UNCTAD/RMT(1997)/1

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT
Geneva

REVIEW OF MARITIME TRANSPORT 1997

Chapter VII

Review of Regional Developments - Small Island Developing Countries

UNITED NATIONS
New York and Geneva, 1997

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REVIEW OF REGIONAL DEVELOPMENTS - SMALL ISLAND DEVELOPING COUNTRIES

This chapter reviews the global and intraregional trades in small island developing countries, together with developments in shipping and related services and recommendations.

168. The sustainability of development processes is particularly crucial for small island developing States (SIDS). Sustainable development may be regarded as the progressive and balanced achievement of economic growth, social development and environmental sustainability. It is evident that all countries must have the opportunity to realize economic growth in order to meet their essential needs. The concept of sustainability brings in elements of quality of growth ensuring that economic and social development and environmental protection are mutually reinforcing. Its successful implementation, in SIDS more than in other developing countries, is conditional upon the existence of a functioning maritime transport system.

169. Efficient maritime transport and port infrastructure are essential for participation and expansion of trade. This is particularly important for those SIDS that are at a geographical and economic disadvantage. These handicaps take the form of high distribution costs, lack of reliable shipping services, expensive transhipment charges, inadequate port facilities, limited maritime administration and diseconomies of scale when negotiating freight rates with shipping conferences. For example, estimates of total freight costs for SIDS are almost 50 per cent higher than for developed market-economy countries. For some SIDS the incidence of freight costs is even double that for developing countries as a group. The present chapter provides an analysis of the situation of maritime transport in small island countries, looking at their position as both suppliers and users of shipping services.

A. Economic background

Macroeconomic performance

(a) Real GDP

170. The GDP growth of developing countries as a group has followed a fairly stable trend line at an average annual rate of 6.2 per cent since 1991. The GDP growth of small island developing countries, however, has shown wide fluctuations in recent years, with rates varying from two-digit growth to two-digit contraction (see table 47).

171. In the Caribbean and North America, the economies of the Dominican Republic, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines have developed favourably since 1991. All other countries in this region registered 1991-1996 average annual growth rates ranging between figures below zero and 2.5 per cent. The economy of Haiti has been particularly vulnerable, with negative growth rates recorded during most of the last seven years. Tourism and related industries are the mainstay of the economic activities of the countries in this region. They account for about 70 per cent of GDP in the Bahamas and represent a major factor in Jamaica.

172. In Africa, Mauritius has been constantly expanding its economy at an average rate of over 5.0 per cent per year since 1978. Slow but steady growth has been recorded in Sao Tome and Principe. The GDP of the Comoros and the Seychelles, which had been negative in 1994 and 1995, moved upwards in 1996. Although the per

capita GDP of the latter (at US$ 6,500 in 1994) is higher than anywhere on the African mainland, the country is very vulnerable to changes in the external environment. Its economy is characterized by the dominance of tourism and related services.

173. In Asia and Europe, the economic activities of Asian and European SIDS have generally expanded, registering GDP average annual growth rates of over 5.0 per cent. Among the countries of Oceania, the Solomon Islands' economy has been on an upswing at the high level of 5.9 per cent per year since 1991, followed by Fiji, whose tourism and related services are dominant in its GDP, whilst the economies of other countries have fluctuated, resulting in alternate negative and positive growth.

Table 47

Real GDP of small island developing countries
(Annual percentage change, 1978-1996)

	Average 1978-1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
World	3.3	4.7	3.7	2.7	1.8	2.8	2.7	4.1	3.7	4.0
Industrial countries	2.7	4.3	3.7	2.7	1.2	1.9	1.2	3.1	2.5	2.5
Developing countries	4.5	5.4	4.2	4.0	4.9	6.5	6.5	6.8	6.0	6.5
Caribbean and North America										
Antigua and Barbuda	7.3	7.7	6.3	3.5	4.4	1.1	3.5	4.8	-4.2	5.0
Bahamas	5.1	2.3	2.3	1.2	-2.7	-2.0	1.7	0.9	0.3	3.0
Barbados	2.3	3.5	3.6	-3.3	-3.9	-5.7	0.8	4.0	2.9	4.5
Dominica	4.0	7.4	-1.1	6.3	2.2	2.7	1.9	2.1	1.8	3.2
Dominican Republic	3.6	2.2	4.8	-5.8	1.0	8.0	3.0	4.3	4.8	7.3
Grenada	4.7	6.8	5.8	5.2	3.6	1.2	-1.2	2.3	2.7	3.0
Haiti	1.3	0.8	1.1	-0.1	-3.0	-14.8	-2.6	-10.6	4.5	2.0
Jamaica	2.4	-4.0	4.7	4.1	0.8	1.8	1.0	0.5	0.5	-
Saint Kitts and Nevis	4.9	9.8	6.7	3.0	3.9	3.5	5.0	4.1	4.8	6.7
Saint Lucia	5.9	12.2	9.1	4.1	2.3	7.1	2.1	2.2	4.1	3.7
Saint Vincent and the Grenadines	6.2	8.9	6.5	5.4	3.1	4.9	2.1	-0.4	6.7	3.3
Trinidad and Tobago	-2.1	-4.0	-0.7	1.5	2.7	-1.7	-1.6	3.8	2.4	3.2
Africa										
Comoros	4.3	2.7	-3.2	2.5	-3.0	7.7	3.8	-2.3	-2.3	1.9
Mauritius	4.1	8.7	5.7	4.7	6.4	4.8	6.7	4.2	3.3	4.4
Sao Tome and Principe	-0.1	2.0	3.1	-2.2	1.2	0.7	1.1	2.2	2.0	2.2
Seychelles	3.2	5.3	10.3	7.5	2.7	6.9	5.1	-1.6	-1.8	3.2

