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**AN ECONOMIC ANALYSIS
OF
CANADIAN DEEP-SEA
SHIPPING OPTIONS
(EXECUTIVE SUMMARY)**

**Working Paper
Prepared for the
Shipping Advisory Board**

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AN ECONOMIC ANALYSIS OF CANADIAN DEEP-SEA SHIPPING OPTIONSEXECUTIVE SUMMARYINTRODUCTIONBackground

The government of Canada decided in 1949 to rely on the international shipping market for the provision of low-cost deep-sea shipping services used in Canadian trade. The decision not to foster a Canadian deep-sea merchant marine has proved to be both durable and controversial, and has been the subject of frequent re-examination over the years. Previous officially-sponsored studies of the issue have indicated that a Canadian-flag deep-sea fleet would require substantial government assistance, but these studies have not been comprehensive in terms of coverage of Canada's deep-sea trade or in valuing balance-of-payments or employment effects of Canadian-flag shipping. The latter have been stressed as some of the principal potential benefits of a Canadian-flag deep-sea fleet. The possible risks for Canada's trade arising from our reliance on foreign-flag shipping have also been advanced as reasons for encouraging Canadian-flag participation in deep-sea shipping.

In response to these concerns, an interdepartmental Shipping Advisory Board was established by Cabinet in 1975 to coordinate current shipping policy activities and develop a framework for future shipping policies. One of the studies initiated by the Board consisted of the present economic evaluation of Canadian deep-sea shipping options.

The Deep-Sea Shipping Market

The post-war period up to the mid-1970's was one of unparalleled expansion in international seaborne commerce, with the volume of trade rising more than sixfold between 1950 and 1974. The bulk markets have been the fastest growing sector of world deep-sea shipping in post-war years.

The period was also marked by radical change in the production of deep-sea shipping services. The development of specialized vessels and port facilities to handle large volume cargoes created new shipping markets -- such as dry-bulk and container shipping. The economies of scale available in the industry, and the capital-intensive nature of changes in production techniques, have had profound effects on the nature of deep-sea shipping. Important consequences are that the terms and availability of capital have assumed substantial significance to the industry and it does not offer substantial employment opportunities. Capital investment appears to have substituted for the use of labour in general -- and unskilled labour in particular -- onboard ships. Comparative labour costs still exercise an important influence on the economics of shipping, however, and appear to have contributed over time to the rising share in the world trading fleet of flag-of-convenience countries and the difficulties being experienced by OECD shipping from countries as diverse as Sweden and Japan.

In terms of market organization, the bulk shipping trades are generally considered to be competitive. These trades often have large numbers of vessel owners, and freight rates fluctuate considerably in response to changes in demand for and supply of tonnage. The "liner" trades in general cargo shipping, on the other hand, are dominated by cartels -- the so-called "conferences". The cartels practise price discrimination in assigning freight rates to cargoes, and these freight rates are considerably more stable than freight rates in the bulk trades.

Since the mid-1970's, the deep-sea shipping and allied maritime industries have faced serious difficulties -- brought about by the OPEC oil price increases in 1973-74, the world economic downturn that followed, over-ordering of new vessels in the 1973 boom shipping market, and continued government stimulus for ailing shipbuilding industries. Excess shipping capacity -- particularly serious in oil carriage -- has become a more general phenomenon because of linkages between the various shipping markets. Current dollar prices for both new and second-hand ships appear to have dropped more or less continuously from 1974 through early 1978, and these declines in prices would be even more marked in constant dollar terms. In shipbuilding, OECD forecasts indicate that a two-thirds reduction in capacity and a one-third reduction in manpower will be necessary to equate world supply and demand for new ships in 1980. Despite the need for structural readjustment in shipbuilding, governments have been reluctant to reduce capacity, and in many cases have increased subsidies in an effort to keep shipyards busy.

The implications for Canada of the current market situation in world shipping and shipbuilding are that "bargain" ship prices and low freight rates can be expected for some time to come. The Canadian shipbuilding industry, however, faces probable reductions in capacity, with associated difficulties for labour and other resources employed in the industry. These are implications of substantial significance for the present economic evaluation of Canadian deep-sea shipping options.

