
ECONOMICS, LABOR & BUSINESS

Inefficient Competition

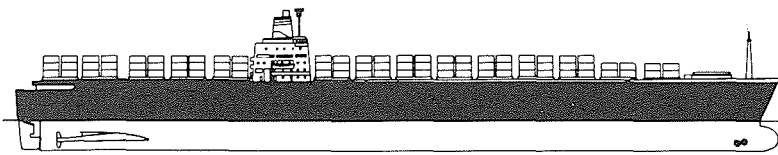
"Competition or Rationalization in the Liner Industry?" by Robert A. Ellsworth, in the *Journal of Maritime Law and Commerce* (July 1979), Jefferson Law Book Co., P.O. Box 1936, Cincinnati, Ohio 45201.

More competition in the U.S. merchant shipping industry (advocated by officials of the Justice Department's Antitrust Division) will neither increase efficiency nor reduce shipping rates.

The very nature of the dry-cargo business precludes normal competitive conditions, writes Ellsworth, chief of the Office of Economic Analysis at the Federal Maritime Commission (FMC). Two factors are the long life (25 years) and high cost, up to \$45 million, of each new freighter or container ship; operators cannot easily cut expenses or switch to other activities when business drops. As a result, they keep charging high rates, despite under-utilization of shipping capacity. Even under normal conditions, most carriers have to operate at 80 percent capacity to make ends meet. And high overhead, including outlays for sailors' wages, fuel, and maintenance, leaves little margin for profit.

Competition is also skewed by the varying support governments lend to their flag fleets for reasons of prestige. Most nations (the United States included) provide ship owners with ship-building and operating subsidies, tax incentives to buy new ships, and low-interest loans. Some provide more than others, however. The fleets of the Soviet Union and Singapore, for example, are government-owned; the state aid they receive allows them to be far less profit conscious than their American competitors.

To survive, many foreign-owned fleets have engaged in cooperative "rationalization." They share routes and cargoes to keep rates low and ships busy. The FMC, however, fearing antitrust violations, has thus far refused to allow American shippers to follow suit. Without such large-scale cooperation, Ellsworth says, American carriers' excess capacity will grow, pushing their shipping charges higher and further hindering their ability to vie for a share of the market with foreign flag rivals.



The latest generation of container ships: West Germany's Ostasien.