for developed countries are 8 percent to 4.8 percent; developing countries saw their cost of maritime transport fall from 8.5 to 7.7 percent of the price of goods

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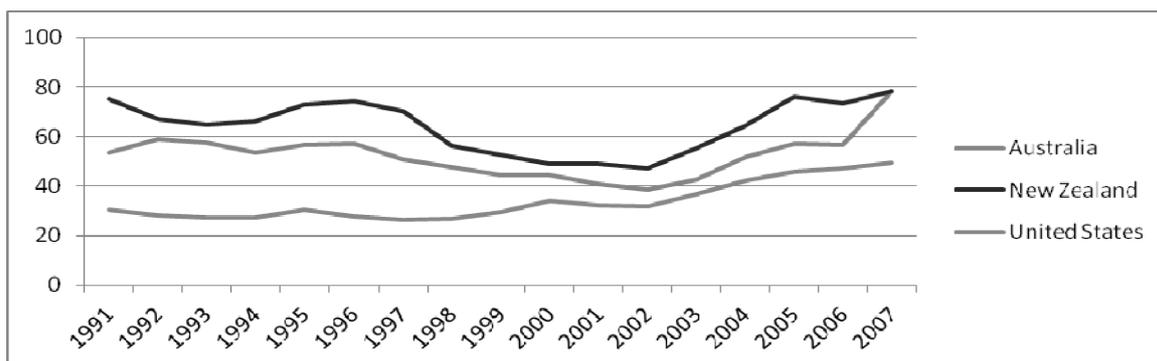
22. *Clarifying Trade Costs: Maritime Transport and its Effect on Agricultural Trade*, Trade Policy Working Paper no. 92; *Maritime Transport Costs and their Impacts on Trade* (forthcoming); *Determinants of Maritime Transport Costs* (forthcoming); and *Determinants of Maritime Transport Costs in Agriculture* (forthcoming).

**Figure 2. Historical maritime transport costs, ad valorem equivalent**

Source: UNCTAD, Review of Maritime Transport.

55. Hummels (2007) suggests that the answer to the question “have maritime transport rates fallen?” depends largely on the time period analysed. He maintains that both tramp (i.e., generally transport in bulk at the instruction of the shipper) and liner shipping prices have fallen very little since the early 1970s, deflated using a GDP deflator, a commodity price deflator, or a traded-goods price deflator.

56. A few examples from the Maritime Transport Costs dataset do not point to an overwhelmingly clear situation either. Over the 16 year period under review, the cost of shipping a tonne of merchandise has increased for the United States from 30.2 to 49.3 dollars per tonne, and Australia (from 53.3 to 78.4 dollars per tonne ) and has increased slightly for New Zealand (from 75.3 to 78.4 US dollars per tonne (Figure 3).

**Figure 3. Cost of freight entering Australia, New Zealand and the United States, \$/tonne of merchandise**

Source: OECD Maritime Transport Database.

57. These examples from the OECD Maritime Transport Cost Database confirm some of the findings of other researchers. There is no overwhelming evidence of a large drop in maritime transport costs across the board, i.e., in all products and to and from all destinations, that might have been the result of the significant technological advances in the industry or the important changes in the competitive environment. On aggregate, the evolution of transport costs is a more nuanced picture, with costs rising for some destinations, for some products, and for some types of transport (bulk, container, etc.), and falling for

others. *Clarifying Trade Costs: Maritime Transport and its Effect on Agricultural Trade*, Trade Policy Working Paper no. 92 and *Maritime Transport Costs and their Impacts on Trade* (forthcoming) include a full analysis of this question using the OECD dataset.

58. Evolutions in freight rates since the beginning of 2008 have been strong and volatile, illustrating some particularities of the maritime transport sector. The maritime industry is strongly affected by global production and consumption patterns; freight rates have been strongly affected by the economic crisis and ensuing drops in demand. Freight rates dropped across the board once the economic crisis hit in 2008 although some routes and sectors were hit harder. The demand-side effects are aggravated by mid-term inelastic supplies with many new orders for ships having been made in previous boom years. Across the board freight rates remained high in the first half of 2008 before dropping, in some cases dramatically.

59. Freight rates for liner (containerized) shipping started falling in mid-2008 until the end of 2009, Rates for larger ships and on the Asia to Europe route fell by up to 80%. Some maritime transport firms have responded through changes in their shipping practices. Some have taken to slow-steaming, i.e., travelling more slowly thereby saving on fuel costs. Some firms have started taking longer routes, for example around the Cape of Good Hope to save Suez Canal tolls, use otherwise idle ships and avoid additional insurance payments due to piracy. The Baltic Dry Index dropped from 11,793 to 663 in the last 6 months of 2008. The drop can be partly attributed to the halt of Chinese imports of iron ore in 2008 and a cap on steel production by the Chinese government in 2009.<sup>23</sup> The index was volatile in 2009 and remained below pre-crisis levels (UNCTAD 2009).

#### ***How do transport costs differ between countries and goods shipped?***

60. There is a large difference in the level and evolution of the different “markets” within maritime transport: containers, carrying manufactures and processed food products; “clean bulk” carrying grains and some oilseeds; and “dirty bulk” carrying industrial raw materials. Supply and demand for different types of carriers to and from different destinations have evolved over time. The volume of container traffic, hauling manufactures and processed agricultural products, has increased most of the three market segments during the 15 years analysed in this study. Although the cost of transporting goods in containers has generally decreased, the evolution varies according to importing and exporting country.

61. *Maritime Transport Costs and their Impacts on Trade* (forthcoming) and *Clarifying Trade Costs: Maritime Transport and its Effect on Agricultural Trade* (Trade Policy Working Paper no. 92) include a detailed analysis of this question using data from the OECD Maritime Transport Cost Database. Great differences exist in the cost of shipping a container on different routes. It is found that the cost of hauling a container of goods can vary on a scale from one to 10, even when accounting for differences in distance travelled. The cost of shipping industrial raw materials such as coal and iron ore rose sharply over the last decade and a half and then fell sharply in 2008, as described above. Two illustrative examples follow of differences in the transport costs of i) products imported from a single destination, and ii) of a single product imported from different destinations.