Canada's Deep-Sea Trade and Shipping Industry

Trade carried by deep-sea shipping accounts for roughly 30 per cent of the value of Canada's international trade. Our deep-sea trade is dominated by bulk movements; we are, for instance, the third largest user in the world of dry-bulk export tonnage.

Although less than 2 per cent of Canadian deep-sea tonnage is carried in Canadian-flag vessels, a careful distinction has to be made between participation of Canadian-flag shipping in deep-sea trades and Canadian control of and participation in deep-sea shipping. Large Canadian users of dry-bulk and near-bulk tonnage effectively "control" their shipping requirements through contracts of affreightment or time chartered tonnage. Several of these organizations have shipping subsidiaries which engage in cross-trading as well as meeting company requirements, and which primarily use chartered tonnage registered under foreign flags. Canada also has some large independent shipping companies which own or charter substantial volumes of tonnage registered under foreign flags.

COMMERCIAL ANALYSIS OF CANADIAN DEEP-SEA SHIPPING

The commercial and economic analyses were based on a consultants' study (The Alships Report), which examined the costs and revenues associated with providing deep-sea shipping services under the following four options:

- Option 1: Foreign shipping services
- Option 2: Canadian chartering of foreign-flag vessels
- Option 3: Canadian ownership and operation of vessels constructed in foreign shipyards
- Option 4: Canadian ownership and operation of vessels constructed in Canada.

The costs and revenues associated with operating vessels under each of these options were estimated for 23 different trade routes. Approximately 50 per cent of Canada's bulk and neo-bulk trade, 80 per cent of our container trade, and a small proportion of our break-bulk trade were carried on these 23 routes.

The commercial analysis involved simulating the purchase, financing and operation of a representative vessel under each of the four options on each of the selected trade routes over a 20 year period and estimating the after-tax cash flow accruing to the equity investor in each year. In order to simulate these operations, the consultants obtained estimates of both cost variables (operating, equity, financing, taxes) and revenue variables (future freight rates, load factors). Results were presented in the form of net present values of the cash flows.

The results of the consultants' analysis were based on a number of assumptions, some of which were tenuous at best. Among the principal limitations of the study were the following:

- (1) The commercial analysis reflected long run or equilibrium conditions in world shipping and shipbuilding markets and the current market situation was ignored. Thus, the estimates of new vessel prices used in the analysis were based on 1976 cost recovery levels for European shipyards, despite the fact that Japanese prices for new ships at the time the analysis was undertaken were estimated to be 15 to 39 per cent lower. Moreover, available information indicates that new ship prices have dropped between 1976 and early 1978. The consultants' assumption may have been appropriate if the current problems of the shipping and shipbuilding industries were temporary in nature, but the evidence indicates that these problems are structural and long-run in character.
- (2) The time chartering option (Option 2) was nevertheless assumed to be able to take advantage of low prices for new ships in 1976 rather than 1976 vessel prices reflecting cost-recovery

in European shipyards. This assumption was responsible for the finding that time chartering was the lowest cost of all options on all routes.

- (3) An analysis of the methodology used to derive the market freight rate estimates indicated little confidence could be attached to these predictions.
- (4) The routes chosen for analysis were artificial, in the sense that they did not fully capture possibilities for maximizing vessel utilization by servicing non-Canadian trade. When coupled with the unreliability of the revenue forecasts and assumed labour costs which were higher than those of many foreign-flag operators, this neglect of "cross-trading" opportunities contributed to very puzzling results. Thus, the consultants estimated that 11 out of 23 routes would be unprofitable under all options, despite the fact that foreign-flag vessels under Options 1 and 2 presently service these trades.
- (5) The consultants estimated that the Canadian-flag options would be commercially viable on several routes, but would still require financial assistance in order to compete with foreign shipping services.

