4-19-1983

Soviet Predatory Practices in the U. S. Liner Trades: Strategy and Prospects

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SOVIET PREDATORY PRACTICES
IN THE U.S. LINER TRADES:
STRATEGY AND PROSPECTS

by

Daniel D. Thompson

April 19, 1983

GMA 652: Marine Affairs Seminar
TABLE OF CONTENTS

I. Introduction ................................................. 1
II. Background
   A. History .................................................. 2
   B. Organization and Composition of the Soviet Merchant Marine Today .................. 18
   C. Soviet Maritime Objectives .............................. 34
III. U.S. Objections to Soviet Maritime Practices
   A. US-USSR Maritime Agreement of 1972 .................. 52
   B. Rate Cutting ............................................. 57
   C. "Unfair" Competition .................................. 64
   D. Cross Trading .......................................... 69
   E. Freight Conferences .................................. 73
IV. The Soviet Merchant Marine in Context ................. 78
V. Conclusions ................................................. 88
List of References
INTRODUCTION

The impressive growth of the Soviet Merchant Marine during the past two decades, and its anticipated future expansion, have given rise to questions concerning the likely future impact of that fleet on world shipping and the relative importance of maritime commerce to the Soviet Union itself.

U.S. owners and regulatory bodies—have, along with other Western owners and shipping bodies, consistently pointed an accusing finger at the Soviets for attempting to capture more than a fair share of general cargo tonnage in the world liner market. Charges of predatory Soviet rate cutting practices have been widely advertised by American operators concerned with the growing presence of Soviet carriers in the highly competitive liner trades. At the same time, such claims are made with little or no reference to the mushrooming of the flags of convenience liner fleet, the comparative rates of growth of other merchant shipping powers, and the added value of the West's hugely dominant cellular container ship fleet.

This study examines the economic and political roles of the Soviet Union's Merchant Marine, and will address why and to what extent Soviet shipping has expanded into the U.S. liner trades. Key variables in Soviet merchant ship acquisition, maritime trade policy, and future behavior in this context are also explored and developed.
Prior to World War I, the Russian Merchant Marine consisted of 1,040 ships with a total cargo capacity of less than 1 million tons. This number represented approximately 1.5 percent of the world's merchant shipping total. Most of these ships were technically obsolete or marginally competitive coal burning steamships and sailing vessels. The Russian merchant fleet at that time comprised of an half dozen private and semi-private companies, where German, French, and British interests owned a considerable percentage of the joint stock companies. Few cargoes destined for overseas ports were carried in Russian vessels. Although three-quarters of Tsarist Russia's foreign trade was carried by seaborne commerce, only 7 percent was carried in domestic bottoms (Shadrin, 1972, p.281; Harbron, 1963, p.140). Warehousing was practically non-existent and virtually all cargo handling was done by manual labor (Bock, 1981, p.42).

At the time of the Bolshevik Revolution in 1917, many of Russia's merchant ships were serving with the Allies in the war against Germany. A substantial number of these vessels were confiscated by the allies of Tsarist Russia in an attempt to protect private investments in joint stock ventures, and also to deprive the Bolshevik revolutionaries of their economic utility (Martin, 1975, p.25). In addition, a large
number of merchant ships were taken overseas by the retreating White Guards, or were lost or sunk as a result of World War I sinkings and the Russian Civil War. Although some of the confiscated vessels were eventually returned, total losses exceeded 400,000 tons of merchant shipping, over 40 percent of the pre-war fleet. Those ships that remained in Soviet controlled ports were damaged, antiquated, or in various stages of decay and disrepair (Shadrin, 1972, p.282). On January 26, 1918, the Congress of the Soviet People's Commissars nationalized all shipping companies and their assets (Bock, 1981, p.42). By the time the fleet was counted in 1922, however, it was found that only about a fifth of the steamers and approximately one tenth of the sailing vessels had survived in Soviet control. The Far East authorities could apparently muster no more than 10 ships of any size (Fairhall, 1971, p.79).

In 1921, Stalin instituted the New Economic Policy which allowed private ownership in certain steamship companies in an effort to attract foreign capital. This plan was intended to promote overseas market penetration and bolster trade for the struggling economy of the new communist state, but in fact it accomplished little for the merchant shipping industry. As a result, shipbuilding orders for merchant hulls were placed in shipyards outside of the Soviet Union (Martin, 1975, p.26). The Second Five Year Plan called for more merchant ships to be built in domestic yards (Harbron, 1963, p.147). By 1934 the
merchant marine acquired 159 new ships with a total cargo capacity of approximately 630,000 tons. More than half of these new ships were Soviet built (Shadrin, 1972, p.287). The decision to establish a separate People's Commissariat for Water Transport in 1931 probably influenced this build-up, and the merchant marine's subsequent growth, to a significant degree. Prior to 1931, the Soviet merchant marine was subordinated to the Commissariat of Railroads. Under a bureaucratic agency more concerned with the development of domestic land transportation services, the shipping lobby probably experienced a difficult match against railway enthusiasts in the competition for patronage.

After 1932, the effects of the early Five Year Plans and bureaucratic reorganization became evident as the total cargo turnover of the Soviet merchant marine reached the pre-revolution level (Shadrin, 1972, p.289). According to Lloyd's Register, the Soviet merchant fleet grew from 412,459 tons in 1921 to 1,253,824 gross registered tons in 1937, an impressive growth rate during years of worldwide economic depression. Sixty percent of the new tonnage was built by Soviet shipyards (Harbron, 1963, p.141). From 1929 to 1937, in particular, the number of new ships built quadrupled compared with the nine years period preceding World War I. In 1938, Soviet shipyards produced five times as many merchant vessels as in any previous year. By 1939, Soviet yards were able to turn out as many ships
in six months as the Russian Empire was capable of producing in a decade prior to the World War I (Bock, 1981, p.43). By 1940, the tonnage of the Soviet commercial fleet approached 2 million tons, although the large proportion of coal burners gave the fleet a dismally low average speed.

Despite severe losses during World War II, the Soviet merchant marine was bolstered by the addition of 84 American Lend Lease ships, and after the war the USSR received 180 German and Italian vessels as war reparations. The Soviet Union received almost one third of the surviving merchant tonnage of the Third Reich, amounting to nearly 173,000 tons (Ackley, 1973, p.236). In addition, 59 ships were acquired from the former independent Baltic states of Estonia, Latvia, and Lithuania (Mason, 1969, p.188). The final post-war result was a Soviet merchant fleet consisting of 507 ships totalling an estimated 2.7 million deadweight tons, a net increase of over 300,000 tons from antebellum levels. Although many of the ships were aging or obsolescent, they provided a basis for the expanding economic endeavors of the post-war Soviet state (Ackley, 1973, p.236; Martin, 1972, p.26). The U.S. merchant fleet at this time was nearly nine times larger than the Soviet fleet, exceeded it by almost twenty times in tonnage, and was better maintained (Polmar, 1974, p.55).

Despite the increased tonnage capacity available for domestic and foreign waterborne trade immediately following
World War II, most of the navigable ports in the Soviet Union and virtually all of the nation's major shipbuilding facilities were destroyed during the war. Shipyards in Odessa, Riga, Novorossisk, Tuapse, and other port cities had been leveled (Bock, 1981, p.43). As a consequence, a considerable portion of the country's limited surviving industrial resources were allocated to capital reconstruction of ports and shipyards. Even when port restoration and repair improvements were well on their way to completion, Stalin devoted much of their capacity in the late 1940's and early 1950's to warship construction. The Soviet Union therefore turned to Poland, East Germany, and other Communist bloc nations to supply the merchant tonnage needed to carry Russia's expanding foreign trade (Fairhall, 1971, p.81). The production of merchant ships from these sources, however, did not totally satisfy the USSR's requirements for new tonnage.

In the early 1950's, Soviet merchant shipbuilding began to accelerate. Several factors were responsible. First, in the 1950's the Soviet Union was facing economic pressures which would have made a larger merchant marine desirable to any nation, let alone one as politically isolated and suspicious as that of Moscow. A more relaxed foreign policy following the death of Josef Stalin in 1953 served to stimulate the growing volume of overseas trade and consequently an increased demand for adequate water transport (Fairhall, 1971, p.64). Secretary
Krushchev wished to employ intensive economic penetration with traditional political tactics to win allies, particularly in his dealings with the less developed countries of the Third World (Thomas, 1976, p.28; Ackley, 1973, p.314). This also necessitated broadening of trade relations with the industrialized noncommunist states, and entering into more underdeveloped areas of the world. Both objectives required expansion of industries producing exportable Soviet goods and of Soviet shipping (Baldwin, et al, 1969, p.73; Ackley, 1973, p.237).

As a direct consequence of the nation's increased commercial activity with overseas trading partners, the proportion of the USSR's foreign trade carried by its own ships fell from nearly one-half to less than one-third between 1950 and 1955. Approximately 88 percent of Soviet exports and imports were carried by chartered tonnage (Bock, 1981, p.49). Chartering foreign tonnage produced an uncompensated drain on the country's limited hard currency reserves, which might otherwise have been used to finance other badly needed trade or to acquire specific elements of Western technology urgently needed by other sectors of the Soviet economy (Fairhall, 1971, p.64). Accordingly, it was during this period that the Soviets began to concentrate on developing their shipping capacity, particularly in the higher value general cargo liner trades.

Another significant factor influencing the rapid buildup of the Soviet merchant fleet was the establishment of the
Ministry of the Maritime Fleet in 1954, and the appointment of Viktor Bakayev as its first head. Before Krushchev, neither Tsarist nor Soviet leaders pursued a long range policy of maritime development. In 1950, the Soviet Union's merchant marine ranked only 21st among the maritime fleets of the world (Baldwin, et al., 1969, p.73). Under Bakayev's dynamic leadership, the merchant navy's growth accelerated at a scale unprecedented in Russia's history. Bakayev explained the motives for his fleet's buildup in this way:

"It is not a matter of prestige. It allows our external trade to abandon political and economic dependence on the capitalist fleet and increases the efficiency of the trade. Even pre-revolutionary Russia, having an immeasurably smaller volume of external trade, paid out 150 million roubles a year to foreign shipowners. Now the country is freed from this tribute."
(extracted from Fairhall, 1971, p.80).

Later developments in the transportation sector help substantiate that the modified bureaucratic structure of Soviet maritime management positively influenced the growth of the merchant marine. By divorcing the merchant marine from the land transportation ministry, waterborne transport soon emerged as the Soviet Union's principal means of cargo transport.

Of all the USSR's forms of transportation, the rate of growth of the ocean shipping transportation sector grew the fastest. The rate of investment in railroad construction and
inland shipping dropped relative to the increased rate of investment in ocean shipping (Bock, 1981, p. 46), this despite the fact that the Soviet Union has the largest inland waterways system in the world.

Although by 1957 the Soviet Union had roughly doubled its pre-war commercial tonnage, the fleet was still mainly composed of slow, aging vessels averaging more than twenty-five years old. With 250 deep sea freighters and a total tonnage of only 1.4 million dwt, the average Soviet merchantman was small by way of comparison to the average vessel size of other maritime powers, a characteristic that holds true today. In addition, only seven percent of these ships were capable of speeds in excess of fourteen knots (Fairhall, 1971, p. 65). To operate such a fleet in a highly competitive world shipping market probably cost the Soviet Union a great deal. There appear to be several reasons for this behavior.

The smaller size of Soviet merchant ships seems to defy the economic rationality of modern ship construction. Normally, it is more economically efficient to operate a commercial vessel of large size and carrying capacity, than it is to operate a large number of smaller vessels. It requires less in aggregate fuel, labor, insurance, port fees, and maintenance costs to send one 300,000 dwt VLCC on a round trip voyage, for instance, than it would be to send ten smaller 30,000 dwt vessels on the same trip.
An analysis of the smaller size characteristic of Soviet merchant ships can be explained in several ways. First, is the large number of relatively shallow harbors and narrow straits in the USSR where smaller Soviet ships are ideally suited to participate in commercial activity. The Soviet Union has very extensive coastlines and nearly 2.5 million kilometers of inland waterways and canals. Many of the Soviet Union's ports and those of its CEMA/COMECON trading partners are not very deep nor well equipped, thus enabling smaller sized ships with shallower drafts to maneuver more safely (Heine and Coe, 1967, p. 11). The flexibility provided by smaller ships is therefore better suited to accommodate operations in these areas.

In addition to providing increased tonnage for the USSR's enormous domestic transportation infrastructure, the smaller vessels employed in commercial activity allow Soviet ships to make calls at the generally smaller and underdeveloped ports of the Third World. This continuation of Krushchev's political purposes is further strengthened by the observation that although many Soviet ports can handle larger ships, the Soviets continue to build large numbers of small ships today (Ackley, 1973, p. 243; Martin, 1975, p. 29). Norman Polmar suggests that these ships will increase in political importance in the years ahead:

"As the underdeveloped nations of the Third World improve their economic position and
become sources of revenue and raw materials, Soviet trade with them will probably be carried exclusively in Soviet bottoms."
(Polmar, 1974, p.79)

The Sixth Five Year Plan called for construction of nearly 1.6 million dwt in domestic and Bloc country shipyards during 1956 to 1960(Shadrin, 1972, p.291). Another measure taken by the Soviet Union to stimulate the growth of its merchant marine and participation in the carriage of foreign trade was the limitation of all transportation of goods between Soviet ports to ships of the Soviet flag(Butler, et al, 1970, p.392). Additionally, the use of flags of convenience was prohibited (Martin, 1975, p.32). Although the Sixth Five Year Plan was never completed, it did serve to set in motion important measures which provided the impetus for the later expansion of the Merchant Marine. By establishing a strong positive momentum, the 1959-1965 Seven Year Plan, which superceded the abbreviated Sixth Five Year Plan, was in a much better posture to achieve the accelerated development of the merchant navy which followed. During the first three years of the Sixth Five Year Plan, considerable funds were allocated and spent for the construction of new vessels at home and abroad, and more shipbuilding capacity was allocated and utilized for merchant ship construction(Shadrin, 1972, p.292).

During the period of the Seven Year Plan from 1959 to 1965 inclusive, the merchant fleet grew at a dramatic pace. The
programmed growth of the merchant marine was modified twice during the seven year timeframe, increasing the targeted growth rate both times (Shadrin, 1972, p.293). The second increase was in 1963, because the construction target was achieved two years in advance. The revised growth target was completed ahead of schedule again in 1965, an unprecedented achievement in Soviet planning practice (Shadrin, 1972, p.293). In large part, this was because of the increase in Soviet foreign trade that exceeded the cargo carrying capacity of the Soviet merchant marine (Ackley, 1973, p.237). In 1958, the physical volume of the USSR's foreign trade exceeded the 1950 volume by 130 percent. Seaborne trade increased even more rapidly, expanding by 220 percent during these years. The merchant marine accounted for 38 percent of Soviet foreign trade tonnage in 1958 as compared with 27 percent in 1950 (see Table I). The Soviet government was bound to respond. The interesting point here is not the decision in principle, but rather the scale and persistent vigor with which the USSR has pursued the development of its merchant fleet since the early 1950's.