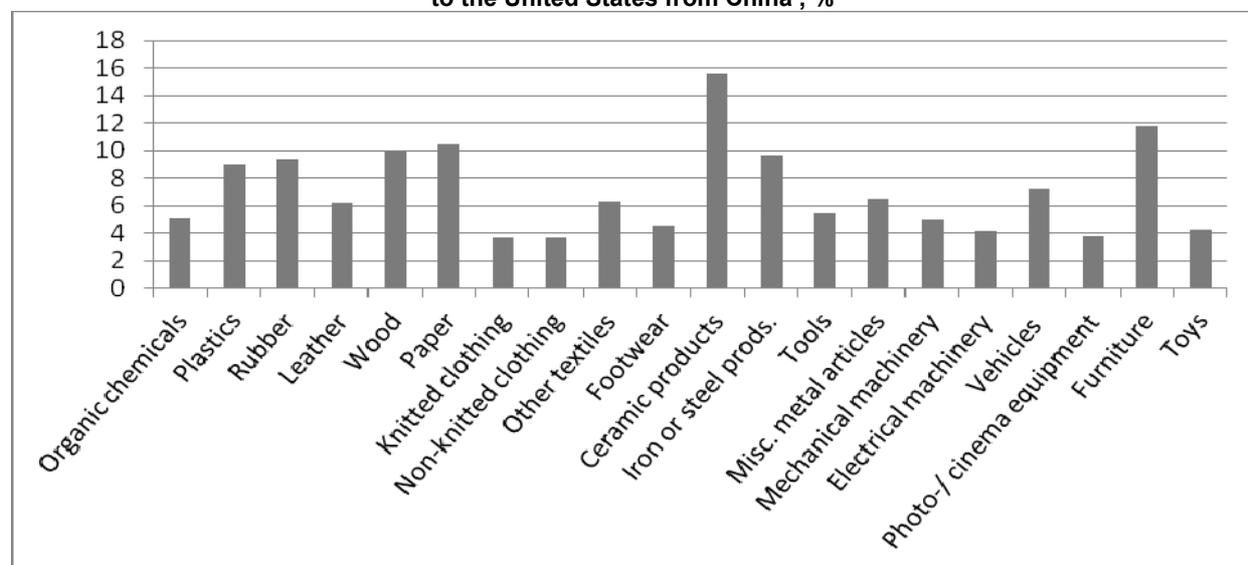
62. When one examines overall transport costs from one destination to another, large differences between product groups are hidden. One example is imports from China to the United States: overall transport costs averaged 6.7 percent ad valorem. At the product group level, however, these figures ranged from 3.7 percent to 15.7 percent ad valorem for the most traded product groups (Figure 4). The highest transport costs were for heavy goods such as wood, furniture and ceramics. The lowest transport costs ad valorem were for light goods – clothing and footwear – and for higher value added goods such as

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23. A large part of the Baltic Dry Index refers to rates for ships carrying industrial raw materials essential to the steel industry.

machinery and equipment. The overall figures therefore hide large differences; some goods are subject to much higher rates, even those that are exported in large volumes.

**Figure 4. Ad valorem transport costs of the top 20 product groups imported to the United States from China , %**

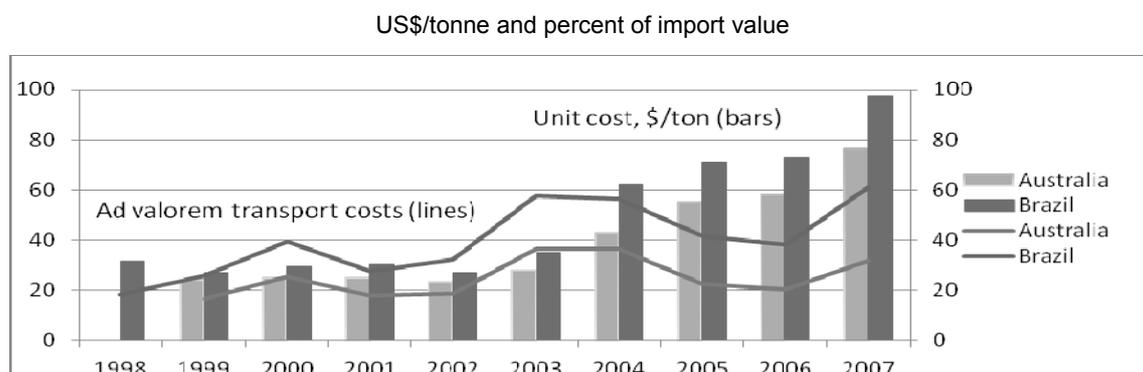


Note : These are the top 20 imported product groups at HS2 level to the United States from China in 2007.

Source: OECD Maritime Transport Cost Database.

63. An example of the differential in transport costs of a single commodity may illustrate their importance in determining trade flows and comparative advantage. One of China's most high-volume imports is iron ore. Two-thirds of China's imports of iron ore comes from its two major suppliers, Australia and Brazil. Iron ore import volumes from China's two major suppliers rose five to six times between 1999 and 2007. Ad valorem transport costs of iron ore originating in Brazil have risen over the eight year period from 20% ad valorem in 1999 to reach a high of 60% in 2007. Ad valorem transport costs from Australia rose less – 20% ad valorem in 1999, and 30% in 2007. In addition, iron ore shipments arrive more quickly from Australia as Australia is less than half the distance from China as compared with Brazil. The unit value of iron ore originating in Australia is also lower than that for Brazil, particularly in recent years (Figure 5). Imports of iron ore from Australia (144 billion tonnes) were concomitantly much higher than those from Brazil (88 billion tonnes) in 2007. The lower transport cost and quicker delivery time coupled with a slightly lower unit value of the exported product has contributed to make Australia's iron ore more competitive in China than Brazil's.

**Figure 5. Chinese imports of iron ore from Australia and Brazil, unit values of iron ore and ad valorem transport costs**



Source: OECD Maritime Transport Cost Database.

### *Do maritime transport costs represent insurmountable barriers to trade in some cases?*

64. The answer to this question is “yes” for a small number of countries.<sup>24</sup> Given the available data in this study, eight countries, mostly remote nations with very small markets, face such high transport costs that they represent a significant drag on most exports. These countries are: Guam (maritime transport costs of exports to all countries in this study equal 48 percent ad valorem on average), Nauru (40 percent), Christmas Islands (34 percent), Togo (29 percent), Guinea (25 percent), Tonga (22 percent), Sierra Leone (21 percent) and Pitcairn (17 percent). The average for developing countries overall is 7 percent. Given these extremely high transport costs, these countries would need to specialize in export goods with very high value to weight ratios where transport costs play a small role.

### **V. Future work**

65. This paper outlines developments in the maritime transport sector and poses some questions for analysis using the new dataset compiled on maritime transport costs. It also describes the methodology and data sources used to compile the dataset, and outlines some of its limitations. A number of the insights in this paper are being used to inform the forthcoming analysis and modelling exercises.