Asia										
Maldives	9.5	8.7	9.3	16.2	7.6	6.3	6.2	6.6	7.2	6.5
Singapore	6.9	11.1	9.6	8.8	6.7	6.0	10.1	10.1	8.9	-
Bahrain	3.3	-4.0	2.4	4.6	4.6	7.8	8.2	2.3	1.2	1.6
Cyprus	6.2	8.7	8.0	7.3	0.4	9.7	1.5	6.1	5.3	2.4
Europe										
Malta	3.6	8.4	8.2	6.2	6.3	4.7	4.5	5.0	6.2	3.5
Oceania										
Fiji	1.7	3.5	13.9	3.2	1.5	4.8	3.5	4.2	2.4	3.3
Kiribati	-5.8	10.6	-2.2	-3.2	2.8	-1.6	0.9	1.8	2.5	2.6
Papua New Guinea	2.2	2.9	-1.4	-3.0	9.5	11.8	16.6	5.2	-2.9	2.3
Solomon Islands	2.6	1.3	4.3	1.0	2.0	12.3	4.0	5.8	6.9	4.4
Vanuatu	2.9	0.6	4.5	5.2	4.5	-0.7	4.4	2.6	3.2	3.0
Western Samoa	2.4	-1.5	1.9	-9.4	-2.3	-0.2	4.1	-6.5	9.6	5.8

Sources: IMF, *World Economic Outlook, The World Economy in 1997-1998, Economic Prospects and Policies (Overview of the World Economic Outlook Projections - May 1997).*

(b) Exports of goods

Caribbean

174. Exports by some countries in this region have remained favourable or turned upwards. However, all the countries, except Trinidad and Tobago, have very large deficits in foreign trades, which are mainly covered by the constantly expanding tourism industry. In the Bahamas, the Government is endeavouring to broaden the economic base by developing agriculture and fishing, and this resulted in an increase of 3.5 per cent in overall exports in 1995. In Barbados, agricultural products are the main export items, accounting for about 50 per cent of total exports, while electrical components and chemicals represent some 45 per cent. A chronic deficit in foreign trades in goods has been made up by the tourism industry, which contributes about 50 per cent of total foreign exchange earnings. Alumina, bauxite and agricultural products continue to provide the bulk of earnings in Jamaica's foreign trade, even though the country has been developing non-traditional exports. Trinidad and Tobago's exports have surpassed its imports in f.o.b. terms. Exports turned upwards in 1994. Export growth was largely led by petrochemical trades, while manufactures and foods provided the basis for successful developments in the non-petroleum sector (see table 48).

Africa

175. Mauritius[1] exports were traditionally dominated by sugar, but earnings from manufactures have grown rapidly in recent years and surpassed sugar exports. Both small and large firms have been forced to modernize, innovate and become more efficient. This has improved the Export Processing Zone (EPZ) productivity, which rose by 31.7 per cent between 1990 and 1994 and promoted the sector's international competitiveness. EPZ's exports of mainly clothing items increased

from 27 per cent of total exports in 1980 to 67 per cent in 1994. The Seychelles' economy is characterized by the dominance of tourism and related activities, and by a very high degree of import dependence.

Asia and Europe

176. Bahrain imports crude oil from Saudi Arabia and alumina from Australia. Its major exports are petroleum products, which account for 60 per cent of total exports in terms of value and are sold mainly in Asian markets. Non-oil exports, particularly aluminium, have become more important. Cyprus is an island of limited natural resources, with a persistent and growing trade deficit. Nearly half the country's exports are re-exports. Foreign investment is sought in projects which produce high-technology export goods. In Malta, a country with no domestic raw materials and a very small internal market, economic development has been based on the promotion of export-oriented industries and tourism.

Oceania

177. With the exception of Papua New Guinea, SIDS in Oceania have limited natural resources. Their main exports are agricultural and marine products and their trade balance is persistently and heavily in deficit. Fiji's exports consist mainly of sugar, garments and re-exports. Foreign trade deficits are compensated for by the tourism industry, which attracts more than 300,000 foreign holidaymakers every year. The Solomon Islands' timber exports in 1995 increased by 16 per cent from the previous year to 735,000 cubic metres. Fish and palm oil are other main exports. For Tonga, squash accounts for nearly half of the country's merchandise exports. Other agricultural and marine commodities have good results for exports. Papua New Guinea has substantial productive potential, such as a large expanse of rich agricultural land, extensive forest and fishery resources, large deposits of copper and gold and enormous reserves of natural gas. Economic growth has, however, been constrained by the undeveloped economic infrastructures.