As Krushchev increased trade with the less developed countries of Africa, Asia, and to a lesser extent Latin America, the commodity composition of Soviet foreign commerce shifted to petroleum and other bulk cargoes. Exports made up only 44 percent of Soviet foreign trade tonnage in 1950, but by 1958 this share had increased to nearly 85 percent (Athay, 1973, p.12).
Table I

Soviet Foreign Trade, Total and Seaborne, Selected Years 1950-70
(millions of tons)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Trade</th>
<th>Seaborne Trade</th>
<th>Percent Seaborne</th>
<th>Carried in Soviet Ships</th>
<th>Percent in Soviet Ships</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>30.2</td>
<td>8.3</td>
<td>27</td>
<td>5.9</td>
<td>72</td>
</tr>
<tr>
<td>1958</td>
<td>69.6</td>
<td>26.6</td>
<td>38</td>
<td>14.6</td>
<td>55</td>
</tr>
<tr>
<td>1959</td>
<td>85.6</td>
<td>34.8</td>
<td>41</td>
<td>16.4</td>
<td>47</td>
</tr>
<tr>
<td>1960</td>
<td>99.3</td>
<td>44.3</td>
<td>45</td>
<td>18.2</td>
<td>41</td>
</tr>
<tr>
<td>1962</td>
<td>132.9</td>
<td>66.9</td>
<td>50</td>
<td>24.8</td>
<td>37</td>
</tr>
<tr>
<td>1965</td>
<td>173.9</td>
<td>91.8</td>
<td>53</td>
<td>46.4</td>
<td>50</td>
</tr>
<tr>
<td>1967</td>
<td>206.7</td>
<td>108.8</td>
<td>53</td>
<td>56.6</td>
<td>52</td>
</tr>
<tr>
<td>1968</td>
<td>217.8</td>
<td>111.9</td>
<td>51</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>1970</td>
<td>246.3</td>
<td>121.3</td>
<td>49</td>
<td>67.9</td>
<td>56</td>
</tr>
</tbody>
</table>

(data extracted from Athay, 1973, p.95)

p.94). The merchant marine's increasing role in foreign trade was further highlighted in 1956 when, for the first time, the ton-mile performance of the fleet in foreign commerce exceeded that in coastal trade(Carr, 1976, p.334). This milestone was particularly significant in view of the highly developed system of inland water transportation previously described. The domestic activities of the Soviet merchant marine, in which it enjoys a complete monopoly, consist largely of bulk cargo movements in the Black Sea, Caspian, and Far Eastern basins and the servicing ports along the Northern sea route, many of which have very limited road or rail access(Carr, 1976, p.335; Athay, 1973, p.65).

Stimulated by this unprecedented expansion of Soviet seaborne foreign trade, the merchant navy achieved its most
spectacular growth from 1962 to 1966. Increases in oil exports, which accounted for nearly half of the country's total trade, caused seaborne trade to expand at annual rates greater than 28 percent for three years in a row during 1959 to 1961. The intensive program of ship acquisitions that followed reached its zenith in 1964, when 1.3 million deadweight tons were added to the fleet. Fleet capacity more than doubled during this period, increasing from 4.2 million tons in early 1962 to approximately 8.9 million tons by the end of 1966 (Carr, 1976, p.331).

As a consequence, the Soviet merchant marine jumped from 12th place in world standings in 1958 to 6th place in 1965, becoming one of the youngest fleets in the world with almost 80 percent of its ships built in the previous 10 years. It also allowed the USSR to appear with greater frequency in the crosstrades and more lucrative charter markets. The Seven Year Plan permitted the last of the country's coal burning commercial carriers to retire, along with a significant number of the vessels used in domestic waterborne transportation. The average age of a ship in the Soviet merchant marine decreased from 14 years to 8 years old, while the average speed increased from 8 to 14.5 knots (Athay, 1973, pp.289-294; Shadrin, 1972, p.294). Also, profits from shipping were 10 times higher in 1965 than in 1958 (Bock, 1981, p.49).

Although the size of the merchant fleet fell slightly short
of planned growth between 1966 and 1970, nonetheless the addition of 340 new vessels and 4.5 million dwt constituted a 42 percent increase in total fleet size over the five year period (Shadrin, 1972, p.295). The 1966 to 1970 growth of the merchant marine enabled the Soviet Union to consolidate its newly won posture as one of the world's leading maritime powers, and permitted Soviet penetration into trades that were previously the exclusive domain of the Western liner conferences. Compared to 1966 there was an increase of 157.8 percent in cargo carried by liners and a 188.7 percent increase in international trade (Bock, 1981, p.49). Many of the new ships were engaged largely in crosstrading, also referred to as third flag carriage. Low shipping rates were used to attract cargoes for transport between foreign ports. The event that triggered Soviet penetration into the U.S. liner trades was the signing of the US-USSR Maritime Agreement in 1972. Soviet practices in this regard will be developed in greater detail later in this paper. Table II below shows the USSR's inventory of merchant vessels at the end of the Eighth Five Year Plan according to the Soviet shipping journal, Morskoy Flot.

At the end of this period, a substantial portion of the Soviet Union's older merchant vessels had been retired. Better than 70 percent of the ships under the Soviet flag were capable of speeds in excess of 13 knots. In addition, the average dwt tonnage of a Soviet merchant vessel had more than
doubled since 1955. By 1970, nearly 50 Soviet ports were completely mechanized permitting the handling of containerized cargo (Bock, 1981, pp. 49-50).

Table II
Composition of the Soviet Merchant Marine as of January 1, 1971

<table>
<thead>
<tr>
<th>Ship Type</th>
<th>Steamers</th>
<th>GRT</th>
<th>Motor Ships</th>
<th>GRT</th>
<th>Total</th>
<th>GRT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passenger &amp; Multipurpose</td>
<td>11</td>
<td>79859</td>
<td>192</td>
<td>405743</td>
<td>203</td>
<td>485602</td>
</tr>
<tr>
<td>Dry Cargo</td>
<td>230</td>
<td>1142869</td>
<td>1589</td>
<td>6001704</td>
<td>1819</td>
<td>7144573</td>
</tr>
<tr>
<td>Tanker</td>
<td>37</td>
<td>960506</td>
<td>388</td>
<td>2428146</td>
<td>425</td>
<td>3388652</td>
</tr>
<tr>
<td>Auxiliary</td>
<td>213</td>
<td>107018</td>
<td>485</td>
<td>226503</td>
<td>698</td>
<td>333521</td>
</tr>
<tr>
<td>Fishing</td>
<td>194</td>
<td>287485</td>
<td>2694</td>
<td>2975766</td>
<td>2888</td>
<td>3263251</td>
</tr>
<tr>
<td>Research</td>
<td>62</td>
<td>75892</td>
<td>267</td>
<td>211857</td>
<td>329</td>
<td>287749</td>
</tr>
<tr>
<td>Other</td>
<td>8</td>
<td>34456</td>
<td>242</td>
<td>277603</td>
<td>250</td>
<td>312059</td>
</tr>
<tr>
<td></td>
<td>755</td>
<td>2688085</td>
<td>5857</td>
<td>12527322</td>
<td>6612</td>
<td>15215407</td>
</tr>
</tbody>
</table>

(data extracted from Bock, 1981, p. 49)

The crucial element in the Ninth Five Year Plan was the introduction of containerized and other specialized ships. The 1971 to 1975 plan witnessed the addition of 3.3 million tons to the fleet. The largest amount of new construction was in tanker tonnage, substantially increasing the merchant marine's carrying capacity for petroleum products.

More advanced vessels, such as Ro/Ro ships, container
vessels and barge carriers, were also added to the fleet as the older general purpose dry cargo vessels were scrapped. The Soviets developed the use of fully cellular container ships very slowly, and in 1980 only had 26 such vessels. The ten ships in the 729-TEU (twenty-foot equivalent units) KHUDOZHNIK SARYAN class may be among the last since the Soviets apparently favor the more flexible Ro/Ro vessels, which they feel afford greater protection from market shifts and politically inspired trade barriers (Bock, 1981, pp. 53-54). Fully cellular container ships are greatly dependent upon suitable cargo handling facilities, normally only available in the well developed ports of the industrialized Western nations. In contrast, Ro/Ro vessels are much more versatile and can be shifted to operations in alternate trade routes with relative ease.

In 1975, the Soviet Union placed into service the SKULPTOR KONENKOV, a prototype for six Polish-built Ro/Ro ships with a 60-ton capacity stern ramp (CNO, 1981, p. 62). The Soviets have also begun operating barge carriers based on the U.S. LASH and SEABEE designs. The Soviet vessels are considered to be the technological equivalent of Western intermodal vessels. Fairplay Shipping Weekly, for example, recently reported that the world's first nuclear powered LASH ship, ALEKSEY KOSYGIN, was nearing completion. The 39,900 dwt, 264.5 meter vessel will be used in the demanding North Sea route between the White Sea and the Bering Strait (Fairplay, February, 1983, p. 15). Fairplay
SOVIET VESSELS
IN THE U.S. NORTH ATLANTIC TRADE

Pictured below are two Baltatlantic Line Ro/Ro vessels unloading at Port Elizabeth, N.J. The KOMSOMOLSK class (left) and KHUDOZHNIK class (right) compare favorably with modern U.S. vessels in size, speed and flexibility. For purposes of comparison, these ships are competitive with the most recent type American flag ships, the Ro/Ro s.s. MAINE (operated by States Marine Line) and containership PRESIDENT MONROE (operated by APL), respectively.

Photo: courtesy Sea-Land
Pictured above is the M.V. MAGNITOGORSK, one of the newer Ro/Ro vessels in the Soviet liner fleet. Built in 1975, the MAGNITOGORSK was placed immediately into U.S. cross trade in the North Atlantic. The ship is capable of carrying 1,368 TEU's.
has also noted the recent opening of a Soviet Northern Sea route with service to Murmansk, Zelenyy Mys, Igarka, and the Yenisey River (Wade, 1983, p. 21). Much of the new bulk and liner tonnage ordered under the current five year plan is expected to be employed along this trade route, which will probably be dominated by the Soviets who operate the largest ice-strengthened fleet in the world.

The 1975 to 1980 Five Year Plan saw dry cargo transport capacity increase from 9.6 million dwt in 1975 to 11.2 million dwt in 1980 (Bock, 1981, p. 57). While tonnage in conventional general cargo ships dropped slightly, construction of new intermodal carriers matched the retirement rate of the older break bulk vessels. The greatest increases were realized in bulk carrier and timber carrier tonnage during this period.

Of particular note in the composition of the Soviet Union's merchant navy is its continuing emphasis on the modernization of its ocean carriers. By closely following the West in the design, construction and employment of modularized cargoes, the Soviets promise to become increasingly competitive along the established trade routes.

ORGANIZATION AND COMPOSITION OF
THE SOVIET MERCHANT MARINE TODAY

Coordination and overall responsibility for the maritime activities pursued by the Soviet Union rest with the Council
of Ministers, operating within the framework of the formal series of Five Year Plans. Under this Council, the merchant fleet has been under the operational management of the Ministry of the Merchant Marine since 1954.

The following description of the organizational structure and management of the USSR's merchant fleet is taken in large part from material prepared for Congress by the Office of International Activities of the U.S. Maritime Administration.

The organization of the Soviet merchant marine embodies varying degrees of centralization and independence. The Ministry of the Merchant Marine, or Morflot, located in Moscow, is responsible for the promotion of national maritime transport under the provisions of the Merchant Marine Code of the USSR of 1968 and other laws. Within its responsibilities the Ministry provides for the implementation of the five year plans for all branches of the Soviet shipping industry. The Ministry approves investments in ports and other facilities, works out promotional long term programs, coordinates technological developments, and controls the implementation of international conventions and agreements. Division of powers in a functional sense in this regard is not always clear cut nor, it seems, observed. Below the Ministry level in the organizational structure come the three state holding corporations, each based at the Ministry in Moscow. These corporations are charged with the responsibility of coordinating the activities of all the shipping companies
in a given geographic area. The three holding companies are Yuzhflot, the South Shipping State Corporation; Sevzapflot, the North-West State Shipping Corporation; and, Dalflot, the Far East State Shipping Corporation. The state corporations are structured into divisions, such as the Shipping and Container Lines Office, the Tramp Office, Tanker Office, Passenger Office, and Port Operations Office.

Because of the geographical division characterizing these state corporations, their spheres of responsibility are diverse. For example, Yuzhflot, which has seven shipping companies under its jurisdiction, deals with the interests of the substantial Black Sea Shipping Company, with its large, dry cargo fleet; and those of the smaller Middle Asia Shipping Company, which principally carries out river trade operations into Afghanistan. It also has under its umbrella the Novorossiisk Shipping Company, a tanker operation. Yuzhflot tonnage accounts for more than 50 percent of the entire Soviet fleet.

One of the most crucial areas of involvement for the three state holding corporations concerns acquisition of new tonnage by the individual companies. How the total amount of money to be spent on new construction and how it is to be distributed between the holding corporations and ultimately the companies, evolves from a series of meetings involving the Ministry of the Merchant Marine and the corporations, and the presidents of the individual companies. Allocations of the tonnage are calculated
according to the needs of the area, and not to its historical profitability. New building schemes originate with the companies and are passed to the holding corporations. These are then passed to Morflot's technical board and finally to the main board of the Ministry.

Where a particular type of tonnage primarily benefits other ministries, i.e., Soviet Arctic shipping and the corresponding oil and gas ministries, then a contribution toward construction and operation may come from another ministry's budget. Coordination of this budgetary process is handled by Gosplan, the state planning agency.

Other means of acquiring tonnage include use of certain development funds that are accrued under limitations specified in the five year plan, and the "bareboat charter" technique employed by Sovfracht, the USSR's chartering agency. While the former method is rarely used, the latter has been employed frequently. Under the bareboat charter technique, Sovfracht starts off with an agreement to take the vessel on charter for an agreed period with transfer of ownership at the end. In other words, a lease with option to buy. The vessel, therefore, may be paid for out of its earnings without the involvement of Government funds. The first ships secured under this type of arrangement were bareboated in 1973, and now over 30 vessels have been secured in this manner.