66. A full analysis of the OECD Maritime Transport Cost Database and estimation of the impact of maritime transport costs on trade is available in *Clarifying Trade Costs: Maritime Transport and its Effect on Agricultural Trade* (Trade Policy Working Paper no. 92) as regards the agriculture sector, and *Maritime Transport Costs and their Impacts on Trade* (forthcoming) as regards total trade. The determining factors that most influence maritime transport costs, such as distance, time at sea, competition, transport sector imbalances, volume of trade, port infrastructure, etc. are discussed and estimated in *Determinants of Maritime Transport Costs* (forthcoming) for total trade in goods; and *Determinants of Maritime Transport Costs in Agriculture* (forthcoming) for the agriculture sector.

67. The Maritime Transport Costs Dataset has been made available to OECD Member governments and transport and other experts on a selective basis. It is foreseen to make the dataset available more widely.

24. The data used in the analysis of this section are in fact mirror data and refer to imports from all destination countries included in the dataset for the years 2005 to 2007. This country list should be considered indicative due to incomplete data coverage in the dataset.

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## APPENDIX I. THE SHIPPING INDUSTRY<sup>25</sup>

Strong growth in the shipping industry has been fuelled by strong growth in exports, particularly in manufacturing; conversely, technological advances in the shipping industry have permitted world exports to expand rapidly. The size of ships has increased significantly. The technological advance brought on by using containers, permitting automated loading and unloading of ships and more seamless interface with other modes of transport, has revolutionized the way goods travel. There has been much consolidation among shipping companies in their transport activities, and some have combined their reach with acquisitions in the areas of logistics services, port services and port infrastructure.

### *Market segmentation*

A variety of different types of vessels exists, each used to transport a specific range of goods: bulk carriers, tankers, container ships and other ships such as “roll-on, roll-off” vehicle carriers.

*Bulk carriers and tankers* account for 70 percent of shipped exports measured by weight.<sup>26</sup> Most bulk carriers transport “dirty bulk” goods: iron ore, coal, bauxite and other industrial raw materials. “Clean bulk” carriers transport grains, oilseeds, and some sugar. The bulk market is also referred to as tramp shipping as long as a single product is carried for a single carrier. The tramp market does not maintain regular routes or regular service. The vessel is typically chartered (rented) for a given route or, increasingly, a given amount of time. In the case of a time charter, the carrier rents the ship and crew, but assumes all costs in connection with the voyage, including fuel and port fees, and costs related to loading and unloading.

Goods transported in bulk are generally of lower value per weight than goods transported in containers. More manipulation is generally needed to load and unload the goods and transfer to another mode of transport (road, rail, fluvial) is generally less seamless than for containers.

The leading tramp-owning and tramp-operating nations are, by order of importance: Norway, United Kingdom, Netherlands and Greece. Competition has traditionally been high in the bulk shipping market which explains why this sector has relied earlier and more heavily on open registries and low-cost seafarers.<sup>27</sup> The impact of the use of open registries on maritime transport costs has been analyzed and estimated in Wilmsmeier and Martinez-Zarzoso (2010).

Tankers typically transport petroleum and petroleum products and some liquid chemicals. “Clean” tankers transport vegetable and other oils for human consumption. The tanker shipping market is somewhat less competitive than that for dry bulk transport.

Most manufactured goods and an increasing amount of agricultural products are transported in containers. Containers have revolutionized the shipping industry by bringing greater automation thereby allowing just-in-time production processes to evolve, permitting the increase in vertical integration that has

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25. This section refers to the trends and structure of the international shipping industry. Cabotage, or the transport of goods between two terminals in the same country, is outside the scope of this study.

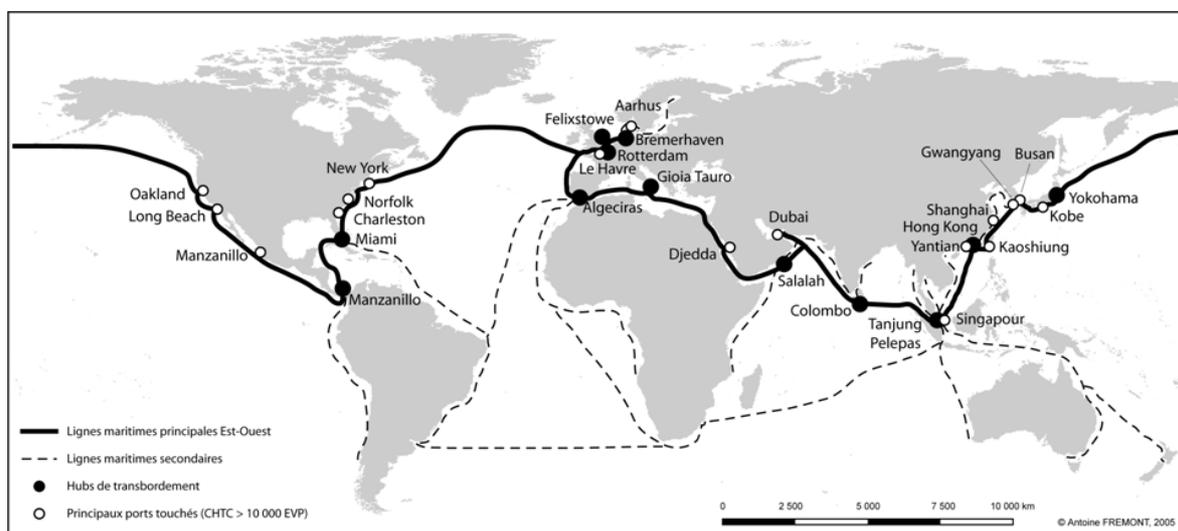
26. [www.shippingfacts.com](http://www.shippingfacts.com)

27. Open registries refer to the possibility for ship owners to register their ships under “flags of convenience”, i.e., in countries where regulations fit their commercial model. Many ships are registered in Panama, Liberia and the Bahamas largely for commercial reasons.

in turn driven demand for container transport.<sup>28</sup> The revolution in the shipping industry brought on by containerization has often been accompanied by complementary investments in port facilities that have further improved efficiency

Containerized cargo refers to cargo transported in standard containers that are loaded onto specialized container ships, and contain a wide variety of goods – most manufactures, processed food products and an increasing amount of other merchandise. Containers generally come in two standard sizes: 20-foot boxes and 40-foot boxes. Container rates are generally expressed as the cost to transport a twenty-foot equivalent unit (TEU), although some references are for forty-foot equivalent units. Containers are generally transported on regularly-scheduled liner services with pre-set schedules and routes. (See map below of the major ports serviced by Maersk, the largest container shipping firm worldwide).