Table 48

Exports in goods of selected small island developing countries, 1991-1995
(f.o.b. millions of US dollars and percentage change)

Country	1991	1992	1993	1994	1995
Caribbean					
Bahamas	360	343	287	259	268
	-	-4.7	-16.3	-9.8	3.5
Barbados	151	144	158	152	-
	-	-4.6	9.7	3.8	-
Jamaica	1 197	1 117	1 105	1 551	1 793
	-	-6.7	-1.1	40.4	15.6
Trinidad and Tobago	1 775	1 691	1 500	1 778	2 456
	-	-4.7	-11.3	18.5	38.1

Table 48 *(continued)*

Africa					
Mauritius	1 253	1 335	1 334	1 377	1 572
	-	6.5	0	3.2	14.2
Seychelles	49	48	51	52	55
	-	-2.0	6.3	2.0	5.8
Asia					
Bahrain	3 510	3 470	3 710	3 450	4 090
	-	-1.1	6.9	-7.0	18.6
Cyprus	965	986	868	968	1 229
	-	2.2	-12.0	11.5	27.0
Singapore	58 900	63 400	73 700	96 500	118 000
	-	7.6	16.2	30.9	22.3
Europe					
Malta	1 331	1 610	1 408	1 619	1 939
	-	21.0	-12.5	15.0	19.8
Oceania					
Fiji	446	438	444	485	516
	-	-1.8	1.4	9.2	6.4
Papua New Guinea	1 482	1 951	2 604	2 651	2 670
	-	31.6	33.5	1.8	0.7
Solomon Islands	84	103	134	149	182
	-	22.6	30.1	11.2	22.1
Tonga	13.4	12.3	16.1	13.9	18.3
	-	-8.2	30.9	-13.7	31.7
Vanuatu	14.9	17.8	17.4	25.1	28.3
	-	19.5	-2.2	44.3	12.7
Western Samoa	6.5	5.8	6.4	3.5	8.8
	-	-10.8	10.3	-45.3	151.4

Source: Worked out by the UNCTAD secretariat on the basis of data provided in IMF, *International Financial Statistics*, various issues.

B. Costs of transport

178. Estimated total freight costs of total import value for small island developing countries are as high as 10.90 per cent, compared with 4.20 per cent for developed market-economy countries and 8.30 per cent for developing countries. Table 49 compares small island developing countries with other country groups and indicates the large disparity among the former. In particular, most small remote islands incur even higher freight costs as a percentage of import value, ranging from 12 to 18 per cent, which is significantly higher than those of other developing countries as a group.

Table 49

Estimate of total freight costs of total import value, 1995
(Millions of US dollars)

Country	Estimate of total freight costs of imports	Value of imports (c.i.f.)	Freight costs as a percentage of import value
Caribbean and North America			
Antigua and Barbuda	25	276	8.95
Bahamas	146	2 471	5.92
Barbados	56	623	8.95
Bermuda	81	903	8.95
Dominica	21	240	8.95
Dominican Republic	495	3 850	12.85
Grenada	10	93	10.32
Guadeloupe	427	3 326	12.85
Haiti	120	933	12.85
Jamaica	324	2 694	12.02
Martinique	254	1 975	12.85
Saint Kitts and Nevis	11	126	8.95
Saint Lucia	28	309	8.95
Saint Pierre & Miquelon	4	47	8.95
Saint Vincent and the Grenadines	17	187	8.95
Trinidad and Tobago	169	1 713	9.84
Africa			
Sao Tome and Principe	8	47	17.76
Comoros	20	153	12.85
Mauritius	247	1 949	12.70
Reunion	281	2 661	10.55
Seychelles	39	302	12.85

<u>Asia</u>			
Maldives	32	357	8.95
Singapore	6 936	124 394	5.58
Bahrain	400	4 093	9.76
Cyprus	337	3 694	9.12
<u>Europe</u>			
Malta	293	2 977	9.84
<u>Oceania</u>			
American Samoa	6	62	8.95
Fiji	106	807	13.14
French Polynesia	109	900	12.10
Guam	50	412	12.10
Kiribati	7	75	9.76
Nauru	3	33	8.95
New Caledonia	112	922	12.10
Papua New Guinea	194	1 512	12.85
Solomon Islands	28	168	16.42
Tonga	6	78	8.13
Vanuatu	17	142	12.10
Western Samoa	13	144	8.87
World total <u>a</u>/	247 325	4 688 637	5.27
Developed market-economy countries	145 040	3 457 009	4.20
Developing countries - total	102 285	1 231 628	8.30
<u>of which in</u>: Africa	11 598	101 369	11.44
America	20 305	257 505	7.89
Asia	68 003	847 054	8.03
Europe	1 728	20 445	8.45
Oceania	651	5 255	12.39

<u>Source</u>: Compiled by the UNCTAD secretariat on the basis of IMF c.i.f./f.o.b. factors and IMF International Financial Statistics.

<u>a</u>/ The estimate for the world total is not complete, since data for (1) countries that are not members of the IMF, (2) countries of Central and Eastern Europe and Republics of the former Soviet Union, and (3) socialist countries of Asia are not included for lack of data and other reasons.

Box 5

Caribbean carriers' cost barriers

Carriers in the US/Caribbean trades range from the mega to the minuscule. Two mid-sized operators, Seafreight Lines and Antillean Marine, tell about their routes, their services and their defences against the mega-carriers' incursions.