Each of the 18 Soviet shipping companies under the network
of the three state holding corporations basically serves the needs of the geographical area in which it is located and has some degree of autonomy. Some companies are responsible as well for the operation of ports. Thus, in addition to running its own diverse and substantial fleet, the Baltic Shipping Company, for example, operates the ports of Leningrad, Kalingrad, and others, and also runs ship repair yards including floating docks. In addition, the company operates a rest home for seamen and a maritime school for able seamen and deck hands. This contrasts sharply with practice in the United States, where it is indeed unusual to see shipowners make policy agreements for terminal sharing, much less repair use and seamen's training.

Other major organizations under the jurisdiction of the Ministry of the Merchant Marine include Sovfracht, the tramp chartering agency; Morpasflot, the general agency for passenger vessels; Sovsudopodyom, which performs off-shore and deep sea salvage operations; and, Sovinflot, described briefly below. All are located in Moscow.

The general shipping agent for Soviet shipowners is Sovinflot, which was set up as a separate organization in 1969. It provides services such as agency, stevedoring, and bunkers to Soviet shipping lines. In liner shipping it coordinates the activities of Soviet shipping companies and may act on their own behalf within liner conferences and pools. Sovinflot also takes care of long term booking arrangements, rents and leases.
containers, arranges services in container trades, and supervises and coordinates the maritime segment of the Trans-Siberian Container Line. Sovinflot acts at the request of Soviet shipowners in the handling of arbitration and court cases.

The complexity and ambiguities of the management structure under which the merchant fleet is operated results in considerable administrative and policymaking overlap. The relationship between the Ministry of the Merchant Marine and the other agencies it works with in the administration of maritime affairs has resulted in recurring problems. The merchant marine interacts with other sectors of the Soviet economy, and assists in the pursuit of domestic and foreign policy objectives that are sometimes at odds with commercial goals.

In the context of Soviet maritime expansion, the European satellite states of the Council for Economic Mutual Assistance (COMECON or CEMA) must be counted among the resources available to Soviet planners. Poland, Czechoslovakia, Bulgaria, (East) German Democratic Republic, Romania, Cuba, and even Vietnam integrate their maritime activities with those of the Soviet Union by pooling shipping services, planned division of labor and construction, and other practices. Joint CEMA operations have been expanded every year since 1958 (Harbron, 1962, p.25; Baldwin, et al, 1969, p.79). Using a central computer center located in Moscow, a Morflot freight coordination office ensures the optimum use of Soviet bloc cargo carriers (Baldwin,
This illustration from Fortune magazine depicts the USSR's network of shipping agencies.
et al, 1969, p.79; Bock, 1981, p.48). Since vessels operated by these nations are state controlled carriers, the growth of the CEMA shipbuilding bloc presents a potentially significant trade coalition capable of pronounced economic influence. Under the guiding and dominant leadership of the Soviet Union, the utilization of merchant ships, in particular, lends itself well to synergistic benefits from centralized management and control.

Cooperation in shipbuilding construction with member states of the CEMA is conducted via the Shipbuilding Section of the Permanent Commission on the Machine-Building Industry. Through this organization, specialization in the construction of various ship types or marine equipment is determined, along with coordination among the member states on the use of research facilities to avoid duplication of effort.

Although the Soviet Union presently has 18 large shipyards, each employing upwards of 2,000 workers on a full time basis, a considerable amount of merchant and naval tonnage is purchased from foreign yards. Passenger ships, for example, are built exclusively in the (East) German Democratic Republic, while bulk carriers are a specialty of Poland's shipyards. Finland has traditionally provided timber carriers to the Soviet Union. More recently, it delivered two YULIUS FUCHIK class SEABEE vessels to the Soviet Union (CNO, 1981, p.65). In addition, the CEMA promotes the standardization of marine equipment, inter-
changeability of machine parts, intra-CEMA trade in marine engineering products, and aids in ship repairs within the CEMA region (Bock, 1981, p. 48). As a result, control is more closely maintained by Moscow and competition between the member nations is reduced. That this system produces substantial economic benefits in the aggregate is seriously questioned by this writer. In practice, the Soviet system appears to have virtually eliminated innovation in the shipbuilding industry and significantly discouraged incentive. The time delay that is evident between the introduction of successful technologically advanced vessels by the West, and the subsequent introduction of similar vessels under the Soviet flag tends to corroborate the assertion that innovation within the CEMA system is an inordinately slow process.

Another body dealing with ocean shipping is the Permanent Working Group on Shipping under CEMA's Permanent Commission on Transport. By this vehicle, the USSR divides up free tonnage among member countries, decides on coordinated action in chartering and liner services, and establishes tariff policy (Fairhall, 1971, p. 110). A special bureau in CEMA coordinates activities among freight forwarders and the shipping lines, and arranges for temporary help with additional tonnage when necessary (Bock, 1981, p. 48).

The Soviet merchant marine is presently operating on over 70 different international trade routes, calling at over 125
countries throughout the world. Prior to the boycott by U.S. longshoremen in the wake of the Soviet invasion of Afghanistan, Soviet merchant ships were calling at nearly 60 different ports in the United States (CNO, 1981, p.61). While the Soviet percentage share of the world shipping market has remained relatively constant over the past decade, the result of a world shipbuilding boom, its multipurpose general cargo capacity has grown substantially.

The Soviet Union occupies 7th place in tonnage and 2nd place in terms of numbers in world shipping standings. Tables III and IV display the relative sizes of the world's major merchant fleets as of January 1, 1981.

Table V shows that by the end of 1980 the transport fleet of the CEMA member countries had a total deadweight tonnage of about 31 million tons and a gross registered tonnage of 21.3 million tons, respectively. The latter totalled 61.3 percent of the deadweight tonnage of all the fleets of the CEMA member countries and 62.4 percent of their register tonnage. In comparison with the preceding year, the deadweight tonnage of the transport fleets of all CEMA member countries increased by 1.6 percent, while that of the USSR's merchant marine increased by 0.5 percent (Morskoy Flot, No.1, 1981). The summary only includes data on the maritime transport fleets and includes ships of a gross registered tonnage of 100 tons and more (excluding transport ships serving the fishing industry and passenger ships).
<table>
<thead>
<tr>
<th>Country</th>
<th>Number of Ships</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greece</td>
<td>2928</td>
</tr>
<tr>
<td>USSR</td>
<td>2530</td>
</tr>
<tr>
<td>Panama</td>
<td>2437</td>
</tr>
<tr>
<td>Liberia</td>
<td>2271</td>
</tr>
<tr>
<td>Japan</td>
<td>1762</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1056</td>
</tr>
<tr>
<td>China (PRC)</td>
<td>695</td>
</tr>
<tr>
<td>Italy</td>
<td>622</td>
</tr>
<tr>
<td>Singapore</td>
<td>622</td>
</tr>
<tr>
<td>Norway</td>
<td>616</td>
</tr>
<tr>
<td>United States</td>
<td>578</td>
</tr>
<tr>
<td>Spain</td>
<td>509</td>
</tr>
<tr>
<td>West Germany</td>
<td>473</td>
</tr>
<tr>
<td>Netherlands</td>
<td>444</td>
</tr>
<tr>
<td>Cyprus</td>
<td>395</td>
</tr>
</tbody>
</table>

Table IV
Major Merchant Fleets of the World
January 1, 1981
(Tonnage in Thousands)

<table>
<thead>
<tr>
<th>Country</th>
<th>Tonnage (Thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liberia</td>
<td>153,942</td>
</tr>
<tr>
<td>Greece</td>
<td>69,559</td>
</tr>
<tr>
<td>Japan</td>
<td>62,001</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>42,302</td>
</tr>
<tr>
<td>Norway</td>
<td>38,575</td>
</tr>
<tr>
<td>Panama</td>
<td>38,001</td>
</tr>
<tr>
<td>USSR</td>
<td>21,757</td>
</tr>
<tr>
<td>United States</td>
<td>21,103</td>
</tr>
<tr>
<td>France</td>
<td>19,539</td>
</tr>
<tr>
<td>Italy</td>
<td>17,269</td>
</tr>
<tr>
<td>Spain</td>
<td>12,235</td>
</tr>
<tr>
<td>West Germany</td>
<td>11,863</td>
</tr>
<tr>
<td>Singapore</td>
<td>11,754</td>
</tr>
<tr>
<td>China (PRC)</td>
<td>10,129</td>
</tr>
<tr>
<td>India</td>
<td>9,221</td>
</tr>
</tbody>
</table>

Table V
Cargo Transport Fleets of the USSR and Other CEMA Member Countries
January 1, 1981

<table>
<thead>
<tr>
<th></th>
<th>CEMA Member Countries</th>
<th>USSR</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>GRT</td>
</tr>
<tr>
<td>Total cargo fleet-</td>
<td>2648</td>
<td>21267091</td>
</tr>
<tr>
<td>Combined vessels for bulk dry and liquid cargo-</td>
<td>13</td>
<td>679953</td>
</tr>
<tr>
<td>Tanker fleet-including:</td>
<td>377</td>
<td>5808896</td>
</tr>
<tr>
<td>LNG carriers-</td>
<td>10</td>
<td>160962</td>
</tr>
<tr>
<td>Chemical carriers-</td>
<td>7</td>
<td>31831</td>
</tr>
<tr>
<td>Dry cargo fleet-including:</td>
<td>2258</td>
<td>14778242</td>
</tr>
<tr>
<td>Bulk carriers-</td>
<td>320</td>
<td>4318205</td>
</tr>
<tr>
<td>Refrigerated vessels-</td>
<td>54</td>
<td>254815</td>
</tr>
<tr>
<td>Container carriers-</td>
<td>90</td>
<td>632628</td>
</tr>
<tr>
<td>Ro/Ro ships-</td>
<td>52</td>
<td>299839</td>
</tr>
<tr>
<td>Ocean ferries-</td>
<td>33</td>
<td>164130</td>
</tr>
<tr>
<td>LASH carriers-</td>
<td>2</td>
<td>72764</td>
</tr>
</tbody>
</table>

Source: Morskoy Flot, No.1, 1981.

and therefore may differ slightly from the totals provided in Tables III and IV.

According to the data of Lloyd's Register, the total gross registered tonnage of the world merchant fleet as of mid-1980 was 419.9 million tons (Morskoy Flot, No.5, 1981), 28.7 million tons of which pertained to ships not participating in commercial shipping. Thus the gross registered tonnage of the merchant cargo fleets
of the CEMA member countries comprised about 7.9 percent of the world merchant fleet engaged in merchant shipping (391.2 million registered tons), while that of the Soviet fleet comprised 3.4 percent and was unchanged from that of the previous year.

Table VI

Deadweight Tonnage of the Merchant Fleets of the CEMA Member Countries in the Period 1975-1980 (thousands of tons)

<table>
<thead>
<tr>
<th>Country</th>
<th>1975 Total</th>
<th>Dry Cargo 717</th>
<th>Tanker 446</th>
<th>1980 Total</th>
<th>Dry Cargo 1050</th>
<th>Tanker 507</th>
<th>% Growth Since 1975</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>1163</td>
<td>717</td>
<td>446</td>
<td>1557</td>
<td>1050</td>
<td>507</td>
<td>33.9</td>
</tr>
<tr>
<td>Hungary</td>
<td>72</td>
<td>72</td>
<td>--</td>
<td>111</td>
<td>111</td>
<td>--</td>
<td>54.2</td>
</tr>
<tr>
<td>Vietnam</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>270</td>
<td>228</td>
<td>42</td>
<td>100.0</td>
</tr>
<tr>
<td>GDR</td>
<td>1793</td>
<td>1186</td>
<td>607</td>
<td>1877</td>
<td>1460</td>
<td>417</td>
<td>4.7</td>
</tr>
<tr>
<td>Cuba</td>
<td>558</td>
<td>495</td>
<td>63</td>
<td>953</td>
<td>861</td>
<td>92</td>
<td>70.8</td>
</tr>
<tr>
<td>Poland</td>
<td>3876</td>
<td>2864</td>
<td>1012</td>
<td>4379</td>
<td>3398</td>
<td>981</td>
<td>13.0</td>
</tr>
<tr>
<td>Romania</td>
<td>1213</td>
<td>770</td>
<td>442</td>
<td>2663</td>
<td>2076</td>
<td>587</td>
<td>119.5</td>
</tr>
<tr>
<td>USSR</td>
<td>14997</td>
<td>9693</td>
<td>5304</td>
<td>18978</td>
<td>11224</td>
<td>7754</td>
<td>26.5</td>
</tr>
<tr>
<td>Czech'ia</td>
<td>224</td>
<td>224</td>
<td>--</td>
<td>245</td>
<td>245</td>
<td>--</td>
<td>9.4</td>
</tr>
</tbody>
</table>

Source: Morskoy Flot, No. 1, 1982.

From 1975 to 1980 (see Table VI, above), the deadweight tonnage of the cargo transport fleets of the CEMA member countries
increased by 7.1 million tons or by 29.8 percent.

According to the data of the USSR Register (Morskoy Flot, No. 4, 1981), the gross registered tonnage of all Soviet maritime vessels of 100 tons or more was 22,326,000 tons as of January 1, 1981. Consequently, the gross registered tonnage of the cargo transport fleet was 59.8 percent of the gross registered tonnage of the overall Soviet maritime fleet.

The statistical summary of the CEMA Bureau for Coordinating Ship Chartering appears regularly in various Soviet shipping journals and gives detailed data on the composition of the fleet of each shipping company of the CEMA member countries. In the Soviet Union, the Novorossiysk Shipping Company is the largest owner of ships for shipping bulk cargo. The total deadweight tonnage of her tankers is about 4.3 million tons, and of her ten major bulk carriers, about 1.1 million tons. The fleet of the Black Sea shipping Company consists of 246 dry-cargo ships totalling 3.6 million dwt and two ships for transporting liquified natural gas (LNG). Occupying third place in size of fleet is the Far East Shipping Company (FESCO) with 231 ships and deadweight tonnage exceeding 1.8 million tons. The Baltic Fleet, meanwhile, has fourth place with 170 ships at 1.6 million deadweight tons (Morskoy Flot, No. 1, 1982).

The information published in the Soviet press on the volume of shipments and freight turnover of the merchant marine of the Soviet Union in comparison with the cargo shipments by the other
world shipping nations, makes it possible to point out several comparisons regarding the role of the Soviet Union in international shipping.

In 1979, the world fleet as a whole transported 3,778 million tons of various types of cargo compared with 2,605 million tons in 1970. That is, the volume of world maritime shipping increased by 1,173 million tons, or by 45 percent. During this same period, the Soviet fleet increased its volume of shipments from 162 to 227 million tons, or 40 percent. The freight turnover of the world's merchant navies for the period 1970 to 1979 increased by 7,021 billion ton-miles or by approximately 66 percent, while that of the Soviet Union's merchant marine increased by 29.7 percent (Morskoy Flot, No.1, 1982). Consequently, Soviet shipping companies delivered freight to relatively shorter distances than was done by ships operating under the flags of other countries. This is related to the fact that a considerable portion of Soviet freight was comprised of goods transported within the country. The Soviet merchant fleet carried out a substantial amount of domestic trade and shipment of export-import commodities in trade with Communist bloc countries.

