20 years IATP

Institute for Agriculture and Trade Policy
Trade and Global Governance Program

How the Big Fish Benefit: Maritime Services and GATS

Summary

Maritime services refers to the transport of passengers and goods on oceans as well as related services such as the operation of ports, handling of cargo and documentation of transport. In the negotiations under the General Agreement on Trade in Services (GATS) at the World Trade Organization (WTO), several countries are pushing to open maritime services to foreign ownership and operation. Fourteen WTO members, including Japan, the European Commission, Switzerland, Hong Kong, Korea and Taiwan, have submitted a plurilateral request (negotiated among many but not all WTO members) asking 24 developing countries and the U.S. to liberalize their maritime services.

This fact sheet provides an overview of the sector and analyzes the proposals now under negotiation. Countries negotiating to deregulate maritime services should be cautious, not least because the increasingly concentrated ownership of the sector at the global level could limit the benefits of liberalizing the industry. In fact, there are many good reasons for a country to retain strong domestic oversight of such a vital economic activity.

The importance of maritime transport for the global economy

As measured by volume, 90 percent of goods traded across a border are moved on the world's seas and oceans.[1] Global supply chains assemble parts from all over the world in low-wage countries to export to high-income countries and could not function without time and cost-efficient container shipping. One of the most important developments underpinning late 20th century globalization was the advent of containers and the time and money they save in shipping bulk goods over long distances.

Table 1: Composition of world maritime transport (by volume)

Dry Bulk (coal, iron ore, grain, steel, etc.)	37%
Liquid Bulk (Oil, Chemicals)	34%
General Cargo (increasingly in Containers)	29%

UNCTAD, Review of Maritime Transport 2005

In 2004, the UN Conference on Trade and Development (UNCTAD) estimated global freight costs at 380 billion US-$, equivalent to 5.4 percent of the total value of global imports. At such a small percentage of total import costs, cheap shipping has made trade even more profitable.[2] But shipping costs differ greatly between developed and developing countries. The shipping rate is only 4 percent of value of imports in industrialized countries, while it stands at 12 percent - three times as high - for developing countries in Africa and Oceania. In Africa, this is mainly due to under-investment and poor management of ports in many countries.[3] At the same time shipping on the main routes between Europe and Africa is highly concentrated with only two companies dominating traffic to West Africa.[4] These countries are poorly served by existing maritime services, making their imports and exports relatively more expensive than those of other countries.

Structure of the maritime services industry

Shipping industry

The global shipping industry is one of the most deregulated sectors in the world. Roughly one third of the world's cargo fleet is registered under so-called open registries.[5] Shipping companies can register their ships in countries where they do not reside to take advantage of low registration fees and taxes, as well as low labor, environmental and security standards. Many of the countries that operate these registries do not or are unable to ensure compliance with even the basic standards defined by the International Labor Organization (ILO) and the International Maritime Organization (IMO). This low-standard competition keeps costs down by externalizing them.

The WTO secretariat concludes that both liquid and dry bulk shipping are fairly competitive and mostly free from trade restrictions.[6] However, some restrictions and an increasing concentration of market power do exist in container shipping. The top 10 world container line companies command 50 percent of the total capacity and the trend is towards further concentration.[7] The Danish Company AP Moeller Maersk alone owns 15 percent of the global container transport capacity. In addition, legal price cartels exist for many of the main trade routes,

limiting competition amongst the major companies. A study by the World Bank concluded that these private agreements play a much bigger role in keeping freight rates high than direct government interventions.[8]

Port industry

Public sector involvement and regulations play a significant role in the management of ports. In 90 percent of the major ports, basic infrastructure is owned publicly, while private companies own facilities like cranes and warehouses and employ the labor force for cargo handling.[9]

Concentration in the operation of container ports is at similar levels to those in shipping, with the top eight companies handling 54 percent of total trade volume. The largest of these, Hutchison of Hong Kong, commands a market share of almost 14 percent globally.[10]

The GATS request on maritime services

Definitions of services in GATS refer to the provisional version of the UN's Central Product Classification.[11] Following this classification, the plurilateral request made in maritime services distinguishes between two basic categories:

a) Transport services by sea-going vessels, including the transport of passengers and all types of freight but excluding transport between ports within a country (cabotage).

b) Maritime auxiliary services, consisting in services provided in ports, especially cargo handling, storage of cargo, operation of port facilities such as docks and piers, pilotage and navigation in ports.

The GATS request asks for commitments to deregulate all aspects of transport services, except the establishment of companies operating fleets as subsidiaries in foreign countries (mode 3) and the hiring of ships' crews (covered in mode 4: the movement of labor across borders). The request explicitly excludes cabotage, thereby catering to the U.S. refusal to reverse legislation that prohibits foreign ships or crews from operating between domestic ports in the U.S.[12] The U.S. was the only major developed country to receive the plurilateral request.