In 1960, the Babun brothers - Teofilo, Jose and Abraham - settled with their families in Miami, leaving their successful lumber and cement businesses behind them. Three years later, equipped with a single breakbulk ship, the Babuns launched a liner service from Miami to the Dominican Republic - and Antillean Marine Shipping Corporation was born. "Why? Out of necessity, the family had to be fed," states Sara C. Babun, daughter of co-founder Jose, and Antillean's current president. At first it was just the Dominican Republic; then Jamaica and Haiti were added, and later Jamaica was dropped. Today, Antillean plies three routes with seven time-chartered ships (four of 160 TEU/13.5 knots, two of 118 TEU/12.5 knots and one of 98 TEU/ 11.5 knots). The first service goes every Tuesday and Friday from Miami to both Rio Haina and Boca Chica, on the Dominican Republic's South coast. There is also a bi-weekly call at La Romana. This service uses three of the 160 TEU ships, working on a rolling schedule so that if ship A sails from Miami on a Tuesday, its next voyage (as ship D) begins on the following Friday.

The second service goes every Wednesday and Saturday from Miami to the northern Dominican Republic port of Puerto Plata, and every Tuesday and Saturday from Miami to the Haitian capital, Port-au-Prince. The Wednesday sailing (98 TEU) shuttles between Miami and Puerto Plata. The Tuesday sailing (118 TEU) shuttles between Miami and Port-au-Prince. While the Saturday sailing (160 TEU) goes to Port-au-Prince, Puerto Plata and back to Miami.

Thus Antillean's Miami departure schedule reads: Tuesday, Rio Haina, Boca Chica and Port-au-Prince; Wednesday, Puerto Plata; Friday, Boca Chica and Rio Haina; Saturday, Port-au-Prince and Puerto Plata. The third service is a twice-weekly link between Boca Chica and San Juan (Puerto Rico); this employs the second 118 TEU ship.

Antillean follows a number of clear-cut precepts:

- it does everything possible itself
- it charges all inland transport at cost
- it focuses on a few markets which it knows intimately
- it operates alone and is totally independent
- it will not allow big lines to tie up customers/cargo with service contracts
- it uses every available "trick" to beat its competitors on costs
- schedule reliability is paramount
- security is taken very seriously
- the key to success is hard work.

Thus, Antillean manages all aspects of its three-berth Miami River wharf terminal, using its own non-union workforce. Its head office (at the terminal) performs the full range of operational, sales, customer service and equipment control functions. It repairs its own containers and maintains its own handling equipment. It has its own cranes at every destination (all the ships are gearless). It even has its own transmitting station to communicate with the ships at sea. Subsidiaries aside, Antillean employs over 200 staff in Miami. Apart from the president herself, the two operations vice-presidents are also Babun family members. It accepts cargo from anywhere in North America. If Antillean arranges the inland move, it does so as part of the service.

To Boca Chica and La Romana, competition is negligible; to Puerto Plata, it is Crowley, Seaboard Marine and Tropical Shipping; to Rio Haina, the list includes those three plus Bernuth Lines, Evergreen, Maersk, Sea-Land, Tecmarine, Transportación Marítima Grancolombiana (TMG) and Zim; and to Port-au-Prince, Bernuth, Seaboard and Tecmarine. As formidable as this line-up may be, all these people have other fish to fry. Whereas Antillean believes that, having served (only) the Dominican Republic and Haiti for so long, it knows better than anyone how customers there think and what matters to them (like Antillean itself, many are family-run businesses).And its managers keep in touch with them through frequent personal visits.

Indeed, Antillean takes pride in the fact that, during the 1992-94 trade embargo of Haiti, it was the only line granted a US Government licence to maintain a service. "Other lines turned their backs on Haiti, because it was so expensive to serve, but we stayed and the customers appreciated it," Babun recalls.

Scheduling has to be precise. Even with hurricanes, the maximum delay is one day.

When the big lines came, they introduced service contracts. Customers went for them - thinking they were getting something special. Antillean's response was to give all customers the same price for one container as the big lines were giving for guaranteed volumes. If necessary, it gave an even lower price. "After that, the contracts stopped," says Babun, who calls Antillean's normal pricing policy "conservative".

Rates have nevertheless slumped. FAK (freight all kinds) to Haiti now earns a basic freight of around US$ 1,000 per 20-foot, compared with US$ 1,400 two years ago. As for the Dominican Republic, where the competition is most intense, Antillean now charges a basic rate of US$ 310 per 20 ft; six years ago, it was three times as much. That US$ 310 becomes US$ 860 after the addition of surcharges. Southbound cargo is mixed; northbound, the main commodity is apparel (basic rate from Haiti: US$ 415/770 per 20 ft/40 ft, or US$ 1,175/1,760 after surcharges).

Antillean protects itself against the worst effects of these rates by keeping costs down. Babun: "There are certain tricks to the market that make it more inexpensive for us ...". Not surprisingly, she prefers not to say what these are. Given the big lines' higher costs, Babun does not see how they can all remain in such peripheral, low-return trades. She expects at least one player to drop out during 1997.