As indicated by Table VII, the volume of goods transported by the Soviet merchant marine in foreign operations in the past Five Year Plan amounted on the average to approximately 65 percent of all cargo transported by the Soviet fleet. The freight
### Table VII

Participation of Soviet Fleet in International Maritime Traffic

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Freight goods transported (World) m.tons</td>
<td>2605</td>
<td>3355</td>
<td>3468</td>
<td>3470</td>
<td>3778</td>
<td>--</td>
</tr>
<tr>
<td>Freight goods transported (USSR) m.tons</td>
<td>162</td>
<td>215</td>
<td>219</td>
<td>227</td>
<td>227</td>
<td>228</td>
</tr>
<tr>
<td>USSR foreign trade of this total m.tons</td>
<td>90</td>
<td>134</td>
<td>142</td>
<td>147</td>
<td>148</td>
<td>154</td>
</tr>
<tr>
<td>Freight turnover (World) billion ton-miles</td>
<td>10654</td>
<td>17053</td>
<td>17517</td>
<td>17034</td>
<td>17675</td>
<td>16710</td>
</tr>
<tr>
<td>USSR turnover billion ton-miles</td>
<td>354.1</td>
<td>411.3</td>
<td>416.9</td>
<td>446.6</td>
<td>459.3</td>
<td>450.6</td>
</tr>
<tr>
<td>Foreign trade of this total</td>
<td>329.1</td>
<td>378.0</td>
<td>383.4</td>
<td>410.4</td>
<td>422.0</td>
<td>--</td>
</tr>
<tr>
<td>DWT of world fleet</td>
<td>326.1</td>
<td>601.2</td>
<td>641.3</td>
<td>662.8</td>
<td>673.7</td>
<td>682.8</td>
</tr>
<tr>
<td>DWT of Soviet fleet</td>
<td>12.0</td>
<td>16.0</td>
<td>17.1</td>
<td>18.4</td>
<td>18.8</td>
<td>19.0</td>
</tr>
</tbody>
</table>

Source: Morskoy Flot, No.1, 1982

The turnover of the Soviet fleet in foreign operations amounted to approximately 92 percent of the total freight turnover of the merchant marine. The Soviet Fleet's share of foreign traffic in international shipping increased slightly from 4.0 to 4.2 percent in volume of freight shipments, and 2.2 to 2.4 percent.
in percentage of the world's freight turnover. The share of participation of the Soviet merchant marine in the delivery of foreign trade goods amounted to 48 percent of the total traffic in these goods.

SOVIET MARITIME OBJECTIVES

The foregoing facts and figures are strong testimony to the economic and political importance of the roles played by the Soviet merchant marine since the Second World War. Although historically and geographically the USSR has been a land power, its government has allocated substantial resources for an impressive increase in merchant tonnage. According to Admiral of the Soviet Navy Sergei Gorshkov, renowned as the Alfred Thayer Mahan of Soviet seapower,

"the goal of Soviet seapower is to effectively utilize the world ocean in the interest of building communism... An important integral part of seapower is the equipment and personnel which make possible the practical utilization of the oceans and seas as transport routes connecting continents, countries, and peoples. For this it is essential to have a merchant marine, a network of ports and services supporting its operation, and a developed shipbuilding and ship repair industry." (Gorshkov, 1976, p. 41).

Within the context of maritime power and foreign policy, the following basic maritime goals of the merchant marine appear
evident:

(1) To provide shipping capacity to meet the USSR's domestic and external shipping requirements in order to reduce dependence on foreign shipping. The primary purpose of the Soviet merchant marine is to carry Soviet cargo (Carr, 1976, p. 334). Despite the increasing utilization of Soviet ships in crosstrading, the chief mission of the USSR's large and growing merchant fleet is to achieve economic self-sufficiency, a characteristic goal of Russia since the time of the Tsars.

The Cuban missile crisis in 1962 further highlighted the strategic and commercial imperatives for a stronger merchant marine that could free the Soviet Union from dependence on Western shipping (Heine, 1973, p. 267).

Politically, the Soviets would consider it desirable to carry all of its own cargo, and as much of other nations' cargo as possible, in Soviet bottoms. And economically, if the former objective is not possible, it is desirable to make a profit in convertible hard currency through revenues earned from available shipping assets (Ackley, 1976, p. 31). Both the economic and political aspects of this issue are recognized and are being aggressively dealt with by the Soviet Union. According to Timofei Guzhenko, Minister of the Merchant Fleet of the USSR, the rapid development of the USSR's economy, the expansion of its foreign commerce, and its economic agreements required a considerable increase in the merchant marine to achieve these
objectives (Heine, 1973, p.268). The ultimate aim is to not only carry most of the Soviet Union's foreign and domestic commerce, but also to compete for the carriage of cargoes from one foreign port to another (Heine, 1973, p.268), in other words, crosstrading.

This objective was, in effect, confirmed by S. Makhailov writing in Voprosy Ekonomiki when he stated,

"The creation of our own merchant fleet made it possible to guarantee the USSR's independence from the world charter market and to begin the transportation on Soviet ships of cargo and passengers of other countries."
(extracted in part from Ackley, 1974, p.239)

The USSR looks hopefully to its merchant marine as a means of conserving and earning foreign exchange by carrying its own import and export cargoes in Soviet ships to the maximum extent possible. For example, Russian commentators on maritime affairs point out that when Soviet ships began carrying wool from Australia, the USSR was able to conserve $1 million annually which it had previously paid to foreign shipping companies (Heine, 1973, p.268).

Although the Soviet Union could have stressed the expansion of her traditional railroad transportation system, significant disadvantages appeared. Most of the nations with whom the Soviets conducted the preponderence of their foreign trade (i.e. CEMA countries), were able to transport cargo approx-
approximately 30 percent less expensively by ship than by overland rail (Fairhall, 1971, p.60).

Soviet flag ships currently transport more than 60 percent of the country's overseas trade. In so doing, the merchant fleet affords significant advantages. Soviet cargoes are not subject to foreign scrutiny nor do the Soviets lose foreign exchange for transporting their imports, with the exception of U.S. grain and other cargoes for which bilateral pooling agreements have been signed. Approximately 80 percent of the Soviet Union's foreign trade cargoes carried in its own ships are exports. Oil is by far the USSR's major export commodity accounting for nearly half of all seaborne Soviet foreign trade (Nitze, et al, 1979, pp.148-149). The self sufficiency provided by a strong merchant marine permits a degree of economic and political flexibility absent when foreign flag shipping must be relied upon to provide minimum transportation needs.

(2) To earn foreign currency, particularly convertible "hard" currencies, to assist in the national balance of payments. The need to maximize hard currency earnings from the merchant marine cannot be overemphasized. With their substantial import requirements for badly needed grain, technology and capital goods from the West, the Soviets are hard pressed to finance their increasing international trade activities. Soviet efforts to partially offset food shortages, for instance, through continued massive imports have led to record
purchases of grains, meats, wheat flour, butter, and other products. Rising food purchases, which negatively affect the Soviet Union's balance of payments, have led to record hard currency outlays, now well over $10 billion per annum. Table VIII below shows the USSR's growing dependence on imported foreign grain, which must all be paid for in increasingly scarce hard currencies.

Table VIII

<table>
<thead>
<tr>
<th>Year</th>
<th>Imports (millions of metric tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976/77</td>
<td>10</td>
</tr>
<tr>
<td>1977/78</td>
<td>18</td>
</tr>
<tr>
<td>1978/79</td>
<td>15</td>
</tr>
<tr>
<td>1979/80</td>
<td>30</td>
</tr>
<tr>
<td>1980/81</td>
<td>35</td>
</tr>
<tr>
<td>1981/82</td>
<td>45</td>
</tr>
</tbody>
</table>

Source: data extracted from Defense Intelligence Agency report DDB-1900-21-82

The chronic shortage of hard currency (i.e., dollars, yen, pounds sterling, francs, Deutsche marks, etc.) is the economic touchstone of Soviet policy. Consequently, the USSR attempts to carry as much of its own trade in Soviet ships as possible in order to limit balance of payment deficits, while transport-
ing as much non-Soviet cargo as possible in order to earn hard currency. Maximizing their tonnage of non-Soviet tonnage in this manner, however, has often led to practices that are not considered as "fair competition" among U.S. liner companies, such as rate cutting.

To fully grasp the importance of the Soviet merchant marine's contribution to the USSR's balance of payments, the monetary framework of "soft" and "hard" currencies must be recognized. Only hard currencies that are readily convertible to other currencies, such as those used in Western Europe, Japan, and North America, are acceptable for the settlement of international accounts. The Soviet rouble and the so-called "soft" currencies of the CEMA and many Third World nations are not convertible. To clear deficits incurred in its trade accounts with the West, the Soviet Union has been forced to draw heavily on its scarce gold reserves and other reserve stocks (Athay, 1973, p.96). Without convertible monies, foreign trade with the West stops. Soviet economic planners would be required to expend the time and physical resources necessary to develop and produce these goods domestically, perhaps at a much higher opportunity cost. If the USSR is to obtain the requisite imports necessary to sustain a high rate of economic growth, then means of earning hard currency revenues must be aggressively pursued.

As a result of the USSR's expansive shipbuilding program
during the 1960's, the increased tonnage available for carriage of seaborne trade in Soviet vessels permitted the USSR to go from a net negative balance to a net gain in both soft and hard currency payments by 1965 (shipping activities only). Table IX below shows the estimated gains and losses to the Soviet balance of payments generated during the last decade by using domestic flag ships rather than foreign charters to carry Soviet trade. Freight revenues earned in foreign trade shipping are shown as gains to the balance of payments. Increased foreign exchange spending resulting from operating Soviet ships in foreign areas (i.e., port dues, canal tolls, pilotage fees, etc.), decreased foreign exchange revenues arising from fewer goods and services sold to foreign flag ships in Soviet ports, and foreign capital expenses are all included under losses:

Table IX

<table>
<thead>
<tr>
<th>Soft Currency</th>
<th>Hard Currency</th>
<th>Combined net gain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year</td>
<td>Gains</td>
<td>Losses</td>
</tr>
<tr>
<td>1960</td>
<td>105.0</td>
<td>124.6</td>
</tr>
<tr>
<td>1965</td>
<td>300.6</td>
<td>206.0</td>
</tr>
<tr>
<td>1970</td>
<td>754.9</td>
<td>463.4</td>
</tr>
</tbody>
</table>

The high proportion of foreign exchange revenues earned by Soviet vessels is partially explained by the success of Soviet efforts to minimize the share of ship operating expenses paid out in foreign exchange. Russian merchant ship operators are encouraged to minimize the ratio of rouble expenditures to foreign exchange income, and the crews are offered fiscal incentives to do likewise. In turn, the nature of fully distributed costs and capital depreciation, as we know them, are significantly different for Soviet merchantmen than for U.S. operators. Since the Soviets rely on Polish and German shipyards, as well as their own, capital costs for construction and major repairs are mainly sustained in soft currency. Current expenses in ship operating costs are often paid in rouble accounts, and virtually all marine insurance is covered by the Soviet agency Ingostrakh. In addition, almost all exports are transacted c.i.f. and most imports are purchased f.o.b., further conserving on freight charges. With the choice of running over on their rouble estimates or earning more hard currency, the latter choice appears to win out. It is in this context that many cut rate, sharply competitive Soviet practices may be better understood. Since the Soviet Union has experienced difficulties in expanding its commodity exports to the West, the hard currency earnings of the merchant fleet have particular importance (Hardt, 1977, p. 69; Athay, 1973, pp. 95-101).
The Soviets have consequently employed their merchant vessels in such a manner as to enable the fleet to earn hard currencies which the USSR is required to pay for the goods and services so urgently needed for its economic growth and social responsibilities. Accordingly, it follows that Soviet ships are best employed in those commercial activities realizing the greatest profit. Principally, these activities have been in the crosstrades and, to a lesser extent, in winter charters when the Soviet Union's northern and far eastern ports are frozen over.

The aforementioned economic considerations have been motivating factors in the planning and development of the Soviet merchant marine. Economic advantages notwithstanding, however, from time to time military and political goals have been pursued with apparent disregard for the profit motive. The political potential and underlying military capabilities of this powerful arm of Soviet seapower will be explored more fully in the following two sections.

(3) To assist in the expansion of Soviet policy throughout the world, particularly in the Lesser Developed Countries (LDC's) and Soviet "client" states. Although the nuance of maritime presence is intrinsic to operations by naval forces and merchant ships anywhere in the world, the less developed countries of the Third World seem to provide particularly fertile grounds for the political and economic aspirations of
the Soviet Union.

The increasing number of visits by Soviet flag ships to ports in the developing nations of the world is a constantly recurring theme often repeated by Russian shipping authorities. Minister Guzhenko has written,

"Maritime vessels serve as an important means of implementing our Party's successively conducted principles of peaceful coexistence, lessening of tension, and an equal and mutually advantageous exchange of trade in international matters.

"Implementation of the Program of Peace approved during the 24th CPSU Congress and healthier international relations facilitate in expanding the geography of our commercial fleets' maritime shipments. Today vessels flying the Soviet flag can be encountered by all latitudes of the world's oceans. The paths of our vessels, laden with petroleum and timber, machine tools and equipment, and cotton and ore, lead to over 1,200 ports in more than 120 countries of the world." (Marine Policy, April, 1977, pp. 107-109)

V.I. Tikhonov, Deputy Minister of the Merchant Marine, noted that Russian ships regularly serve Asian, African and Latin American countries by carrying millions of tons of various kinds of equipment, vehicles, spare parts, fuels, and building materials, in addition to Soviet technical assistance. Soviet ships are particularly active in services to Syria, Libya and Iraq, although no mention is made of the enormous supplies of military hardware with which the USSR supplies
these countries and others within the Soviet sphere of influence (Heine, 1973, p.268).