**Appendix Figure I.1. Major ports serviced by Maersk, largest global container shipping firm**



Source: Frémont, 2007, *Conteneurisation et mondialisation, Les collections de l'INRETS, Lavoisier*



Container traffic is generally organized according to the “hub and spoke” model.<sup>29</sup> Given the cost of loading and unloading, time spent in ports, etc., there is a very significant advantage to being close to a “hub”. Some countries have made significant port improvements in order to establish themselves as regional maritime transport hubs. Port Said in Egypt, for example, has undergone recent investment to consolidate its position as a major Mediterranean hub. Its capacity has doubled in the last few years to accommodate 5.1 million containers yearly.<sup>30</sup> Tangiers (Morocco) will have increased its capacity to 3.5 million TEU by 2015.<sup>31</sup> Not only are there gains to be had in transshipment services, providing links to

28. A history of the growth of containers and the structural changes it has brought with it is in Marc Levinson’s *The Box: How the Shipping Container Made the World Smaller and the World Economy Bigger*.

29. The “hub and spoke” model of transport and logistics, first devised by Federal Express, organizes transport by bringing goods from “spokes”, i.e., lesser-used ports, to “hubs”, major transshipment ports, in order to export to another hub or spoke.

30. <http://www.animaweb.org/actu-detail.php?actu=2042>

31. <http://www.algerie-dz.com/article10515.html>

“spokes” but establishing such a hub implies that the economy in question is highly integrated into the world economy.

Container traffic has been the fastest growing segment in maritime transport; this trend will undoubtedly accelerate. One billion tonnes of cargo were transported in containers annually in the early 1990s compared with between 3 and 4 billion tonnes today. The forecast for container traffic is 10 billion tonnes in 2020.<sup>32</sup>

An increasing palette of goods is being shipped in containers. Some agricultural produce that has traditionally been shipped in bulk is now being moved in containers. Twenty five percent of traded fruits and vegetables, for example, is now shipped in containers. Fruits increasingly shipped in containers include bananas, pineapple, pears and apples. There are a number of reasons for this, not least of all cost. In the past, bulk trade was cheaper than containers for most agricultural produce. Due to a number of reasons, this is no longer the case. Today, it is cheaper to ship sugar, a commodity traditionally shipped in bulk, in containers. The cost of shipping a tonne of sugar from Europe to the Middle East by container is 40 dollars. The comparable cost of shipping by bulk is 50 dollars per tonne.<sup>33</sup> This is due in part to the smaller vessels used to ship bulk agricultural goods that do not benefit from the economies of scale of some of the large liner vessels. Container trade also implies more automated handling thereby lowering the cost of stevedoring. Additionally, shipping some non-traditional commodities in containers is brought on in some cases due to the trade imbalances on liner routes. If carriers on a return trip are full of empty containers, they may offer their services at competitive rates in non-traditional product markets.

### *Technological evolutions in size of ships and infrastructure*

The capacity of liner ships (i.e., transporting containers) and bulk carriers has increased dramatically over the last half century. In 1968, liners typically shipped 2000 containers (TEU); by 1988, a typical liner could transport 4000 TEU. Today, the largest container ships transport 11,000 to 16,000 TEU, which equals 67 kilometres of containers aligned from end to end. The latest generation of container ships can carry the equivalent of 10,000 heavy trucks (IMO, 2006).

There are many different sizes of bulk carriers. The most common are Handysize, Panamax and Capesize. Ships of different sizes are used for different purposes. The smallest ships are Handysize which carry between 10 and 40 thousand tonnes of cargo. These ships are very flexible: they are appropriate for use in smaller ports, and in most cases they are “geared” – i.e., fitted with cranes permitting loading and discharging of cargo at ports which lack cranes or other cargo handling systems. Compared to larger bulk carriers, handysizes carry a wide variety of cargo types. These include steel products, grain, soybeans, sugar, metal ores, phosphate, cement, logs and woodchips.

The middle-sized bulk carriers are Panamax size. These refer to ships that are up to the dimensions that can fit through the locks of the Panama Canal. Goods destined to pass through the Canal must be shipped on small- to medium-sized ships and it is therefore not possible to realize economies of scale that are found on very large ships. An increasing number of ships are being built precisely to the Panamax limit, in order to transport the maximum amount of cargo through the Canal in a single vessel. The increasing prevalence of vessels of the maximum size is a problem for the canal. They typically transport a maximum of 5000 TEUs. However, a Panamax ship is a tight fit when passing through the Canal requiring

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32. *Sans transport, pas de mondialisation*, presentation by Antoine Frémont, INRETS, “Mondialisation, Transports, Logistique”, conference organised by the French Prime Minister’s office, Centre d’analyse stratégique, Paris, 20 September 2007.

33. This example was related by a senior manager of CMA-CGM, 9 March 2007.

precise control of the vessel in the locks, possibly resulting in a longer lock time, and requiring that these ships be transited in daylight. The largest ships cannot pass safely in opposite directions, so the canal effectively operates an alternating one-way system for these ships.

Post-Panamax is the term for ships larger than Panamax, which do not fit in the original canal. One example is the Capesize ships, which typically carry 175,000 tonnes of goods. These large bulk carriers can transport enough grain to feed nearly four million people for a month (IMO, 2006). Capesize ships are too large to cross either the Panama or Suez Canals. To travel between oceans, such vessels must traverse either the Cape of Good Hope or the Cape Horn. Capesize ships typically transport mineral raw materials. The increasing Chinese demand for raw materials and augmented congestion in the Suez and Panama Canals have led to an increase in the number of Capesize vessel orders.

Increase in demand has also led to infrastructure projects to increase the size and capacity of the canals. In 2006, it was decided that the Panama Canal would be augmented, at a cost of 5.3 billion US dollars. A third set of locks will supplement the two existing sets of locks, increasing capacity to accommodate almost all ship sizes. Expansion is expected to be completed by 2014 and costs are expected to be recovered within 11 years. After expansion, the Panama Canal is expected to be able to handle vessels up to 12 thousand TEU in size; currently, it can only handle vessels up to 5000 TEUs.<sup>34</sup> (By comparison, the Suez Canal can support 8000 TEU containerships.) The present proposal to expand the Panama Canal will be particularly useful for the Asia – US East Coast route. On that route, 61% of the container market uses the US intermodal system (i.e., discharging in US West Coast ports and transporting to final destination cities by road or rail), and 38% through the Panama Canal (1% through the Suez Canal).<sup>35</sup>

Pending Canal expansion, there exists a tradeoff over long hauls between loading large ships, thereby gaining speed in open seas and taking advantage of economies of scale, and using smaller ships that can take more direct routes through existing canals.