According to *JoC/PIERS US Global Container Report*, Antillean carried 19,357 TEU/9,024 TEU from/to the United States in 1996, putting it in 52nd place overall. It is pondering involvement in new trades, and is longingly preparing for Cuba, although Babun fears that conditions there will get worse before they ever get better.

Antillean enforces strict shipboard security procedures and cooperates closely with the authorities at both ends, and so has never had any problems.

Seafreight Line goes further afield. From Port Everglades, just north of Miami, its three cellular ships (230 TEU, 260 TEU and 340 TEU) sail each Friday to Puerto Cabello, La Guaira and Isla Margarita (Venezuela), Point Lisas (Trinidad), Georgetown (Guyana) and Paramaribo (Suriname), thence back to Port Everglades. Meanwhile, its two multipurpose ships sail bi-weekly from Houston and New Orleans to Kingston, Puerto Cabello, La Guaira, Point Lisas, Paramaribo, Georgetown and back to Houston.

Registered in the Cayman Islands, Seafreight Line is an investment company for non-nationals - i.e. a group of foreign individuals. Since its inception in 1992, the hands-on management of the business has been undertaken by its general agent, Miami-based Seafreight Agencies, whose president is Roland Malins-Smith.

For Seafreight, explains Malins-Smith, this is a one-way trade. There is some cargo from Venezuela to the United States (tiles, roofing materials, petrochemicals) but it is much sought-after and very low-rated, nor could Seafreight compete on transit time, given its subsequent itinerary. So it is essentially fulls (20 ft, 40 ft and 45 ft) southbound and empties home. Seafreight takes FCL cargo from the whole of North America and has its own LCL packing station in Miami.

In 1996, Seafreight moved a total of 11,543 TEU from the United States and brought 471 TEU back, reports *PIERS*. To Venezuela, Seafreight is up against Arawak Line, Crowley, Evergreen, Ivaran Lines, King Ocean Services, Maersk, Nordana Line, Seaboard and Sea-Land, among others. Trinidad attracts Bernuth, Carifreight, Crowley Frota Amazonica, King Ocean, Navieras/NPR, Seaboard, Sea-Land, Tecmarine and Tropical. Georgetown, with Bernuth, Frota Amazonica, King Ocean and Tecmarine, is not quite so heavily populated. Finally, Bernuth and Tecmarine are the only real opposition to Paramaribo.

According to Malins-Smith, shippers pick Seafreight for a number of reasons, namely:

- it never tranships
- its Florida sailings are weekly and on the most popular day of the week, i.e. Friday
- it has excellent local knowledge and enjoys a lot of goodwill
- its agents are dedicated to the line.

Seafreight's other important advantages are low overheads - most notably a modest office with a small staff - and its optimally-sized ships. Elaborating on the latter point, Malins-Smith notes that Georgetown, being a river port, has a severe draft limitation of 6.1 metres. So Seafreight has deliberately expanded its business to fit the largest size of ship permissible in Georgetown, thereby reducing its slot-cost to the maximum possible extent. Moreover, when chartering, Seafreight goes to great lengths to fix the most economical ships. Large carriers, observes Malin-Smith, spend money entering new markets and are prepared to lose money for some time afterwards. Indeed, Venezuela now has Evergreen, Sea-Land and Maersk - and when one of the mega-carriers first arrived there, he recalls bitterly, it immediately slashed rates by US$ 500.

But Georgetown's shallow draft should deter such carriers from going into Guyana and Suriname. This is because their main line ships would be too deep, thereby forcing them to feed - at prohibitive cost. Or so Malins-Smith hopes and believes. "We anticipate new competition in Guyana and Suriname; not from the mega-carriers but from smaller ones," he states, adding the warning: "And when they appear, they will have us to deal with."

Since Seafreight began, trade volumes have stagnated. Venezuela is still racked by inflation and financial instability. Trinidad's economy is flat. Guyana is one of the poorest nations in the western hemisphere. And Suriname has had it share of financial stress. So Seafreight's current trade share (10-12 per cent to Venezuela and 50 per cent to Guyana and Suriname) has necessarily been clawed from other carriers, not from trade growth.

A meltdown in rates over the past five years has been fanned by cost-conscious customers. Seafreight's average revenue per TEU has fallen from US$ 2,000 to US$ 1,500. Only by containing its own costs has it managed to stay ahead. While belonging to all the relevant discussion agreements, Seafreight is not in any conference. Indeed, it finds conference membership often sends out a negative message to customers. It has its own tariff, which Malins-Smith suggests is probably little different from anyone else's. Seafreight is never the first to cut rates, but it nevertheless cherishes its ability to match any price being offered out there, without reference to anyone else.

While Crowley and Tropical are Seafreight's rivals to Venezuela and Trinidad, Seafreight feeds any of their boxes, originating from non-competing ports (e.g. Brazil), to Guyana and Suriname. It also acts as feeder for various deep-sea lines selling (say) Europe/Paramaribo via Port Everglades. There is even cooperation between competitors. Seafreight and Tecmarine have an agreement whereby one can load on the other's ships in case of urgent need; equipment being simply subleased and returned at the other end, rather than being formally "direct interchanged". Likewise, Seafreight's LCL service harmoniously competes with the consolidators whose containers it eventually carries.