As previously noted, Soviet merchant ships have retained a relatively small average size despite the economic advantages inherent to operating larger ships. As Richard Ackley has written,

"In the politics of persuasion, small ships with specialized self unloading equipment are particularly suitable for trade with countries lacking the sophisticated loading facilities normally found in ports located in the industrialized developed nations. Although economic gain from trade with Third World countries is modest, and is often pursued at a net loss in the early stages of trade development, it appears that establishment of a foothold in the economy and political structure of these countries is a motivating factor for Soviet actions. By extending aid to the developing nations in Asia, Africa and South America, the Soviets are able to progressively decrease the economic dependence of these countries upon the West, thereby making the political alternative of neutralism more acceptable." (Ackley, 1976, p.35)

Contributing to the effectiveness of the many port calls made by Soviet ships to the LDC's, is the increased presence ashore provided by Soviet commercial and consular representatives. The modern, technologically advanced vessels operated by the Soviet Merchant Marine serve to effectively reinforce Soviet claims to scientific and economic supremacy and to enhance the Soviet model as the route to rapid national

It should be noted that the Soviet commitment to some of its client states has on occasion placed a very heavy burden on the merchant fleet, a burden the USSR is apparently willing to shoulder. During the Vietnam war, for example, approximately 100 merchant ships were in regular service on the Haiphong replenishment run (Tower, 1980, p.53). It is estimated that an equivalent number of ships is currently employed in maintaining trade routes to Cuba.

In supporting political objectives and providing aid to client nations, especially Cuba, Vietnam, and some of the South African states, the merchant marine is often employed in non-remunerative trade. The dilemma of the Cuban economic burden is a case in point, and one that clearly is in conflict with the merchant marine's role in earning convertible hard currencies. While the versatility of the merchant fleet may be viewed as a strength of Soviet ocean capabilities, at the same time these multiple missions are also competitive. The Cuban diversion of the Soviet merchant marine has been a very expensive program.

Closely related to the role of political influence discussed above, is the role of carrying arms to other nations. The dramatic buildup of the merchant marine has provided a growing capability for long range sealift that can sustain Soviet proxy forces over extended periods. In recent years, Soviet merchant ships have supported military operations by client states in
Africa, Southeast Asia, and the Middle East (Ackley, 1976, p.33; Tower, 1980, pp.53-56). In the early 1960's, the POLTAVA class general cargo ship became famous as a carrier of missiles to Cuba (Sutton, 1970, p.42). In 1967, North Vietnam greeted 433 Soviet vessels (Baldwin, et al, 1969, p.75). The foregoing examples demonstrate the capability and willingness of the Soviets to employ the merchant marine in the arms trade. As the USSR further develops its Ro/Ro fleet, this capability will be increased.

Of the 117 developing countries listed in the Arms Control and Disarmament Agency's data, the USSR exported military equipment to forty-one, primarily focusing on deliveries to the Middle East and South Asia. From 1973 to 1977 inclusive, sales to Egypt, Iraq, Syria, India, and Libya accounted for 59.4 percent of all Soviet arms transfers to the developing world, amounting to nearly one-third of the world's total arms exports (Menon, 1982, p.380). Within the communist system, the Soviet Union is by far the major exporter of military hardware, easily outdistancing its political rival, China.

During the period 1954 to 1981, the Soviet Union delivered over $60 billion worth of military equipment to the Third World. Some $35 billion in military hardware was delivered during 1977 to 1981 alone (DIA, 1982, p.14). In addition, the arms trade has proved to be a rather significant source of hard currency for the Soviets. Arms sales account for approximately 9 percent
of the Soviets total hard currency income (Ericson, et al., 1979, p.212). Since these weapons systems require highly technical, specialized maintenance, the Soviets have used the opportunity to send large numbers of advisors and technicians to the developing nations. The number has grown from 10,600 in 1977 to more than 19,500 by the end of 1981 (OIA, 1982, p.16). Personnel, like trade and cargoes, were moved in Soviet owned and operated shipping (Ackley, 1973, p.314). Using the arms transfer program, these personnel have proven to be a major means for the Soviets to project power and influence among the LDC's.

Arms exports have provided the USSR with an entree into developing nations while earning a considerable economic profit. The roughly $8 billion in arms accords signed by the Soviets during 1981 demonstrates Moscow's willingness to employ the arms trade as an increasingly important instrument of foreign policy.

Although the expansion of the Soviet merchant marine has been predicated primarily on economic rationale, the capability to supply client nations with aid and arms and to promote Soviet policy objectives in the developing nations of the world will continue to be an important subsidiary mission of the merchant fleet. As a visible sign of the prestige and power of the Soviet Union, the Merchant Marine serves as an effective instrument of political influence.

(4) To serve as an auxiliary to the Soviet Navy. The Soviet Merchant Marine directly supports the Soviet Navy by provision-
ing naval vessels, fueling them on the high seas (Nietzce, et al., 1979, p. 50), providing military sealift, gathering naval intelligence (Atlantic Council, 1979, pp. 23-26; Ackley, 1976, p. 34), and serving as training platforms (CNO, 1981, pp. 62-63).

Although the Soviet Navy is gradually building up a fleet of very capable specialized naval support vessels operated and manned by uniformed personnel, the Soviet fleet benefits greatly from the use of merchant ships in support of naval operations. The high degree of integration between the merchant marine and naval forces helps to minimize the adverse impact of remote homeports and scarcity of permanent facilities in other countries (Heine, 1973, p. 269; Atlantic Council, 1979, p. 23). Although the Soviets now have access to Cam Ranh Bay, Socotra, Mauritius, Yemen, and other areas, the merchant fleet continues to provide essential support to deployed naval squadrons in many parts of the world where support is unavailable (Atlantic Council, 1979, p. 23; Ackley, 1976, p. 34). For instance, Soviet warship missions into the Caribbean Sea and cruises off the Hawaiian Islands are positive proof that the merchant service can provide necessary logistic support to deployed naval formations (Ackley, 1976, p. 34). Frequently, more than 50 percent of the replenishment of naval vessels is undertaken by mercant ships (Martin, 1975, p. 37). Merchant ship participation during Exercise OKEAN in 1970 proved particularly extensive, further developing the proficiency of the navy and merchant marine to
work together in coordinated operations. On several occasions, the author has observed Soviet combatants taking on fuel from merchant tankers in the Mediterranean. Clearly, the Soviets can call upon additional merchant ships to support their fleet, and this capability is exercised regularly.

This practice has the impact of substantially magnifying the effective size of the Soviet surface and conventional submarine fleets, which would otherwise be required to spend a great deal of time in transit to and from homeports for rearming and resupply and be vulnerable to attrition by enemy forces enroute. Again, there is nothing surprising in this sensible utilization of the merchant marine's ability to satisfy more than one national policy objective. The United States, for instance, recognizes this potential and, in fact, heavily subsidizes the construction of defense related features into American built merchant vessels. The interesting note here is the degree to which the Soviet merchant marine is integrated with the navy during peacetime, and the extensive use of merchant vessels on missions of state that have little to do with economic profitability.

The merchant marine is also a ready source of trained seamen and officers for the Russian Navy. Command personnel are taught at the Ministry of the Merchant Marine's four higher and 12 specialized secondary education schools. According to Deputy Minister V.I. Tikhonov, one out of every four men in the
merchant marine has a diploma earned from a higher or specialized secondary educational institution. Sea duty aboard ship provides practical experience, and it is not unusual to find some vessels with excessive crews in relation to their type and size (Heine, 1973, p. 270; CNO, 1981, p. 63). Many of the officers hold reserve commissions and train with their Regular Navy counterparts on a periodic basis.

Another important mission assigned to all Soviet merchant ships is to gather intelligence whenever possible. It is widely known that Soviet vessels carry more extensive communications packages than is normally required for commercial operations, and many merchant ships are configured with additional staff and equipment to permit intelligence collection (CNO, 1981, p. 63; Atlantic Council, 1979, p. 24). Stories have periodically appeared in the Western press of Soviet espionage activities in foreign ports, and there is ample opportunity to collect useful intelligence in the unrestricted harbors of the United States.

There is also evidence to support a belief that the USSR might arm some of their merchant ships in time of war with weapons for their own self defense. Such weapons could clearly be used offensively against unarmed opposition (Atlantic Council, 1979, p. 25). This would not be the first time that merchant ships were used in this type of a role. During World War I, American Q-ships were effectively used versus German U-boats in the North Atlantic. During both world wars, Germany made
extensive and successful use of merchant raiders. Although no match for a fully armed warship, in a contingency role such as this then armed Soviet merchant vessels would represent a serious threat to offshore oil and gas rigs or to unaccompanied unarmed merchantmen or fishing craft. The United States has also performed considerable research and development in the use of American merchant ships for wartime roles, most notably the well publicized ARAPAHO project (Mulquin, 1983, pp. 103-106), which employs appropriately configured merchant vessels as helicopter landing platforms for anti-submarine warfare.
U.S. OBJECTIONS TO
SOVIET MARITIME PRACTICES

Any discussion of the predatory or "unfair" competitive practices attributed to the Soviet merchant marine in the U.S. liner trades must be viewed from a perspective of Soviet-American maritime relations since 1972. In that year, the United States and the Union of the Soviet Socialist Republics signed a Maritime Agreement which later proved to be the catalyst for the Soviets' rapid expansion into trade routes that were generally the exclusive domain of the Western shipping conferences prior to 1972. Soviet flag vessels until this time seldom made port calls in U.S. ports, and the Soviet merchant marine enjoyed only a minimal presence along traditional U.S. trade routes. The substantial increase in Soviet commercial activity subsequent to the 1972 Maritime Agreement must therefore be viewed from this background.

THE US-USSR MARITIME AGREEMENT OF 1972

During the 1960's and early 1970's, relations between the U.S. and the USSR improved considerably as successive administrations pursued a policy of detente and Soviet-American bilateral trade expanded. The need to create a formal, mutually recognized framework from which to conduct commercial and business relations between the two countries became evident
following the 1963-1964 grain sale, when U.S. longshoremen conducted boycotts on grain shipments to the USSR. The unions demanded that provisions be made to ensure that a substantial portion of the trade be carried in American-flag ships.

Accordingly, maritime negotiations were initiated in the latter part of 1971 and culminated in the signing of the US-USSR Maritime Agreement on October 14, 1972. The main objectives of the Agreement were to open channels of maritime commerce between the two nations by allowing specific types of U.S. and Soviet flag vessels to make port calls in major ports of each other, and to permit one-third of the bilateral waterborne cargo trade between the two countries to be carried in Soviet flag and U.S. flag ships (MARAD, 1977, pp.25-27; Kyros, 1977, pp.62-65). By this Agreement, 40 major ports in each nation were open to visits by commercial vessels of the other upon 48 hour advance notification of intended entry. Although this much advance notice was still greater than the 24 hour notice required from merchant ships of non-Communist countries, it was significantly less than the 14 day notification required before the Maritime Agreement.

Previous to the Agreement, the Soviet Union required a 30-day advance notification for American vessels (Ackley, 1973, p. 275).

The significance of this relaxation of port access restrictions cannot be overemphasized. Without this adjustment, it is
unlikely that Soviet expansion into the liner trades of the United States would ever have progressed to the degree it did (NFO10, 1983). Under the 14 day rule, Soviet merchant ships were discouraged from entering the liner trades since port entry could be denied at any time prior to making landfall at U.S. ports, and thereby risk serious disruption of cargo delivery schedules. In the liner trades, even more so than in the charter market, a reputation for reliable, timely service is vital.

Hence, relaxation of the 14-day notification requirement allowed the Soviets to establish dependable cargo schedules and to begin cargo liner service from U.S. ports.

On December 29, 1975, the Department of Commerce and the Ministry of the Merchant Marine of the USSR signed a new Maritime Agreement, essentially an extension of the original 1972 Agreement, which was to expire on December 31, 1981 (MARAD, 1977, p.27). Representatives from both countries met in December of 1980 to ensure the effective implementation of the 1975 Agreement. A Memorandum of Understanding was signed on January 16, 1981, which continued the use of an index for both bulk grain carried by American ships, and agreed to make accommodations necessary to rectify imbalances in bilateral trade. The 1975 Maritime Agreement was extended for one year pending negotiations on a new Agreement (MARAD, 1981, pp.17-18, p.50).

Following the Maritime Agreement in 1972, initial service by the Soviets was to only a few major U.S. ports, and cargoes
were generally restricted to break bulk or general cargo service. By 1974, the Soviets introduced their first semicontainer ships into the U.S. liner trade, and shortly thereafter began operating small and medium sized fully cellular container vessels. Approximately five years after entering service in the U.S. foreign trades on general cargo, the Soviets were operating a substantial number of modern intermodal ships with good frequency, reasonable transit, and offered at whatever price was necessary to attract cargo (Hiltzheimer, 1978, p.29). Many U.S. shipowners consider the signing of the 1972 Maritime Agreement as the Pandora's Box that opened the lucrative U.S. general cargo trade to Soviet competition (Atlantic Council, 1979, p.26). In view of the rapid penetration of the Soviets into the U.S. liner trades subsequent to 1972, there appears to be some justification to these concerns.

Following extensive hearings on the subject, the Congress responded to the increasing Soviet penetration of the U.S. liner trades by passing Public Law 95-483, the Ocean Shipping Act of 1978. The so called Controlled Carriers Act, which will be discussed in greater detail later in this paper, permitted the Federal Maritime Commission to regulate the rates of the Soviet Union and other state-owned carriers to ensure that discriminatory practices were avoided. As a consequence, rate cutting was reduced substantially and Soviet presence in U.S. liner trades diminished almost entirely.
In January of 1980, President Carter curtailed severely all grain shipments of grain to the USSR in response to the Soviet invasion of Afghanistan. Concurrently, the International Longshoremen's Association (ILA) instituted a boycott on all cargoes transported by Soviet ships from U.S. East and Gulf coast ports.

While the reasons given by the Soviets for their withdrawal from American trade routes are vague, it appears evident that the ILA boycott and the Controlled Carrier Act influenced that decision. Other factors have also precipitated the reassignment of Soviet liner ships to trade routes other than those servicing U.S. ports. Seatrade observes,

"It appears that the Soviet lines were finding it impossible to generate a hard currency profit on the routes due to the intensive competition from other outsiders encouraged to enter the trade by FESCO's apparent runaway success in penetrating the market. Added to this has been a trend for Japanese shippers to begin to look elsewhere for carriers, partly out of fears that the ILA boycott might spread to the West Coast and partly out of fears that hostilities might see their cargoes stranded on an unfriendly carrier's ships. Most shippers have withdrawn their support from FESCO out of "sheer commercial instinct" according to CENSA." (Seaward, May 1980, p.3)

The U.S. lifted official trade restrictions in August, 1981, however President Reagan shortly thereafter again imposed economic sanctions against the USSR in response to Soviet invo-
ment in Poland in November of 1981. Although some Soviet ships were still permitted to call at certain U.S. ports, the level of trade between the United States and the USSR has not returned to the same level of activity experienced before the Afghanistan embargo of 1980. Accordingly, much of the analysis that follows will antecede this period and concentrate on Soviet maritime activity following the 1972 Agreement with the United States.