The evolution in the size of ships, and their increasing number, has also created port congestion, which may call into question some decisions to outsource. This is considered by carriers to be one of the major problems facing the industry today (see section on future challenges below). One example of a company that has moved its production facilities closer to home in part due to port and transport delays is the French car manufacturer Renault. Renault recently moved some of its parts production facilities to North Africa from China, reportedly due in part to delays in Chinese ports which hindered just-in-time production processes.<sup>36</sup>

In order to secure access to ports, some large shipping lines are buying the rights to port operations. Presently, operation of major ports is performed by five or six main port operators. Large liner carriers such as the French conglomerate CMA-CGM are attempting to buy up port facilities.<sup>37</sup> In order to improve congestion problems between ship and rail transport, they are also investing in rail systems in some

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34. Proposal for the Expansion of the Panama Canal: Third set of locks project, <http://www.pancanal.com/eng/plan/documentos/propuesta/acp-expansion-proposal.pdf>, p. 6.

35. Source: Proposal for Expansion of the Panama Canal : Third set of locks project, Panama Canal Authority, April 24, 2006, <http://www.pancanal.com/eng/plan/documentos/propuesta/acp-expansion-proposal.pdf>

36. “Mondialisation, Transports, Logistique”, conference organised by the French Prime Minister’s office, Centre d’analyse stratégique, Paris, 20 September 2007.

37. “There is a battle raging” regarding control of ports, indicated one senior manager of CMA-CGM, 9 March 2007.

countries. These improvements require large investments which will lead to even greater consolidation in the shipping and related industries.

### *Changes in the competitive environment*

An important historic feature of liner transport is the operation of *conferences*.<sup>38</sup> These are formal agreements between companies engaged in particular trading routes. Members of a given shipping conference meet to fix the rates charged by the individual lines. Over the years, in excess of 100 such conference arrangements have been established. Although they may be seen as anti-competitive, conferences have generally escaped prosecution from national anti-trust agencies. This is largely because they have been seen as a mechanism to stabilize rates in an industry that is inherently unstable, with significant variations in supply of ship capacity and market demand. By fixing rates, exporters are protected from swings in prices and are guaranteed a regular level of service provision. Firms therefore compete on the basis of service provision rather than price (Rodrigue et al., 1998).

The share of conferences in liner trade has declined (WTO, 2001). Shipping practices have changed dramatically so that conferences that were important up to the early 1990s have greatly diminished in significance. They have often been replaced by wider reaching agreements. These agreements generally involve a larger percentage of carriers than was true for the old conferences but have lessened constraints on rates actually charged as they issue rate “guidelines” (Heaver, 2001). Agreements today do not generally determine or enforce their members’ compliance with suggested rates.

Over the last several years, containerized cargo has been transported at individually negotiated rates, whether they are spot rates or rate agreements with longer-term commitments. Carriers typically charge an “all-in rate” which includes sea transport charges, ancillary charges, and surcharges, including for fuel (von Hinten-Reed et al., 2004). Some carriers are vertically integrated, owning certain equipment and facilities at ports that can facilitate the loading or unloading of cargo. Certain carriers offer better or more integrated forms of inland transportation. To the extent that conference members may offer better services, in terms of loading/unloading cargo or inland transportation relative to non-conference members, they may be able to charge higher prices (von Hinten-Reed et al., 2004).

The shipping industry, particularly container shipping, has undergone extensive consolidation. Mergers and acquisitions have resulted in large container shipping conglomerates. The top four service operators provide close to one-third of all container shipping services, and the top 10 firms account for over half of containerised shipping (Appendix Table I.1). The top 20 liner operators, 13 of which are based in Asia, accounted for close to 70 per cent of capacity in 2008, up from less than 50 per cent in 1997 (Sydney Ports, May 2007). This trend is likely to continue, given the orders filed and the larger capacity of newer ships (WTO, 2001). This is of course an overall view, and competition may vary substantially between routes.

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38. An historical review of competition in the maritime transport industry can be found in WTO (2001) or in DSTI/DOT/MTC(99)8, *Discussion Document on Regulatory Reform in International Maritime Transport*, OECD.

**Appendix Table I.1. Leading operators of containerships, 2008**

Rank	Operator	Country/territory	No. of ships in 2008	TEU capacity in 2008
1	Maersk Line	Denmark	446	1,638,898
2	MSC	Switzerland	359	1,201,121
3	CMA-CGM	France	238	701,223
7	Evergreen	Chinese Taipei	177	620,610
4	Hapag-Lloyd	Germany	142	491,954
5	COSCON	China	141	426,814
6	CSCL	China	122	418,818
8	APL	Singapore	117	394,804
9	OOCL	Hong Kong, China	84	351,542
10	NYK	Japan	87	331,083
	Top 10		1,913	6,576,867
	World container fleet at 1 January 2008		8,762	12,657,725

Source: UNCTAD Review of Maritime Transport, 2008.

McKinsey (2002) underlines the high risk in the freight transportation industry. This is attributed to a number of causes, not least of all anomalies in contract practices. According to industry practices, exporters or freight forwarders can reserve space on terms that in effect give them a free call option: if the spot price (i.e., the price to ship immediately) falls below the forward price agreed upon between carrier and client, the client can simply rebook space on the spot market, without paying any penalty to the original provider. Although the contract has a minimum-volume clause, such provisions are rarely enforced (Ibid).

Additionally, carriers tend to give volume-based discounts on all routes, regardless of capacity constraints. An exporter seeking a large amount of space on ships sailing, e.g., from Hong Kong to Antwerp, a route in high demand, will always pay less per TEU than clients booking smaller volumes. Conversely, clients prepared to pay higher rates cannot be sure of obtaining space on a ship. A company with an urgent shipment but no space reserved on a full ship that is about to sail cannot buy space on it at any price. Although clients often breach their contracts with carriers, carriers cannot do the same, in part because the freight industry has no system for compensating customers with non-urgent cargoes that could sail on the next available ship (McKinsey, 2002).

### ***Maritime transport in the GATS***

The principles of the trade in maritime transport services are contained, like for all services, in the General Agreement on Trade in Services (GATS). The Annex (to the GATS) on Negotiations on Maritime Services provides for resumed negotiations on maritime transport to improve on the commitments included in the Uruguay Round schedules. Existing commitments cover three main areas in the sector: access to and use of port facilities, auxiliary services such as loading and unloading, pushing and towing services and navigational aids and pilotage, and ocean transport.

Thirty-two countries made commitments on maritime services during the Uruguay Round negotiations. Five countries did so later. Additionally, 10 new acceding countries have included maritime services in their list of commitments.

### ***Environmental aspects of maritime transport***

Of the different modes of transport, maritime transport is the least polluting. All modes of transport taken together account for 24 percent of the total emissions of CO<sub>2</sub> linked to petrol combustion. Of these, road transport emissions account for 18 percent of the total, air transport accounts for 3 percent of the total and maritime and fluvial transport together account for 2 percent of total CO<sub>2</sub> emissions (OECD International Transport Forum, 2007). A large cargo vessel emits about 10 grams of CO<sub>2</sub> per tonne/kilometre of freight compared to 50 grams emitted by a large truck with trailer and 550 grams emitted by an airplane (for a 747-400, average calculated over a medium-haul 1200 km flight) (IMO, 2006).