Seafreight's most recent projects have involved upping the capacity of its Gulf service, establishing a new LCL packing facility in Miami, moving to a new head office and creating a new NVOCC of its own, SeaPack, enabling its customs to use Seafreight's brand of service to a wider range of Caribbean markets. Elsewhere, it may well be that the mega-carriers are successfully shedding costs by building ever-larger ships. Malins-Smith gives a broad grin: "In these trades, the big lines' cost-cutting strategy simply won't work."

Source: *Containerisation International*, May 1997.

179. The high incidence of freight costs referred to above is not only a reflection of low import unit values, but also of comparatively high freight rates for ocean transport to island developing countries. Long distances, low cargo volumes, transhipment and high feedering costs contribute to a level of freight charges that is generally above that incurred by most other developing countries. In the trades from Europe to Pacific island countries, freight rates have fluctuated somewhat but have remained at fairly high levels and developed as follows:

	Europe-Tahiti/ New Caledonia/Vanuatu US$	Europe to other South Pacific Islands US$
1992	2 300	2 400
1993	2 375	2 400
1994	2 650	2 400
1995	2 525	2 500
1996	2 050	2 500

The average rate for refrigerated/temperature-controlled cargoes since 1996 has been US$ 4,850 per TEU.

C. Overview of the current situation in shipping

(a) International trade of small island developing countries

180. The demand for shipping services is derived from international trade. The dominance of manufactures (80 per cent) in the trade of the group as a whole is highly biased by the performance and trade structure of a small number of more developed States that belong to the SIDS group. For the majority of the less developed ones, raw materials continue to be major export items.

181. A review of SIDS' international trade by value indicates a shift in both structure and direction of imports and exports. Total exports increased at about 11.5 per cent annually for the period 1988-1994, with the fastest growth in manufactures (annual average growth rate of 17.2 per cent) and decreasing fruit exports./ The direction of exports changed over the period 1988-1994. For example, in 1988, developed market-economy countries imported about 56 per cent of SIDS' exports. However, by 1994, the developed market-economy countries' share declined to 44.5 per cent. Conversely, the developing countries' share of SIDS' exports increased from 39.9 per cent in 1988 to 51.8 per cent in 1994./

182. Total imports increased at an annual average rate of 8.9 per cent over the period 1988-1994./ Manufactured goods remained the largest share of imports - 81 per cent in 1994 - and increased from 69.0 per cent in 1988. In other commodity groups, imports of food and fuels remained static; however, agricultural raw materials decreased by 34.3 per cent, while ores and metals increased by 30.0 per cent. The direction of imports over the period 1988-1994 shifted away from developed market-economy countries (down 8.3 per cent), with an increase for developing countries (up 15 per cent). Developed market-economy countries, however, were the major countries of origin, with more than 55 per cent of the 1994 total. The developing countries and socialist Asia expanded their share to 41.0 per cent and 3.2 per cent respectively.

(b) Small island developing countries' merchant fleet

183. Fleet statistics pertaining to the group of small island developing countries are distorted by the widespread offer of open-registry facilities by some countries in this group. The benefits for the open-registry countries are additional tax revenues and employment opportunities when ship management companies are established in the country. True ownership of tonnage remains minimal in these countries, as can be seen from the data in table 18 above.

184. Available fleet statistics show 38 SIDS with ships on their registers. However, five SIDS offering open-registry facilities represent 115.6 million dwt or 73.0 per cent of the total tonnage within the group. In addition, the data contained in table 50 reveal that the tonnage distribution in the remaining 33 countries is highly uneven. The total fleet of 42.7 million dwt which is not attributable to the major open

Table 50

Merchant fleets of small island developing States and territories by flag of registration[a] and types of ship[b] as at 31 December 1996 *(In dwt)*

	Total fleet	Oil tankers	Bulk carriers	General cargo[c]	Container ships	Other types
Antigua and Barbuda	2 842 205	6 011	287 781	1 519 279	992 620	36 514
Bahamas	38 242 885	20 715 234	7 824 583	6 762 548	965 693	1 974 827
Bahrain	241 911	97 002	13 143	98 759	..	33 007
Barbados	723 063	37 740	333 750	278 047	..	73 526
Bermuda	5 208 272	3 239 779	547 808	188 552	469 337	762 796
Cape Verde	18 571	562	..	14 252	..	3 757
Cayman Islands	1 221 147	155 100	529 639	390 044	57 080	89 284
Comoros	3 498	..	..	2 834	..	664
Cuba	332 800	37 708	632	171 814	..	122 646
Cyprus	37 966 130	6 752 008	21 726 491	6 371 794	2 002 156	1 113 681
Dominica	1 901	..	..	1 901	..	..
Dominican Republic	11 242	1 635	..	8 641	..	966
Fiji	29 219	3 605	..	10 497	..	15 117
Grenada	950	..	..	950	..	..
Haiti	170	..	..	..	..	170
Jamaica	6 339	3 292	..	2 813	..	234
Kiribati	7 094	3 048	..	3 352	..	694
Maldives	143 868	12 679	19 536	103 997	..	7 656
Malta	32 168 358	13 655 261	12 798 875	4 408 655	600 622	704 945
Mauritius	327 358	84 464	2 500	162 735	68 760	8 899
Montserrat	..	..	..	..	..	..
Nauru	..	..	..	..	..	..
Papua New Guinea	62 118	10 044	..	48 888	..	3 186
Sao Tome and Principe	2 492	..	..	1 285	..	1 207
Seychelles	3 278	..	..	3 278	..	..
Singapore	25 721 659	11 839 420	7 862 814	2 195 942	2 642 894	1 180 589
Solomon Islands	6 775	..	..	3 155	..	3 620
Saint Helena	478	..	..	..	..	478
Saint Lucia	889	..	..	889	..	..
Saint Vincent and the Grenadines	10 901 760	2 274 881	4 525 163	3 580 270	96 531	424 915
Saint Kitts and Nevis	550	..	..	550	..	..
Tonga	14 555	..	..	10 403	..	4 152
Trinidad and Tobago	10 893	..	..	4 644	..	6 249
Turks and Caicos Islands	405	..	..	161	..	244
Tuvalu	84 936	..	..	27 067	..	57 869
Vanuatu	2 093 163	65 866	1 164 991	487 471	19 929	354 906
Virgin Islands, British	3 806	..	..	3 203	..	603
Western Samoa	6 501	..	..	6 066	..	435
Total SIDS	158 411 239	58 995 339	57 637 706	26 874 736	7 915 622	6 987 836
Percentage of total	100.0	37.2	36.4	17.0	5.0	4.4