RATE CUTTING

As they entered into a hostile U.S. market, the Soviets used the independent carrier's traditional tactic to penetrate into liner trades—rate cutting. By offering to carry certain commodities at a lower price than that quoted in the liner tariffs, cargo is attracted from the liner conference. Having captured a share of the market, other carriers are driven out so that they cannot come back and prices are raised to more profitable levels. Historically, the combined economic strength of the conference should be sufficient to capture most cargoes and maintain stable freight rates. In the case of state controlled carriers such as the Soviet Union, however, the national treasury can sustain operations along a trade route for as long as it is politically and economically advantageous in the national interests to do so.
The Soviets entered trades that interested them and, like any new independent line, offered substantial reductions, often as low as 40 to 50 percent below prevailing freight rates. The outcry from U.S. shipowners was immediate and prolonged, and articles began to appear in printed media about the "predatory" tactics being used by the Soviet merchant marine, and the emerging threat to Western shipping in general (Atlantic Council, 1979, p. 27). Characteristic of these claims were those expressed by officials of U.S. liner companies at Congressional hearings for the Third Flag bill in 1977 and the Controlled Carrier Act in 1978:

"Predatory (Soviet) rate-cutting, if allowed to go on without restraint, can bring the end of the conference system, followed by unlimited rate wars and then bankruptcy of many lines with massive capital and job losses." (Statement of Robert E. Mayer, Vice President, States Steamship Co., March 8, 1978, p. 17)

"While (the Soviets) continue to build themselves up in the Pacific, to become a great seagoing power in crosstrading, they will, because of their rate cutting and their unethical practices, snuff the rest of us gradually." (Statement of Gordon E. Bart, Senior Vice President, American President Lines, March 8, 1978, p. 40)

"...the issue here is whether or not the United States, with its open trade and open access policy, is going to invite powerful governments to enter our trades, dump their tonnage in our trades with a calculated takeover philosophy, using disruptive techniques of pricing." (Statement of Charles I. Hiltzheimer, Chairman of the Board, Sea-Land Service, Inc., March 8, 1978, p. 36)
More recently, Captain J.W. Clark of the Delta Line has expressed the concern felt by many leaders in the U.S. shipping industry when he wrote,

"In retrospect, it seems that the Soviets deliberately planned the 1972 agreement as a means of destroying our merchant shipping. U.S. negotiators appear to have been duped by Communists who held out as "bait" the prospect of huge grain purchases and other lucrative opportunities...the real motivation for the surging Communist fleet is to slowly but surely dominate world shipping." (Clark, 1981, pp. 70-71)

The Soviets themselves have seemingly corroborated the industry's fears by printing advertisements such as the one below, which appeared in the Siam Travel News in May of 1975,

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**WORRYING ABOUT TIGHT TRAVEL BUDGET, JUST REMEMBER WHO INVENTED THE PLANNED ECONOMY**

Seriously, if you're worrying about whether you can afford to travel this year or not, you should talk to us. Or to your travel agent about us.

Because even in these fiercely competitive days of deals, specials, excursions, group fares, student prices, youth packages and even ssshhh!!! rate cutting you'll find that we can design you a travel plan that will seat you just that much more comfortably.

Without sacrificing any of our famous Russian-style vodka-and-caviar hospitality that everyone tells their friends about long, long after.

How do we do this? One reason is that we don't have to make profits. And the other is that there's one country that's really expert in planning economical operations.

Guess who that is.

(Extracted from Hearings for H.R. 9998, March 8, 1978)
Numerous examples of Soviet rate cutting practices appeared in professional shipping journals, business periodicals and other print media throughout the 1970's. Considerable concern was caused by the awesome future potential of state owned carriers, particularly those of the Soviet Union, to disrupt trades by slashing rates at levels that could not be matched by commercially motivated carriers. Rate comparison studies conducted by the Federal Maritime Commission in 1977 showed that of the top 25 commodities moving in the export and import sector of each trade route, the Soviets had the lowest rate of anybody approximately 50 percent of the time and that about 75 percent of the time the Soviets were lower than the conference (Ellsworth, 1977, p.22).

In another rate comparison study prepared by the FMC on major commodities moving in the U.S. Pacific Coast/Japan trade route, the Soviet Far East Shipping Company (FESCO) charged rates that were an average of 16 percent below prevailing conference rates. Of the 21 commodities analyzed, FESCO's rates were lower than the conference rates on 20 of the items, undercutting the conference tariff in one instance by 45 percent. When compared to other independent lines, FESCO's rates were lower in 15 out of 21 cases (Ellsworth, et al, 1981, p.471).

Pursuing a policy of aggressive rate cutting, the Soviets realized an 8-fold increase in the tonnage of liner cargoes carried and a nearly 45-fold increase in the value of liner

Even in the containing services, rates can be based on the values of the commodities carried in the containers or on a "per container basis", commonly referred to as FAK, or "freight all kinds". In this manner, Soviet operators have also been able to penetrate the U.S. intermodal liner service.

As a counter charge to American claims of widespread rate cutting practices, Soviet Minister Guzhenko has claimed that conference members are rebating shippers with amounts greater than the amounts attributed to Soviet carriers. Several investigations by the Federal Maritime Commission have indicated some validity in the charges of rebating practices within the liner conferences (Kyros, 1977, p.14). The stiffer system of penalties provided for in the Ocean Shipping Act of 1979, however, has probably put a lid on most of the rebating being illegally practiced in this country.

Other Russian maritime leaders voiced similar remarks in response to criticisms of Soviet shipping policy. As early as 1968, A. Savelev, the Chairman of Sovfracht, wrote in the Soviet journal Vodni Transport:

"Recently, statements have appeared in the Western press...accusing shipping circles in the CEMA countries of rate cutting. These
accusations are totally groundless. It is well known that CEMA's commercial activities in shipping are based on accounting principles that provide not only for the recovery of direct costs from the amount earned from transporting freight, but also for the realization of a profit. 
(extracted from Bock, 1981, p.56)

U.S. shipping interests sometimes have difficulty in justifying their relative commercial position without accusing foreign competitors of some diabolical conspiracy. Much of the real dilemma facing the shipping industry today stems from worldwide overcapacity. Shipowners and operators have had to lower freight rates to marginal levels ever since the ship-building boom of the late 1960's and early 1970's. Precipitated by the closing of the Suez Canal, orders for new shipping, particularly the enormous VLCC's and ULCC's engaged in the carriage of POL products, resulted in an overtonnage situation when the Canal reopened. Borderline operators have been forced to retire from the world's trade routes, and the remaining operators have had to contend with a much more intense level of competition. This existing market depression is further aggravated by the appearance of a large number of developing nations who are rapidly building up their own merchant fleets, both as a matter of national pride, and as a means to obtain their share of the profits and hard currency generated by the shipping business. As a result, there are far more ships and capacity than there are cargoes available. Although the
emergence of a first class merchant marine such as that which the Soviets have deployed further exacerbates an already grim situation, the USSR cannot be held uniquely responsible for world market conditions (Atlantic Council, 1979, p.27). The Norwegian Shipping News indicates the main reasons for the economic troubles of the major operating lines seem to be

- overtonnaging in the world liner market
- rampant competition
- structural changes in trade patterns
- investment in the wrong type of ships
- rapid fluctuation in exchange rates
- soaring interest rates
- operating delays due to inadequate infrastructure and strikes
- inability to cope with the technological revolution
- political interference
- market fluctuation
(Norwegian Shipping News, August, 1982)

In estimating the capacity of the Soviet Union to employ its merchant marine to inflict economic injury to the U.S. shipping industry by predatory rate cutting, Robert Athay writes,

"Such fears appear to be exaggerated. Soviet economic interests will probably lead to a much more benign shipping policy. The continued need for hard currency exchange to finance imports from the West, and the limited opportunities available to the USSR for improving its hard currency balances by alternative means, creates a strong incentive for the Soviets to maximize the earnings of these currencies by their merchant fleet. Such a policy precludes the use of the merchant fleet pri-
marily as an instrument of economic warfare. Any political gains that the Soviets might achieve by this route likely would be short lived and would risk the loss of foreign exchange earnings because of adverse reactions of Western cargo owners." (Athay, 1972, p.106)

"UNFAIR" COMPETITION

The uproar resulting from the aforementioned practices of the Soviet merchant marine resulted in legislative action by the United States in an effort to curb "unfair" competition in the liner trade. The Ocean Shipping Act of 1978 (P.L. 95-483), also called the "Controlled Carrier Act", enabled the Federal Maritime Commission to investigate and, if necessary, regulate the activities of the Soviet Union and 20 other nations that were operating state-owned lines in the U.S. trades. If Soviet vessels were determined to be trading at "unfair" rate levels considered by the FMC to be detrimental to the commerce of the United States, then the Commission was authorized under the Act to close U.S. ports to offending Soviet lines.

It is interesting to note that during Congressional hearings for the Controlled Carrier Act, similar legislative actions to curb Soviet encroachments had been enacted by the governments of the United Kingdom, the Netherlands, Japan, and the Federal Republic of (West) Germany.

The passage of the Ocean Shipping Act of 1978 has become a vital element toward increasing the FMC's enforcement powers.
The FMC's implementation of the new law began with the identification and classification of all state controlled carriers operating in the foreign commerce of the United States. The Commission issued 78 orders under the authority of section 21 of the Shipping Act seeking information regarding the registry, ownership, and control of certain common carriers operating in U.S. trades. On the basis of the responses received and other information independently developed by the Commission, 21 steamship lines were classified as state controlled carriers subject to the provisions of P.L.95-483 by the end of Fiscal Year 1980.

Among its other duties, the FMC also monitors changes of ownership, registry and control of carriers, their entry and exit from conferences, and the opening of rates within conferences to which controlled carriers belong, in order to stay apprised of those carriers which may become subject to the provisions of the Controlled Carrier Act and those which may become totally or partially exempt. For example, section 18(c)(3) of the Act authorizes the Commission to request from any controlled carrier, a statement of justification which details the need and purpose of the carrier's tariff rates, charges, classifications, rules or regulations being applied in a particular trade.

Accordingly, since the 1978 enactment of P.L. 95-483, the FMC has initiated several rate justification inquiries for the
purpose of determining whether the rates, charges, and practices of certain controlled carriers are just and reasonable.

Just how unfair competition is determined is confusing. The heart of the problem is the basic difference between market and non-market economies. The cost structure in Soviet bloc countries is different from that in the United States, and terms such as "profit" and "earning power" have completely different meanings in the USSR than in America. The Soviets are not bound to maintain any criterion of profitability similar to that required by U.S. shipowners. Allocation of economic resources based on government prioritization as a means to achieve political or economic national objectives is incompatible with the Western pricing system (Brand, 1978, p. 55). Thus, the operating costs of the Soviet fleet can be and basically are free from those items which represent major expenses for a commercial shipowner operating in the U.S., such as depreciation, interest and insurance.

As described earlier in this paper, the Soviets obviously have the capability to undercut the U.S. liner fleet, and the motivation to do so. The need to earn convertible hard currency is clearly of great importance, if the Soviets are to obtain the foreign exchange necessary to pay for imports from the West. As Robert Ellsworth writes,

"If the final selling price in hard currency produces a greater utility than the opportunity costs involved in the production of the goods"
or service, then the price (in hard currency) may rationally be set at a level which is lower than the soft currency costs. It is possible, therefore, that dumping from state-controlled economies may persist in the absence of economies of scale, which is the argument normally used to explain dumping of merchandise from market economies. The economies of scale argument can be discarded as a probable cause if the products which they are accused of dumping are in short supply domestically, so that economies, if they exist, could be realized by expanding domestic sales."

(Ellsworth, et al., 1981, pp. 471-472)

With this in mind, the dumping of shipping services at reduced freight rates to obtain hard currencies can be viewed as a logical progression of state-controlled planning to fulfill the larger goals of the general economic plan. The "efficiency" of merchant marine operations may therefore be maximized, even if shipping services are provided below fully allocated costs expressed in soft currency units. The disparity between U.S. and Soviet freight rates becomes even more pronounced when the cheaper bunkers, insurance, and crew wages afforded to Soviet lines are considered.

How then has the FMC determined whether a rate charged by a Soviet carrier is fully compensatory or not? Section 18(c) of the Ocean Shipping Act of 1978 specifies the following factors must be considered when determining whether or not rates published by a controlled carrier are just and reasonable,

For the purpose of this subsection, in determining
whether rates... submitted by a controlled carrier are just and reasonable, the Commission may take into account appropriate factors, including, but not limited to, whether:

(i) The rates... which have been filed... are below a level which is fully compensatory to the controlled carrier based upon that carrier's actual costs or upon its constructive costs, which are hereby defined as the costs of another carrier, other than a controlled carrier, operating similar vessels and equipment in the same or a similar trade;

(ii) the rates... are the same as or similar to those rates filed or assessed by other carriers in the trade;

(iii) the rates... are required to assure movement of particular cargo in the trade; or

(iv) the rates... are required to maintain acceptable continuity, level or quality of common carrier service to or from affected ports.

Decisions rendered by the Federal Maritime Commission against FESCO in 1979 and 1980 indicate that a two stage test has apparently developed to determine if rates are unreasonably low. Decisions are based on comparison to rates assessed by similar carriers and a demonstration of injury to other carriers in the trade. Similar procedures are followed in the merchandise sector in accordance with the Antidumping Act of 1921 to determine whether the prices charged by a state controlled economy firm are unreasonably low(Ellsworth, et al, 1981, pp.479-483). The success of the Controlled Carrier Act in meeting its intended purposes was appropriately described by Maritime Administrator, Admiral H.E. Shear, when he wrote,
"Since the Commission commenced active enforcement of the controlled carrier law requiring state-controlled carriers to compete on equal terms with their privately-owned competitors, predatory rate-cutting by these (Soviet) steamship lines in the U.S. foreign commerce has virtually been eliminated." (Shear, 1982, p.22)

CROSS TRADING

The primary activity of the Soviet merchant fleet which most concerns U.S. shipowners is in the area of cross trade. Third flag carriage, or crosstrading, is the traditional maritime practice of vessels carrying cargoes between nations other than their own. In effect, this means carrying trade that is neither imported nor exported from the ports belonging to the parent nation of the ship's registry. In addition to being practiced by the Soviet Union, this is a very important source of income for many Western shipping nations including Norway, Sweden, Greece, Japan, Denmark, and the United Kingdom.

Soviet carriage of cross trade cargoes between foreign ports has been expanding rapidly since the mid-1960's. The USSR's first major efforts at crosstrading came during the Vietnam war. Soviet ships delivered supplies to North Vietnam, and often returned to Europe via Australia and New Zealand where they picked up cargoes bound for Europe (Dunn, 1969, p.ix). Cross trade carriage grew from 7.5 million tons in 1965 to 22 million tons in 1974 (Carr, 1976, p.336), to more than 33.5 mil-
lion tons in 1978 (CIA, 1978, p. 6).