Despite these positive figures, the large volume of maritime transport means that it contributes to pollution levels. A recent epidemiological study finds that 60,000 cardiopulmonary and lung cancer deaths can be attributed annually to pollution from oceangoing ships. Most deaths occur near coastlines in Europe, East Asia and South Asia (Corbett et al, forthcoming). Given current regulations and the expected growth in shipping activity, annual mortalities could increase by 40 percent by 2012 (Ibid).

California, home to Los Angeles, the eighth largest port in the world, and Long Beach and Oakland ports, recently passed an environmental tax on containers (US\$30 per TEU) transiting, loaded, or unloaded in its ports through its State Assembly and Senate. The tax policy was an attempt to integrate the costs of the negative externalities of environmental damage caused by the maritime transport industry. Although the tax was finally vetoed by California's governor, and would not have been large enough to affect demand for goods and for shipping services, since transport costs remain a small share in the total cost of goods, the policy underlines a growing public awareness of the environmental costs of transport.<sup>39</sup>

### ***Future challenges to the maritime transport industry<sup>40</sup>***

Despite the phenomenal growth that the maritime transport industry has undergone, it faces a number of challenges to its development. Some of the main ones are listed below.

- Port, canal and inland transport interface congestion
- Increased security that drives up the cost of shipping and poses infrastructure challenges
- The volatility in the cost of fuel
- Environmental issues and consumer responses to them
- Financial challenges to the shipping industry due to relatively inelastic supply and demand.

It has been seen above that congestion at ports, canals and in interfaces with land and river transport is a significant and increasing problem. The infrastructure necessary to load and unload the largest ships is immense, and infrastructure investments necessary to keep up with expansion have been lagging. It is estimated that congestion in the (total) transport sector represents 1.6 percent of GNP, or 200 billion dollars in the United States alone. Similar figures in the EU are 1.1 percent of GNP or 140 billion euros.

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39. <http://www.encyclopedia.com/doc/1G1-188276375.html>

40. The information in this section is taken from conversations with senior managers and analysts in the shipping industry.

Although these figures include congestion on roads, in airports and ports, and most of the total cost of congestion is due to road congestion, it seems that this is a significant and growing problem.

Some carriers are putting into place strategies in the face of increased port congestion. One strategy is to use small feeder vessels to call at congested ports such as India's Jawaharlal Nehru Port, picking up the goods from a trans-shipment hub such as Colombo, Sri Lanka or Salalah in Oman. These strategies are put into place to try to improve reliability of service but add cost in terms of extra handling.

Since 2001, new security measures have been put into place regarding control of merchandise. Regulation which is imposed by a major importer (in this case, often the United States) often becomes the norm for carriers and freight forwarders, in order not to have duplicate processes and documentation. Delays due to new or upgraded security procedures may hold up cargo by 1 to 2 additional days on a loading site. According to estimates of time delays and their effect on trade, each additional day that a product is delayed in the shipping process reduces trade by more than 1 percent (Djankov et al., 2006).

The recent volatility in the price of oil has impacted costs in all transport industries. Although the maritime industry uses relatively less energy per tonne kilometre than the air transport industry, for example, prices for transport by sea have changed sharply in past years due to changes in the price of oil.

It has been seen above that there are significant environmental issues related to the maritime transport industry. Although the air transport industry may suffer more from any consumer response to environmental concerns, some international shipping firms are concerned about movements to "buy local". Although these movements remain small in the aggregate, some large supermarkets and distribution retailers are including carbon footprint labels on their packages or simply stamping goods with an airplane logo when produce has been flown to its market.<sup>41</sup> Tesco, one of the largest retail distributors in the UK, is one of a number of retailers that has assigned a "carbon rating" to everything it sells.<sup>42</sup> Although these movements are not targeting the maritime industry per se, such consumer concerns in OECD markets are closely watched.

Air, maritime, road and rail transport result in different levels of emissions per tonne-kilometre of goods transported. If in the long term a tax is placed on polluters, this could affect the future share of different types of transportation, and also potentially affect the total value of traded goods.

Finally, the recent volatility in the shipping rates – with steep rises in the years up to mid-2008, and then sharp falls – illustrate another particularity of the shipping industry: inelastic short-term supply. Since it takes a number of years to build a ship, there are a finite number of ship-building facilities worldwide, and the industry is necessarily capital-intensive -- larger hi-tech vessels can cost over US \$150 million to build – the industry cannot react quickly to increases in demand such as those in the mid-2000s. Prices necessarily rise as exporters compete for space on the most travelled routes. When demand falls sharply, as in the case of the economic crisis in which sharp falls in trade started in Q2 2008, excess supply prompts carriers to discount their rates to retain or increase their share of a declining market. Both of these phenomena imply that shipping rates are very volatile, and some analysts use the Baltic Dry index as a leading indicator of economic activity. This volatility implies high risk among industry participants.

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41. The "carbon footprint" of a product is the total set of greenhouse gas emissions caused by its manufacture, packaging and transportation to the retail distribution outlet.

42. Financial Time, 18 January 2007, <http://www.ft.com/cms/s/0/133d5be4-a718-11db-83e4-0000779e2340.html>.

## APPENDIX II. TRANSPORT COSTS DATA

### A. Transport cost data obtained from customs declarations.

Transport cost data is obtained from customs declarations for three OECD Member countries: Australia, New Zealand and the United States, and nine Latin American countries. These data have been made available to the Secretariat for the purposes of this project. Details on the coverage and scope of these data can be found below.

#### Australia

Source: Australian Bureau of Statistics

Import data is supplied at HS 6-digit level for all goods transported via sea freight. Data is available by commodity and by country of origin and is valued FOB, customs value (a market price FOB) and CIF. Import quantities are also available. Total insurance and freight costs can be derived by deducting Customs value from CIF.

The Australian Customs Service obtains the import data using Import Declaration N10. Data is also available by other modes of transport (air, post, etc.) Import data are generally collected at the HS 10-digit level and are aggregated to produce estimates at the 6-digit level.

The transaction value of goods is the price actually paid (or payable) for the imported goods.

#### New Zealand

Source: Statistics New Zealand.

Data is supplied at HS 6-digit level for all goods transported via sea freight. Data is available by commodity and country of origin and are valued CIF (i.e., including insurance and freight to New Zealand) and VFD (value for duty, i.e., the value of imports before insurance and freight costs are added). The difference in values CIF and VFD is therefore the cost of freight and insurance. Weight imported is also available for the vast majority of commodities. The data is measured in current New Zealand dollars. Values are then converted to US dollars for the purposes of this project.