Source: Compiled by the UNCTAD secretariat on the basis of data supplied by Lloyd's Maritime Information Services Ltd. (London).

[a] The designations employed and the presentation of material in this table refer to flags of registration and do not imply the expression of any opinion by the Secretariat of the United Nations concerning the legal status of any country or territory, or of its authorities, or concerning the delimitation of its frontiers.

[b] Ships of 100 grt and over.

[c] Including passenger/cargo.

registries is primarily registered in Singapore, Antigua and Barbuda, and Saint Vincent and the Grenadines. The latter Caribbean States also offer open-registry facilities, even though they are not counted among the major flags of convenience. In total, these three States represent 39.4 million dwt or 24.9 per cent of the group's total tonnage. Together with the open-registry countries, their share amounts to 98 per cent of the total SIDS fleet. This uneven distribution reflects the dilemma of most countries within the SIDS group. Even though their foreign trade is nearly exclusively dependent on the availability of maritime transport services, their participation therein is negligible. Additionally, the statistics can only inadequately reflect the maritime engagement of island countries, as local inter-island trade will generally be carried by ships below the cut-off size of 100 grt included in the global Lloyd's databank. Thus, a large number of vessels of less than 100 grt are operating in many small island developing States. For example, in the Maldives, inter-atoll cargoes are carried by 250-350 dhonis (small vessels of about 50-75 dwt)/ while in the Caribbean some 400-500 small ships (200-300 dwt) were trading in early 1990./ Similarly, 200-300 inter-island vessels were operating among South Pacific islands (Oceania)./

185. The age of the SIDS fleet of 100 grt and above is the second qualitative factor. Nearly 50 per cent of the merchant fleet is 15 years old and over. This ageing fleet leads to higher operating costs, as repair and maintenance rapidly increase with age; and schedule delays and unreliability, as well as greater environmental risks are associated with obsolete vessels. In brief, the SIDS fleet is ageing and therefore needs replacing. Table 51 summarizes data on fleet age by vessel type.

186. Another conclusion to be drawn from the fleet ownership/vessel type data is the need for small island developing States to increase their capabilities for serving their own trade. The existing fleet is mostly owned abroad, based on open-registry facilities. Although these facilities provide foreign exchange earnings, some employment for seafarers and service sector diversification, they are not fully complementary to the trading requirements of small island developing States, and at the same time conceal structural deficiencies. Most manufactured goods move by containerships or general cargo ships, yet the former represent only 5.0 per cent and the latter 17.0 per cent of the total SIDS fleet. If the vessels registered under open registries and in Singapore are excluded, the SIDS conventional general cargo tonnage is minimal and containerships are non-existent.

(c) Shipping industry changes

187. Restructuring trends in the international liner shipping industry are another factor affecting the transportation capabilities of many small island developing States. Over the last decade, consolidation, cooperation and commercial agreements between large container operators have resulted in a concentration of services. This has created economies of scale and encouraged the expansion of hub-and-spoke service patterns between major trading areas. For small island developing States, however, the impact has been to increase the need for transhipment port services, acquisition of vessels with container-lifting capabilities, investment in electronic data interchange (EDI) technology and training management personnel. Moreover, without these infrastructure investments (mainly ships and port facilities), the ability of many small island developing States to effectively trade and sustain development will be marginal.

188. In order to maintain or, if possible improve, maritime capabilities, action is required by small island developing States that would primarily aim at creating a framework within which the industry can develop. To this end, it is imperative that private sector investment be channelled to the maritime sector by promoting both local investment and foreign direct investment (FDI). As national governments may not always be in a position to bring about the necessary change, it is indispensable that the international community provide assistance, both with regard to the funding of infrastructure and the fostering of a commercially minded management culture.