Soviet ships were initially employed in the cross trades in only two circumstances. As eluded to previously, one method would be to pick up backhaul cargoes after delivering exports, rather than steam home on the return voyage in ballast. Soviet ships were also chartered out to foreign shippers during the winter months when the icing of their northern ports reduced shipping needs (Carr, 1976, p. 336).

Modeling itself after Western maritime powers, however, the Soviet Union recognized an ideal opportunity to earn hard currency. Many Soviet ships, particularly the newer unitized vessels, now spend full time employed in the cross trades. Moreover, as discussed previously, in order to enter the market the Soviets had no choice but to start operating as cross-traders, and also as independents operating outside the various freight conferences, many of them closed, set up around the world (Carr, 1976, p. 336; Atlantic Council, 1979, p. 29).

Much of the cargo carried in cross trading operations consisted of bulk commodities carried for CEMA trading partners or Third World nations with payment in soft currencies. An example of this practice would be the carriage of Canadian flour to Cuba, or Middle Eastern oil moving to Eastern Europe (Nitze, et al, 1979, p. 149). As Soviet liner operations grew and newer, more modern vessels were entered into service, increasing quantities of high value manufactured goods were
transported between the Western industrialized countries. Prior to 1965, when Soviet crosstrading essentially began, the Soviet Union had 31 international cargo lines, all predominately involved in the carriage of Soviet trade (Carr, 1976, p.336). By mid-1979, the total number of lines had risen to 74, of which 44 were heavily involved in the cross trades (CIA, 1979, p.44).

Of particular concern to U.S. operators was the remarkable ability of the Soviets to penetrate traditional U.S. trade routes, and selectively capture a sizable share of any market entered. Between 1971 and 1976, for instance, Soviet expansion in U.S. liner trades rose from 0.3 percent to 2.5 percent in a relatively short period of time. Although the total percentage figures may not appear very high to the naked eyeball, this percentage share corresponds to nearly 50 million tons of cargo. On the 16 U.S. trade routes where the Soviets were most active that year, aggregate Soviet carriage was 4.1 percent. By 1977, the Soviet merchant marine had increased its overall share of liner trades to 3.4 percent, and its share of the selected routes had increased to 5.2 percent. On the U.S. North Atlantic to West Germany trade, Soviet cross traders captured 13.1 percent of the market, and on the lucrative Pacific to Far East trade route the Soviets carried 36 percent of the total tonnage (Ellsworth, 1977, p.26). In 1976, 13 of the top 20 commodities by value carried by the Soviet merchant marine in the U.S. trades were high value liner cargoes representing 36 percent of
the total value of all cargoes carried (MARAD, 1977, p. 4). The 1977 data show the following penetration levels:

<table>
<thead>
<tr>
<th>Trade Route</th>
<th>Description</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>U.S. North Atlantic/West Germany</td>
<td>12.3 percent</td>
</tr>
<tr>
<td>8</td>
<td>U.S. North Atlantic/Netherlands, Belgium</td>
<td>4.1 percent</td>
</tr>
<tr>
<td>10</td>
<td>U.S. North Atlantic/Mediterranean/Black Sea, Portugal, Spain, Morocco, and Azores</td>
<td>4.0 percent</td>
</tr>
<tr>
<td>17</td>
<td>U.S. Atlantic, Gulf and Pacific/Indonesia, Malaysia, and Singapore</td>
<td>10.1 percent</td>
</tr>
<tr>
<td>21</td>
<td>U.S. Gulf/UK, Ireland, Continental Europe- less USSR</td>
<td>3.6 percent</td>
</tr>
<tr>
<td>29</td>
<td>U.S. Pacific, Hawaii, and Alaska/Far East</td>
<td>6.4 percent</td>
</tr>
</tbody>
</table>

Source: Federal Maritime Commission

Although over 50 percent of Soviet lines participate in third flag trade, only 15 percent of all cargo moved in Soviet ships is cross trade cargo. Table X provides a summary of the cargo distribution among the various sectors of the Soviet merchant marine. The percentage of cross trade relative to total waterborne carriage increased from 6 percent in 1965 to 15 percent only ten years later. It should be noted, however, that crosstrading as a percentage of total shipping has remained constant since 1975. Although Soviet cross trade increased from 30 to 33.5 million tons from 1975 to 1978, the USSR's total trade also expanded, from 200 to 229 million tons. This leveling off of crosstrade would seem to be consistent with
What's keeping you from sending your cargo Bait-Atlantic to the U.S.A.?

Our container service is direct with New York as first port. Direct to Baltimore. Direct to Philadelphia. And we can offer you a through quotation service to any inland point.

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Source: Sea-Land
SOVIET VESSEL SCHEDULING
IN U.S. NORTH ATLANTIC TRADE ROUTES

Following is an example a Soviet liner sailing schedule which serves to clarify heavy Soviet crosstrading patterns and infrequency of calls at Russian homeports. This schedule shows 16 departures from the U.S. to Europe in a 17 day period. There is no evidence that the Soviets are actively seeking cargo for movement to or from the USSR. Arrival dates are shown for five European ports, none of which are in the Soviet Union.

The Baltatlantic Line
A Service of the Baltic Shipping Co. of Leningrad

WEEKLY INDEPENDENT CONTAINER & RO/RO SERVICE
ANTWERP • ROTTERDAM • BREMERHAVEN • HAMBURG • † TILBURY
† LE HAVRE • LENINGRAD
(Full Containers Only For The Following Ports)
AMSTERDAM • DUBLIN • BELFAST • HELSINKI • AARHUS • AALBORG • COPENHAGEN • ESBJERG • ODENSE
JEJLE • GOTHENBORG • MALMO • HELSINKIBORG • STOCKHOLM • NORRKOPING • OSLO • BERGEN

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<td>1/26</td>
<td>1/24</td>
<td>1/27</td>
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</tbody>
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ITO TERMINAL
SHED 2300 FT. ELIZABETH — 527-8000
Deep Tanks
1 Full containers only
*Ro/Re vessel
LCL Antwerp Also
Break bulk refer space
All Vessels, Arrival and Departure Date, Subject to change without notice.

NORTH EUROPEAN & BALTIC PORTS

Source: Sea-Land
SOVIET VESSEL SCHEDULING
IN U.S. PACIFIC TRADE ROUTES

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<tr>
<th></th>
<th>Ivan Syrykh V-1</th>
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<th>I. Kollyaevskiy V-4</th>
<th>Alisher Navoi V-4</th>
<th>V. Mayakovsky V-9</th>
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<td>APR. 22</td>
<td>MAY 19</td>
<td>-</td>
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<tr>
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<td>APR. 11</td>
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<td>MAY 21</td>
<td>-</td>
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<td>APR. 15</td>
<td>APR. 29</td>
<td>MAY 23</td>
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<td>MAY 13</td>
<td>JUN. 02</td>
<td>MAY 10</td>
<td>JUN. 10</td>
</tr>
</tbody>
</table>

![PACIFIC COAST BREAKBULK EXPRESS TO SOUTHEAST ASIA/JAPAN/PHILIPPINES](chart)

General Agents
MORAM
67 Walnut Ave., Clark, New Jersey 07066
(201) 574-1144  (212) 374-1200
Call Toll-Free (800) 631-7359

Source: Sea-Land

The FESCO schedule shown above indicates again the Soviet propensity for penetrating U.S. cross trades. During the six month period shown above, only four port calls are made at Nakhoodka, the only Soviet port in these services.

72 c
SOVIET VESSELS IN THE U.S. PACIFIC TRADE

Photo: courtesy Sea-Land

The 774-TEU KHUDOZHNIK IOGANSON, operated by the Far East Shipping Company of Vladivostok, is shown here loading at the 7th Street Public Terminal at the Port of Oakland in 1976.
The following Soviet sailing vessel schedule for the U.S. Atlantic Coast to Mediterranean trade shows no arrival or departure dates for ports in the Soviet Union.

**BLASCO**

A Service of the Black Sea Shipping Co. of Odessa, U.S.S.R.

**INDEPENDENT CONTAINER SERVICE**

**EVERY 10 DAYS**

NAPLES • LEHORN • GENOA • PIRAEUS • LISBON • LEIXOES • BENGHAZI

TRIPOLI • ISTANBUL • ODESSA

FROM NEW YORK • PHILADELPHIA • BALTIMORE

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<td>Ivan Shepetkov</td>
<td>1/5</td>
<td>1/6</td>
<td>1/7</td>
<td>1/17</td>
<td>1/19</td>
<td>1/20</td>
<td>1/22</td>
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<td>Mikhail Svetlov</td>
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<td>—</td>
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<td>1/18</td>
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<td>Nikolay Ananjev</td>
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<td>2/3</td>
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<td>2/16</td>
<td>2/17</td>
<td>2/19</td>
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</tr>
</tbody>
</table>

BLASCO announces Mediterranean Service from U.S. West Coast to Mediterranean Destinations. Call (212) 791-2357 or (212) 791-6409 for details.

*Also Calls Portugal

(*No Congestion Surcharge)

**MEDITERRANEAN**

72 e
Fast, Independent Container Service to the Mediterranean from U.S. West Coast ports

GENOA • LEHORN • NAPLES • PIRAEUS • BENGAZI
TRIPOLE • ISTANBUL • ODessa

20ft and 40ft containers on chasis are available with computerized control in transit and with complete documentation. Check our sailing schedule for the fastest, independent service from and to the Mediterranean.

As is evident from this advertisement, the Soviets pride themselves on "fast, independent service to and from the Mediterranean." Ships of the GERII PANFILOVTSY class move containers to Genoa, Lehorm, Naples, Lisbon, and Leixoes. Served by transhipments are the ports of Piraeus, Istanbul, Odessa, Tripoli, and Bengazi.
## TABLE X

Soviet Cargo Distribution  
(million metric tons)

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<td></td>
<td>tons</td>
<td>PCT</td>
<td>tons</td>
<td>PCT</td>
<td>tons</td>
</tr>
<tr>
<td>Total</td>
<td>119.3</td>
<td>100</td>
<td>161.9</td>
<td>100</td>
<td>200.0</td>
</tr>
<tr>
<td>Soviet Intern'l</td>
<td>111.8</td>
<td>94</td>
<td>146.9</td>
<td>91</td>
<td>170.0</td>
</tr>
<tr>
<td>Domestic</td>
<td>50.0</td>
<td>42</td>
<td>75.3</td>
<td>47</td>
<td>90.9</td>
</tr>
<tr>
<td>Cross trade</td>
<td>6.5</td>
<td>6</td>
<td>15.0</td>
<td>9</td>
<td>30.0</td>
</tr>
</tbody>
</table>

Source: Central Intelligence Agency report ER79-10490, 1979, p.6

the previously described principal employment of the merchant marine for carrying Soviet trade. While the benefits of cross trading are fully recognized by the USSR, the Soviets have historically used the merchant fleet primarily for the carriage of its own trade. Hence, systematic expansion of third flag carriage would probably occur only if the level of international trade conducted by the Soviet Union declines, or if the already rapid rate of growth of the Soviet merchant marine accelerates exponentially. Neither of these occurrences is likely to prevail in light of past behavior and currently perceived national priorities.

### FREIGHT CONFERENCES

In managing its 74 international shipping lines, the Soviet merchant marine prefers to operate its vessels as independent...
carriers rather than joining the conference system. For this, the Soviets have often been criticized.

As non-conference carriers, Soviet shipping lines operated in the general cargo and unitized trades along key routes such as those serving the important North Pacific between the Far East and the U.S. Pacific Coast. On the lucrative North Atlantic trade route, the Soviets were charging freight rates that were at least 15 percent below those offered by the conference lines (Carr, 1976, p.337). It should be noted, however, that other independent carriers normally follow the same practice.

At the time of the widely publicized rate cutting accusations in the mid-1970's, and after the Soviets had solidified their position as independents along the key trade routes, U.S. operators began to approach the Soviets to try to induce them into the conference system (Atlantic Council, 1979, p.31). Many conferences were prepared to accept the Soviets on the theory that it is easier to control them from inside the conference than as an outside independent (Heine, 1974, p.269). U.S. shipowners hoped that by joining the conference system, the Soviet propensity for rate cutting would be restrained.

Although the Soviets have never indicated that they intend to avoid conference memberships as a matter of shipping policy, there do appear to be several reasons why Soviet steamship lines have not participated in very many conference agreements. One of the principal reasons why the Soviet Union built up its
merchant marine in the first place was to reduce the heavy drain placed on its hard currency reserves and also to earn convertible hard currencies. Consequently, the USSR can be expected to pursue maximum earnings from shipping by resorting to competitive freight rates to attract cargo (Adam, et al, 1976, p.360). Participation in the conference framework may serve to limit Soviet aspirations in this regard.

Another reason why the Soviets may avoid joining the liner conferences can be attributed to a general reluctance to report trade statistics and other proprietary information to a foreign body (Adam, et al, 1976, p.360). Since the Soviets do not maintain and report statistical information in the same manner as Western nations do, the normally secretive Russians may be reluctant to divulge data that may be considered sensitive elsewhere in the Soviet bureaucracy.

One other reason, at least initially, may have been that many of the cargoes carried in Soviet liner vessels were moving on trade routes that were not subject to conference rates (Heine, 1973, p.269). This is no longer the situation today, however.

As the USSR enlarged its scope of operations through the addition of new vessels, Sovfracht and Soviet shipping lines sought membership in nongovernmental international maritime organizations and even some shipping conferences (Heine, 1973, p.269). As Soviet shipping activities became global in scope and authorities less parochial in their outlook, membership in
some shipping conferences and pooling agreements appeared advantageous in some instances (Heine and Coe, 1967, p.25). In general, the Soviets became less reluctant to join the liner conferences if it was clearly in their best interest to do so on a particular trade route. This position was affirmed by Soviet representatives in informal discussions in 1974 between the Federal Maritime Commission and shipping officials of the Baltic Steamship Company (Adam, et al, 1976, p.360).

There are several potential advantages to the Soviets favoring their participation in the liner conferences serving U.S. trade areas. Some of these advantages are:

1. A voice in formulating policy and developing rate structures in a particular trade.
2. Where a conference dual rate system is in effect, the Soviets gain access to a directory of shippers signing the merchant's freighting agreement. These merchants would be authorized to ship their cargo on Soviet vessels at the lower contract rates.
3. A contribution to and a consequent benefit from stable rate conditions in the trade.
4. The possibility of destructive rate wars— that in the long run are harmful to everyone concerned— would be minimized.
5. The avoidance of complaints by American Merchant Marine operators, labor unions and ultimately, their representatives in Congress. Such complaints, and those arising from carriers of other nations, could generate formal hearings and investigations before the FMC. As Conference members the Soviets would benefit from Conference representation, thereby avoiding direct legal confrontation.
(Kyros, 1977, p.68; Adam, et al, 1976, pp.359-360)

The long term economic interest of the Soviet Union may be
better served by adhering to the international norms of liner shipping, joining the shipping conferences as appropriate. By participating as members of the liner conferences, rate setting is stabilized providing an environment conducive to ship modernization and reasonable return on investment. Although in the short run, increased hard currency gains may be attractive, in the long run a more stable hard currency income from a reasonable share of the shipping market may be more profitable.