The data is obtained from import entry documents lodged with the New Zealand Customs Service (NZCS). Import values are converted from foreign currencies when import documentation is processed by NZCS.

#### United States

US import statistics include shipments of merchandise into the US Customs Territory (50 states, District of Columbia and Puerto Rico), US Foreign Trade Zones and the US Virgin Islands from foreign countries. Import data includes net quantity, value data, value and shipping weight data for vessel and air shipments by commodity, by country of origin, by customs district of entry, by customs district of unloading and by rate provision. Import data is valued both FOB (customs value) and CIF (including cost, insurance and freight).

The import charges represent the aggregate cost of all freight, insurance and other charges (excluding import duties) incurred in bringing the merchandise from alongside the carrier at the port of exportation and placing it alongside the carrier at the first port of entry in the United States.

Import data is available by port of entry and, for goods that have entered by ship, whether the merchandise was containerized.

For more information see US Exports and Imports of Merchandise, Technical Documentation CDEX/IM, US Department of Commerce, Washington, DC, April 1995.

### Latin American countries

The Latin-American Integration Association (ALADI) has customs data on its 12 member countries. These cover import data for ALADI member countries, with the exception of Argentina and Brazil for which data was obtained through national statistics offices for the period 1991 to 2007. Some countries provide incomplete data (see availability of ALADI data below). Mexico and Venezuela have no data on either the freight rate or insurance and were therefore not included in our database. Data for Bolivia for the period 1998-2000 amounts to only 2% of the data supplied for other years.

**Appendix Table II.1: Data availability of Latin American countries through ALADI**

Year	Bolivia	Chile	Colombia	Ecuador	Mexico	Paraguay	Peru	Uruguay	Venezuela
1991	X	X	X				X	X	
1992	X	X	X				X	X	
1993		X	X			X	X	X	X
1994	X	X	X			X	X	X	X
1995	X	X	X			X	X	X	X
1996	X	X	X		x		X	X	X
1997	X	X	X		x		X	X	X
1998	X	X	X				X	X	X
1999	X	X	X				X	X	X
2000	X	X	X	X	x		X	X	X
2001		X	X	X			X	X	X
2002		X	X	X	x		X	X	X
2003		X	X	X	x		X	X	X
2004		X	X	X			X	X	X
2005		X	X	X			X	X	X
2006		X	X	X			X	X	X
2007		X	X	X			X	X	X

X indicates available data.

## **B. Container freight rates data sources<sup>43</sup>**

### **Drewry consulting**

Drewry, a consulting firm for international shipping<sup>44</sup>, collects container freight rates for multiple trade routes and port pairs based on averages of spot rates paid by exporters to freight forwarders. Drewry collects bi-monthly freight rates for over 100 routes to and from the US, Europe, Asia, the Middle East and Brazil. These rates have been used to produce annual data by taking simple averages of bi-monthly data. See Appendix Table II.2 for data used in this study with regard to goods shipped in containers.

The freight rates compiled by Drewry are sourced from freight forwarders and non-vessel-operating common carriers (NVOCC) located in Asia, Europe and the United States. The all-in freight rates are gathered from active freight forwarders, checked against other sources, and averaged to obtain the monthly representative freight rates. The rates are actual prices, based on millions of dollars of transactions, and are not mere “price list” tariff rates. The representative freight rates are averages of the rates for the carriers used by the forwarders involved and make no quality differentiation. These freight rates include all surcharges, including bunkers surcharges, as well as Terminal Handling Charges both at origin and at destination.

All Drewry freight rates are sourced from forwarders or NVOCCs: they are the sale rates to exporting firms, not the (lower) rates at which the intermediaries buy space from ocean carriers. Therefore, these freight rates include some remuneration for the service provided by the intermediary, although they exclude inland transport. Exporters requiring a very high level of customized service, inland transport or value-added services pay more than the rates collected by Drewry, but they may still pay the same port-to-port freight rate. Very large firms will generally obtain volume discounts resulting in lower port-to-port rates than the Drewry freight rates, which reflect the prices charged to small to medium-size exporters.

All the rates are forwarder rates to shippers. They are expressed in US dollars per container and differentiate between 20 foot and 40 foot container rates. The 20-ft. container price was used for this study. Data are calculated bi-monthly and are averages for specific months: January, March, May, July, September and November.

Drewry data are only available starting in 2006. Data for 2006 refer to simple averages of the six bi-monthly figures as available or, for some series that were added later on, four bi-monthly figures. Data for 2007 refer to averages of the five bi-monthly data points available (January, March, May, July, and September). Analysis of the freight rates was done using the raw data from Drewry. In order to calculate ad valorem equivalents of traded products, ratios of US transport costs to total values were used, and multiplied by the differences in transport costs along the different routes according to the methodology outlined in Box 1. This was done only for products that are generally shipped in containers, i.e., grains and raw materials that are generally transported in bulk carriers and petroleum products that are transported in tankers are not included. See Appendix IV for definitions of products that are transported in different carriers.

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43. Data in this section are used to estimate freight rates as described in Box 1.

44. <http://www.drewry.co.uk>

## Containerization International

Containerization International, a UK-based consulting firm, calculates spot and contract shipping rates for containers originating and destined for the United States, Europe and Asia (i.e., six series).<sup>45</sup> Data are collected from approximately 10 carriers on each route. Asian data are averaged for major ports in East Asia from Busan to Singapore. European ports are averages for North Europe and Mediterranean ports. United States ports are assumed to be West Coast on the US-Asia route and East Coast on the US-Europe route. Data include vessel charges (total sea freight costs: including fuel surcharges, currency surcharges, etc.) but not costs on land side (e.g., Hong Kong's port charge per container; Long Beach port charge).

For the purposes of this study, the data for Asia are used for the following origin/destination countries: Korea, Japan, China, Philippines, Indonesia, Malaysia, Singapore, Hong Kong, Vietnam, and Thailand. The European data are used for the EU container freight costs, and the North American data are used for the exports from the United States. See Appendix Table II.2 for data availability of goods shipped in containers.

### C. Data for bulk shipping rates

#### International Grains Council

The International Grains Council (IGC) collects freight quotes and estimates shipping rates per tonne of heavy grains for major grain exporters and destinations. Shipping rates are indeed estimates as more and more grains are shipped on time charters, i.e., on boats and barges rented on a daily rate over a number of months, or for a set route. In this case, IGC experts estimate the price per tonne of grain.