Table 51

Age distribution of the SIDS fleet by types of vessel, as at 31 December 1996 a/
(Percentage of total in terms of dwt)

Country grouping	Types of vessel	Total	0-4 years	5-9 years	10-14 years	15 years and over	Average age (years) b/
GROUP AVERAGE	All ships	100	16.4	19.0	16.1	48.5	14.26
	Tankers	100	15.9	30.1	5.8	48.2	13.73
	Bulk carriers	100	17.2	14.4	25.0	43.4	13.90
	General cargo	100	5.2	7.9	20.3	66.6	17.75
	Containerships	100	44.4	10.3	16.3	29.0	9.95
	All others	100	5.7	18.0	27.4	48.9	15.42

Source: Compiled by the UNCTAD secretariat on the basis of data supplied by Lloyd's Maritime Information Services Ltd. (London).

a/ Excluding open-registry countries. The group of open registries as defined in the UNCTAD *Review of Maritime Transport* comprises the Bahamas, Bermuda, Cyprus, Liberia, Panama, Malta and Vanuatu.

b/ To calculate average age, it has been assumed that the ages of vessels are distributed evenly between the lower and upper limit of each age group. For the 15-years-and-over age group, the mid-point has been assumed to be 22 years.

Box 6

Latin-Caribbean trade

The total volume of intra-Caribbean trade, which might be enough to keep one or two small-sized Caribbean-owned lines in successful operation, does not take into account the intense competition on the Caribbean route provided by lines external to the region. In the absence of a CARICOM (Caribbean Community and Common Market, consisting of 14 countries) policy on shipping, these lines from outside simply take most of the intra-regional cargo at rates that are in effect "uneconomic" for Caribbean-owned ships.

For non-liner business, there were at one time nearly 3,000 vessels of about 200 tons each, carrying break bulk cargo between the territories.

The number, however, has been considerably reduced through age, low freight rates, rising costs, and poor management.

More are likely to disappear as port state control gains momentum in the region and formal Caribbean Cargo Ship Safety regulations start being applied.

What is urgently necessitated in the Caribbean maritime transportation sector is government's supportive policies, to which financial communities and institutes can respond positively.

Otherwise, what is left of the intra-Caribbean shipping business for Caribbean ship operators will no longer exist and traders in the region will be at the mercy of shipping lines from outside.

The Caribbean Shipping Association

The Caribbean Shipping Association (CSA), which turned 25 years old in 1995, represents shipowners, shipping agents, port authorities, stevedoring companies, in fact all the interest groups which make up the maritime industry in the Caribbean. The association has been able to influence the decisions of government relating to the operation of the shipping industry in the Caribbean. Among the CSA's recommendations for CARICOM government actions are:

- Government fiscal incentives to promote the development of regionally-owned shipping;
- harmonization of laws and regulations governing the Caribbean maritime industry;
- encouraging the regional banking sector to set up soft loan windows and venture capital funds for investment in shipping;
- paying greater attention to the environment in Caribbean ports and enforcing anti-pollution maritime laws.

In recent years, training has been one of the CSA's major preoccupations and it has established a Training Trust Fund, with a target of US$ 100,000. The income from this is used to support various maritime-related training programmes.

Source: *Lloyd's List* (London), 31 July 1996.

189. At the national level it is recommended that governments and the private sector work together to:

- promote investments in modern ships through appropriate fiscal policies;
- ensure the establishment of competent and adequate national maritime administrations;
- create or strengthen existing shippers' councils to act as focal points for the protection of shippers' interests;
- support maritime infrastructure investments through direct loans or by creating favourable conditions for FDI;
- improve managerial skills through human resource development programmes and management training for private and public sector personnel.

190. At the regional or subregional level it is necessary to strengthen cooperation in order to ensure that the albeit limited potential for economies of scale is adequately exploited. Action is therefore recommended in order to:

- update and harmonize maritime legislation at the subregional and national levels with a view to providing a legal framework for more effective maritime transport, and to improving planning security for foreign investors;
- improve intraregional sea transportation through the creation of joint services;
- create regional shipowners' associations;
- improve maritime infrastructures and services through regional port development projects, streamlining customs and documentation procedures, improved communications, use of information technologies, etc.
- take joint action to increase shippers' bargaining power to obtain cost-efficient shipping services. In this context, shippers' councils and small shipowners' associations should be encouraged to use the services of the UNCTAD Global Trade Point Network. Joint activities should aim at promoting slot charter agreements and transhipment arrangements at required frequencies, and at providing cargo consolidation services and facilities;
- promote the exchange of information and market intelligence between traders in order to identify opportunities for cooperation in obtaining shipping and other transport services, and developing databases for maintaining information on available shipping services, particularly relating to South-South opportunities;
- improve maritime managerial skills and knowledge in the region by providing training courses in shipping and port management; encouraging regional shipping lines to enter into joint ventures with foreign shipowners with a strong training component in the contract of agreement; and participating actively in regional maritime management associations.

191. In view of the large investments involved in the development of infrastructures and acquisition of the means of maritime transport, the efforts of small island developing States at the national and regional levels need to be supplemented by international assistance, particularly financial assistance either through public sources or private sector FDI. Investment is required in port infrastructure, modern tonnage adapted to the requirements of the trade, and the development of administrative infrastructure and managerial skills for maritime transport. Support should be given to regional efforts aimed at improving regional maritime transportation, including maritime safety and the combating of marine pollution.