There is, however, a broader context for the Soviet Union to join the shipping conferences and become a stabilizing factor in the world economy. If the USSR is to improve its balance of payments position, it needs cooperation from the West, particularly the United States. In this broader context, the Soviet Union must balance the effect of unfair maritime practices in the balance sheet of US-USSR commercial relations. In the long run, a policy of predatory rate cutting for short run hard currency gains will be detrimental to the Soviet Union's other maritime needs and long term interest in economic interchange with the United States.
THE SOVIET MERCHANT MARINE IN CONTEXT

The long held view that the expansion of the Soviet merchant marine is responsible for the current situation in world liner shipping fails to take into account the rapid build up of the ocean carrying capabilities of the developing nations and the convenience fleets. Also, most statistical analyses overlook the increased carrying capacity intrinsic to fully cellular containerized vessels. A substantial percentage of the ships registered under the flags of convenience are owned by the United States and other Western maritime powers, many of which are employed in the liner trades. In addition, the vast preponderence of containerized carriers are owned and operated by Western nations, particularly the United States. Hence, a careful examination of the growth trends in these areas is especially important when evaluating the build up of the Soviet merchant marine and its penetration into the liner trades of the United States.

The statistical comparisons and analysis that follows is necessarily constrained to the period 1970 through 1980. Lloyd's Register was used as the principal source from which statistical data was obtained, and differentiation by vessel types was not documented prior to 1970.

As previously described in this paper, the Soviet merchant fleet expanded tremendously since the early 1960's, and certainly
this trend continued during the 1970's. The general cargo fleet of the USSR grew from 5.94 million gross registered tons (m.grt) in 1970, to 8.06 m.grt ten years later. This increase in liner capabilities works out to a 22.8 percent growth, as compared to a world rise of 15.2 percent over the same period. Table XI below illustrates this performance.

TABLE XI —
Liner Fleet Totals (Unweighted) (million gross registered tons)

<table>
<thead>
<tr>
<th>Year</th>
<th>OECD</th>
<th>US</th>
<th>USSR</th>
<th>CEMA</th>
<th>FOC</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>49.144</td>
<td>10.736</td>
<td>5.942</td>
<td>8.832</td>
<td>7.126</td>
</tr>
<tr>
<td>1980</td>
<td>44.611</td>
<td>5.968</td>
<td>8.060</td>
<td>11.993</td>
<td>19.083</td>
</tr>
</tbody>
</table>

Source: Lloyd's Register

During this same decade, the U.S. liner fleet (i.e., single and multi-deck general cargo ships, barge carrying and cellular vessels) dropped from a position of unchallenged world leadership boasting 10.74 m.grt to less than 6 m.grt in mid-1980. The other developed nations of the West did little better as the OECD countries saw their percentage share of the world liner fleet inventory shrink from 60 percent to less than 34 percent. Table XII pertains. Meanwhile, based primarily on the impressive growth of the Soviet liner fleet, the CEMA nations expanded their collective tonnage in the world liner market from 8.83 to 11.99
These factors, combined with intense intraconference competition, over tonnaging in the liner trades, and the ability of the Soviets and other state operated carriers to charge lower freight rates, resulted in increasing alarm in U.S. shipping circles that a fundamental shift in the East-West balance of power had occurred. The Congressional hearings for the Third Flag Act in 1975 and 1976 (H.R. 7940), and the Controlled Carrier Act in 1977 and 1978 (H.R. 9998) witnessed substantial concern among industry leaders that the Soviet liner fleet was inflicting irrevocable and diabolical harm to U.S. oceanborne trade.

While the Controlled Carrier Act has effectively limited predatory practices in the U.S. liner trade, the perceived shift in the maritime balance of power remains of some concern to U.S. shipowners and government agencies. As Tables XI and XII illustrate, however, a significant portion of the world liner fleet's new tonnage is now registered under the flags of
convenience of Liberia, Panama, Singapore, Honduras, Cyprus, Bermuda, Somali, and the Camayan Islands. The FOC fleet stood at only 7.1 m.grt in 1970, mushrooming to nearly 19.1 m.grt a decade later. This dramatic growth corresponds to a 269 percent increase in fleet size, and a share of the world liner market nearly twice that enjoyed ten years previously.

It should be noted that together with certain Far Eastern owners, CENSA and the United States dominate both the true management and beneficial ownership of the convenience fleet (Lloyd's Shipping Economist, September, 1980, p.3). In contrast, the Soviet bloc very seldom employs the use of conveniently registered vessels.

Paralleling the dramatic growth of the flags of convenience fleet is the increasing appearance of vessels from developing nations (including the PRC) along the trade routes of the world. Anxious to develop their merchant marines as a prerogative of national pride and self sufficiency, these countries have accounted for nearly 9 m.grt of the world's new liner vessels since mid-1970. By mid-1980, the merchant navies of China and the Third World accounted for 16.25 m.grt, or approximately 19.4 percent of the world liner fleet. This total is only slightly less than the combined strength of the FOC liner fleet.

Growth of the FOC and LDC liner fleets notwithstanding, the other key element in the liner trades that is often overlooked when comparing merchant marine statistics is the increased
carrying capacity, improved turnaround time and superior operating efficiency made possible by using fully cellular containerized vessels. As the comparative advantages to using fully containerized vessels became evident during the late 1960's and early 1970's, more and more U.S. shipowners retired their older break bulk vessels replacing them with newer, fully cellular ships. The inherently greater cargo capacity per gross registered ton for a container ship relative to its conventional break bulk counterpart is seldom considered when statistical comparisons are made. With the industrialized nations of the OECD comprising more than 74 percent of the world's fully cellular containerships, and the CEMA nations operating less than 3 percent, it seems intuitive that the West's true cargo capacity is greater than the statistical summaries would indicate. The USSR, it should be noted, was the only CEMA country operating fully containerized ships as of mid-1980.

In an effort to place the world liner fleet into better perspective, a system of weighting which attempts to compensate for the increased productivity value of a fully cellular gross ton as compared to the gross tonnage of a general cargo ship has been built into Tables XIII and XIV. To take into account the added capability and capacity of containerships relative to conventional cargo liners, a factor of 5:1 was adopted for the sake of comparison (Marti, 1981). The 5:1 cellular/general cargo index ratio will be used to show the evolution of the combined
liner fleet in a more realistic way than by attributing to general cargo vessels the same tonnage value as fully cellular containerships. The Time-Series Graph which follows will further illustrate liner fleet growth trends.

Table XIII
Liner Fleet Totals (Weighted)
(millions of gross registered tons)

<table>
<thead>
<tr>
<th></th>
<th>OECD</th>
<th>US</th>
<th>USSR</th>
<th>CEMA</th>
<th>FOC</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>56.696</td>
<td>14.184</td>
<td>5.942</td>
<td>8.832</td>
<td>8.057</td>
</tr>
</tbody>
</table>

Source: Lloyd's Register

Table XIV
Percentage Share of World Liner Fleet Total (Weighted)

<table>
<thead>
<tr>
<th></th>
<th>OECD</th>
<th>US</th>
<th>USSR</th>
<th>CEMA</th>
<th>FOC</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>69.2</td>
<td>17.3</td>
<td>7.3</td>
<td>10.8</td>
<td>9.8</td>
</tr>
<tr>
<td>1980</td>
<td>59.3</td>
<td>10.3</td>
<td>7.1</td>
<td>10.1</td>
<td>18.3</td>
</tr>
</tbody>
</table>

As seen in the tables above, the U. S. liner fleet's cargo carrying capacity declined much less dramatically than would appear from viewing Tables XI and XII. Similarly, the OECD liner fleet also regressed, but at a much lesser rate than was in evidence initially. And within the OECD, there were several
sustantial gains, most notably Greece (103 percent growth), Japan (76 percent growth), and West Germany (97 percent growth). Although there was a net reduction in market share from 69.2 to 59.3 percent, overall growth in OECD liner fleet tonnage jumped by 37.6 percent.

Most significantly, however, is the observation that CEMA bloc, and specifically the Soviet merchant marine, also lost some of its relative share of the world liner market. Like the OECD and U.S. liner operators, the Soviets experienced a fall in its relative share despite positive gains in the development of its general cargo fleet.

The largest shift of the world's balance of power in the liner trade during 1970 to 1980 was clearly in the direction of the FOC fleet. On a weighted scale adjusted for the increased productivity of containerships, the FOC fleets experienced a remarkable absolute growth of nearly 200 percent, almost doubling their previous share of the world market to better than 18 percent. This dramatic growth should not be ignored when addressing the impact of the Soviet Union's merchant marine. To do so would give a false impression of the East-West balance of economic power in world shipping. Bruno Bock corroborates this sentiment well in writing,

"It would be wrong to consider the Western maritime nations in isolation by overlooking the large tonnage operated by Western ship-
LINER FLEET GROWTH (UNWEIGHTED)

(m.grt)


LINER FLEET GROWTH (WEIGHTED)

World (132.8 in 1980)


85
ping companies under the so-called flags of convenience.\textsuperscript{(Bock, 1981, p.9)}

In the quarterly supplement to \textit{Fairplay International Shipping Weekly}, "World Ships On Order", the Soviets appear to be constructing new ships along the lines of previously noted trends. Tables XV and XVI show world orderbook tables as of 20 January 1983. Although additional emphasis is being placed on the construction of containerships, many of these vessels are not fully cellular and characterize the Soviet propensity for building ships substantially smaller than is average for the major maritime powers. While this provides many benefits to the Soviets as previously described, nonetheless, it inhibits the economic utility of these ships in head on competition with the larger and more capable vessels of the U.S. and other major shipping countries.

\begin{table}[h]
\centering
\caption{Dry-Cargo Ships, Excluding Container Ships on Order}
\begin{tabular}{llll}
\hline
Flag & Number & DWT & Ave. DWT \\
\hline
USSR & 119 & 693,784 & 5,830 \\
Japan & 73 & 672,998 & 9,219 \\
Panama & 42 & 633,050 & 15,073 \\
Germany (West) & 72 & 554,459 & 7,701 \\
Poland & 29 & 274,900 & 9,479 \\
China & 26 & 273,500 & 10,519 \\
North Korea & 19 & 204,500 & 10,763 \\
Turkey & 38 & 195,500 & 5,145 \\
Liberia & 17 & 182,485 & 10,734 \\
Others & 278 & 1,701,305 & 6,376 \\
\hline
Total & 713 & 5,386,481 & 7,555 \\
\end{tabular}
\end{table}
<table>
<thead>
<tr>
<th>Flag</th>
<th>Number</th>
<th>DWT</th>
<th>Ave. DWT</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>29</td>
<td>368,740</td>
<td>12,715</td>
</tr>
<tr>
<td>Taiwan</td>
<td>12</td>
<td>357,600</td>
<td></td>
</tr>
<tr>
<td>Germany (West)</td>
<td>29</td>
<td>319,720</td>
<td></td>
</tr>
<tr>
<td>USSR</td>
<td>24</td>
<td>286,960</td>
<td></td>
</tr>
<tr>
<td>Kuwait</td>
<td>8</td>
<td>284,000</td>
<td></td>
</tr>
<tr>
<td>Singapore</td>
<td>11</td>
<td>248,000</td>
<td></td>
</tr>
<tr>
<td>Poland</td>
<td>15</td>
<td>245,500</td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>10</td>
<td>220,700</td>
<td></td>
</tr>
<tr>
<td>Panama</td>
<td>14</td>
<td>208,310</td>
<td></td>
</tr>
<tr>
<td>Holland</td>
<td>7</td>
<td>179,500</td>
<td></td>
</tr>
<tr>
<td>Denmark</td>
<td>17</td>
<td>169,400</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>5</td>
<td>164,890</td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>11</td>
<td>136,880</td>
<td></td>
</tr>
<tr>
<td>Norway</td>
<td>4</td>
<td>128,600</td>
<td></td>
</tr>
<tr>
<td>Sweden</td>
<td>4</td>
<td>128,250</td>
<td></td>
</tr>
<tr>
<td>Great Britain</td>
<td>5</td>
<td>117,850</td>
<td></td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>3</td>
<td>115,500</td>
<td></td>
</tr>
<tr>
<td>Liberia</td>
<td>16</td>
<td>114,700</td>
<td></td>
</tr>
<tr>
<td>Belgium</td>
<td>4</td>
<td>103,900</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>43</td>
<td>350,950</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>271</td>
<td>4,249,950</td>
<td>15,682</td>
</tr>
</tbody>
</table>

*Source: Fairplay, World Ships on Order, 20 January 1983*
CONCLUSIONS

1. Despite the unprecedented growth of the Soviet merchant fleet, it remains a small percentage of world totals and will probably remain as such for many years. The Soviet merchant marine has developed primarily in response to economic stimuli. Although political and military benefits are realized through the existence of a strong merchant marine, these benefits should be considered ancillary.

2. The Soviets have established realistic objectives for their merchant marine which will permit them to meet their domestic and foreign shipping requirements, earn convertible currencies to assist in the balance of payments, implement political endeavors in the lesser developed nations of the Third World, and provide an auxiliary force for the Soviet Navy. While the Soviets have enjoyed considerable success in achieving these objectives, the realities of the situation indicate that in practice their merchant marine cannot serve two masters. That is, the Soviets cannot be expected to achieve the objectives cited and, at the same time, engage in deliberate economic warfare aimed at domination of the world's trade routes.

3. The Ocean Shipping Act of 1978 has successfully curtailed Soviet expansion into U.S. liner trades. Although the Soviet
merchant marine, as a centralized, state-operated enterprise, has the potential of seriously disrupting the commercial stability of the U.S. liner trades, the aforementioned maritime objectives of the Soviet Union mitigate against the likelihood of this occurrence. In this regard, greater participation in the conference system may be expected as the Soviets begin to return to the U.S. liner trades.

4. The development of the Soviet merchant marine should not be blamed for the decline in the relative strength of the U.S. liner industry during the past decade. Other more fundamental economic problems, such as excess capacity, created largely by miscalculation of supply and demand, are responsible. The United States must find more positive ways to survive the existing shipping depression and to prepare itself for other potential economic competitors, including the mushrooming fleets of the Third World.
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Morskoy Flot. Translations provided by Defense Technical Information Center.