Heavy grains are assumed to be wheat and spelt, maize, oats, rye and sorghum. In principle, these rates could be used as approximates for soybeans and other oilseeds, but were not used in that way in this study. Barley is not included as it is a lighter, more voluminous grain. Different rates are required for estimating freight costs of barley.

IGC follows freight charges on a number of different routes from six major grains exporters: US/Canada, Australia, Black Sea, EU (Rotterdam/Antwerp), and Argentina. For both the US and Canada, rates are calculated for grains exported from the Northwest (Portland area), and from the East Coast. For this study, rates from the Northwest were used for exports to Asia (China, Indonesia, Japan, Malaysia and Korea). For all other destinations, rates from the East Coast were used. There are a number of reasons for this.

Higher quality, high protein red winter wheat is generally exported from the West Coast. Both soft and hard wheat are exported from the US Gulf. These rates were used for destinations for which the East Coast is closer (e.g., EU, Brazil) as well as those where high quality wheat is not necessary as the tradition is to eat non-rising bread (e.g., North Africa and the Persian Gulf countries).

Rates from the Black Sea ports were assumed to be shipments of grain from Russia and Ukraine. In practice, in the last few years (data are available for exports from the Black Sea starting in 2005), grains have been shipped either from Ukraine or from Russia due to uncertain weather and resulting difficult harvests.

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45. These data are widely used and also published by UNCTAD.

As the IGC ocean freight rates are expressed in US dollars per tonne of merchandise, the percentage ad valorem of freight cost is a straightforward calculation (transport cost / import value(CIF)). (See Appendix Table II.2 for data availability of transport costs of grains).

### **The Baltic Dry Index**

The Baltic Dry Index (BDI) is a daily index of bulk freight rates issued by the London-based Baltic Exchange which traces its roots to the Virginia and Baltick coffeehouse in London's financial district in 1744. Since then, the Baltic Exchange has been published as a leading indicator of real freight rates. The Baltic combines information from freight brokers on the cost of booking different sizes of ships on different routes carrying specific types of cargo. These are blended into the general Baltic Dry Index which gives an overall idea of the changes in bulk shipping rates.

For the purposes of this study, specific routes and sizes of ship were used (i.e., the data underlying the BDI). In particular, 13 routes carrying coal and/or iron ore were extracted for this study. Exporting countries include Australia, Brazil, China, Ecuador, European Union, Japan, South Africa and United States. Importing nations include China, European Union, Japan and United States. (See Appendix Table II.2 for data availability.) Data series are available on a daily basis in terms of the cost of renting a given size ship in US\$ per day. All data series refer to Capesize vessels (typically 150,000 DWT). Estimates are then made for the amount of raw materials that are carried on each vessel, and for the number of days each takes to complete a one-way voyage. Data were thus compiled for transporting a tonne of a given raw material on a given route. Daily data were averaged to obtain annual data.

It was assumed that vessels travel at close to full capacity, i.e., that they carry 90 percent of their total weight (dwt) in cargo. For some timecharter routes, brokers are obliged to pay the round trip journey – in this case, this was taken into account.

Appendix Table II.2: Information included in the dataset

	<b>Importers</b>	<b>Exporters</b>
<b>Full information for all products (customs data)</b>	Argentina, Australia, Brazil, Bolivia, Chile, Colombia, Ecuador, New Zealand, Paraguay, Peru, United States, Uruguay	All destinations
<i>of which:</i> <b>Data covering manufactures and non-bulk agricultural products shipped in containers (estimates)</b>	China	Brazil, EU, India, Singapore, United Arab Emirates, United States
	EU	Brazil, China, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, Philippines, Saudi Arabia, Singapore, Thailand, United Arab Emirates, United States, Vietnam
	Hong Kong	EU, India, United States
	Japan	EU, United States
	Korea	EU, United States
	India	Brazil, China, EU, Hong Kong, Saudi Arabia, Singapore, United Arab Emirates, United States
	Indonesia	EU, United States
	Malaysia	EU, United States
	Philippines	EU, United States
	Saudi Arabia	EU, India
	Singapore	EU, India, United Arab Emirates, United States
	Thailand	EU, United States
	United Arab Emirates	EU, India, Singapore, United States
	Vietnam	EU, United States
<b>Grains shipped in bulk</b>	Algeria	Argentina, Australia, Canada, United States
	Bangladesh	Australia, EU
	China	Australia, Canada, United States
	Egypt	Argentina, Australia, Canada, EU, Russia, United States
	EU	Argentina, Canada, Russia, United States
	India	United States
	Indonesia	Australia, Canada
	Iran	Australia, Canada
	Japan	Australia, Canada, United States
	Jordan	Australia, Canada, EU, United States
	Libya	EU
	Mexico	Argentina, Canada, United States
	Morocco	Argentina, Canada, EU, Russia, United States

	<b>Importers</b>	<b>Exporters</b>
	Pakistan	Australia, Canada, Russia, United States
	Russia	Australia, Canada, United States
	Saudi Arabia	Australia, Canada, EU, Russia, United States
	South Africa	Argentina, Australia, Canada, United States
	Sri Lanka	Australia, Canada, United States
	Sudan	EU
	Tunisia	Argentina, Canada, EU, Russia, United States
	Chinese Taipei	Australia, Canada
	Venezuela	Argentina, Canada, United States
	Yemen	EU
<b>Industrial raw materials (bulk)</b>	China	Australia, Brazil, EU
	EU	Australia, Brazil, China, Ecuador, Japan, South Africa, United States
	Japan	EU

### **Appendix Table II.3. Definitions of goods shipped by different means**

#### **Harmonized System (HS) codes used for bulk shipping**

##### ***Dry or “clean” bulk***

Generally:

10 Cereals  
1201-1207 Oilseeds

##### ***Industrial or “dirty” bulk***

26 Ores  
28 Inorganic chemicals  
29 Organic chemicals  
31 Fertilisers  
72 Iron and steel  
25 Salt, sulphur, earth, stone, plaster, lime and cement  
2701-2706 & 2712-2716: Mineral fuels, oils, distillation products, etc except Petroleum products

#### **Harmonized System (HS) codes used for tankers**

2707-2711 Petroleum products  
1507-1514 Vegetable oils

#### **Harmonized System (HS) codes used for containerized trade**

Includes all products with the exception of bulk shipped goods, goods shipped in tankers, motor vehicles (8701-8705), 8716 Trailers and non-mechanically propelled vehicles, 8802 Aircraft, spacecraft, satellites, 89 Ships, boats and other floating structures

#### **Definitions of product groups used in this study**

##### **HS codes referring to agriculture**

01-24

##### **Raw materials**

25, 26, 72

##### **Crude oil**

27

##### **Manufacturing**

28-99 except 72