For some maritime auxiliary services, such as cargo handling and storage, the request is for full market access and national treatment (treating foreign and domestic firms exactly alike) for modes 2 through 4. Mode 2 refers to a foreign company or individual buying services abroad, for instance using a local ship repair firm. Dock workers that are not employed by the cargo handling companies (for instance, dockers hired by port authorities) are not included in the request. Full market access and national treatment in all modes of supply (including mode 1, where the service is provided without any physical movement of goods or labor across a border) is demanded for companies providing administrative and marketing services, such as the preparation of customs documents and the purchase of services necessary to organize the shipment of goods.

For other auxiliary services like fuelling, waste disposal and electricity, the request does not demand liberalization, only that foreign maritime suppliers are able to use these services on reasonable and non-discriminatory terms.

The potential impacts of GATS liberalization commitments

The proponents of liberalization argue that opening market access for foreign firms creates efficiency gains, facilitates trade and lowers costs for importing and exporting companies.

Given the already highly deregulated state of most maritime services and the limited extent of the plurilateral request, current negotiations are unlikely to result in a massive increase in liberalization. It could, however, facilitate the further expansion of the leading shipping and port operators by reducing the few remaining restrictions to their selling services in every port. It is unclear to what extent the efficiency gains will benefit consumers because increased concentration tends to exacerbate the tendency to informal and formal price fixing that has been identified in a World Bank study[13] as the main reason for unnecessarily high prices.

More importantly, liberalization and national treatment commitments for maritime transport could block the introduction of stronger work and environmental standards at the national and international level. Governments at the ILO have agreed to a new maritime convention that consolidates existing provisions on working conditions and wages.[14] It requires each ship to carry a certificate stating compliance with these standards. Ships that are not certified will be subject to close inspections when they land in any port of a country that has ratified the convention. This applies also to ships from countries that have not ratified the convention. The IMO uses the same mechanism to ensure compliance with environmental, safety and security standards. A non-ratifying country could argue that closer scrutiny constitutes a violation of the Most Favored Nation principle enshrined in WTO law, since its ships are treated less favorably than those holding a certificate. In addition, they may argue that the inspections constitute an unnecessary barrier to trade.

The recent backlash in the U.S. against the takeover of one foreign port operator active in the U.S., the British firm P&O, by another, DP World of Dubai, has raised public awareness of the strategic importance of ports. The control of vital imports such as oil and wider security concerns may push governments towards more not less regulation in the management of maritime transport and ports in the foreseeable future.

The GATS negotiation is pushing maritime services away from needed reforms to ensure the industry's compliance with minimum health, safely and environmental standards. The economic rationale for further liberalization of the sector is also put in question by the concentration of market power, where only a few firms dominate. Until strong mechanisms are in place to enforce regulations and more is known about the potential effects of further liberalizing maritime services, countries should reject the plurilateral request.

References

1. UN Economic and Social Commisison for Asia and the Pacific. Report of the regional seminar on liberalisation of maritime transport services under WTO/GATS, 2002.
2. UN Commission on Trade and Development, Review of Maritime Transport 2005.
3. UN Commission on Trade and Development, Review of Maritime Transport. 2003.
4. UN Commission on Trade and Development, Review of Maritime Transport. 2003.
5. UN Commission on Trade and Development, Review of Maritime Transport. 2005.
6. World Trade Organization, Maritime Transport Services, Background Note by the Secretariat, (S/C/W/62), 1998.
7. UN Commission on Trade and Development, Review of Maritime Transport. 2005.
8. Fink, C., Aaditya, M., Neagu, I: Trade in International Maritime Services: How much does policy matter? World Bank Policy Research Paper 2522, Washington, 2001.
9. International Transport Workers Federation. What is Port Privatisation? 2003.
10. UN Commission on Trade and Development, Review of Maritime Transport. 2005.
11. http://unstats.un.org/UNSD/cr/registry/regcs.asp?Cl=9&Lg=1&Co=7
12. American Maritime Officer: U.S. Maritime Coalition Oppose WTO Bid for Maritime Service Jurisdiction. 2002.
13. Fink, C., Aaditya, M., Neagu, I.: Trade in International Maritime Services: How much does policy matter?; World Bank Policy Research Paper 2522, Washington, 2001.
14. International Labor Organization New: ILO Adopts Sweeping New Maritime Convention. 2006.

Written by Tobias Reichert

IATP Trade and Global Governance Program

2105 First Avenue South | Minneapolis, Minnesota 55404 | USA | (612) 870-0453 | iatp.org

Published May 2006