As a result of these limitations, it proved necessary to rework the commercial analysis. This was accomplished by assuming that the freight rates facing the Canadian-flag options would reflect the cost-per-ton of operating foreign flag ships, allowance being made for a "normal" profit on equity. This adjustment enables the costs of the Canadian-flag operations (Options 3 and 4) to be compared with the costs of foreign-flag operations (Options 1 and 2) without confusing the analysis with questionable and potentially inaccurate revenue forecasts. It also avoids the problem introduced by cross-trading opportunities, since by comparing options solely on the basis of costs, it is implicitly and appropriately assumed that all options can take equal advantage of the opportunity to lift cargo on routes other than those being examined. Use of this adjustment, involves making the assumption, however, that the international shipping market is competitive, i.e., that exit and entry from the industry tends to keep freight rates in the long run at a level such that only "normal" profits are earned by foreign shipping operators under Options 1 and 2.

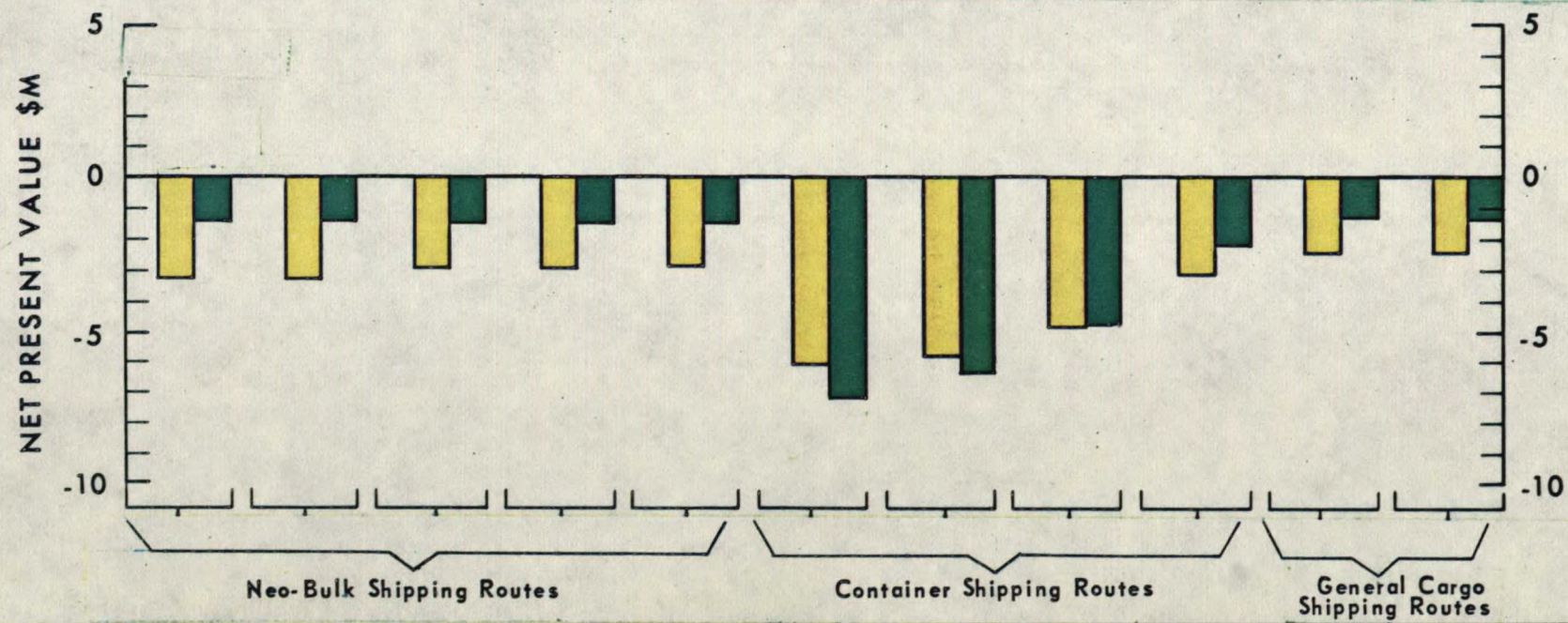
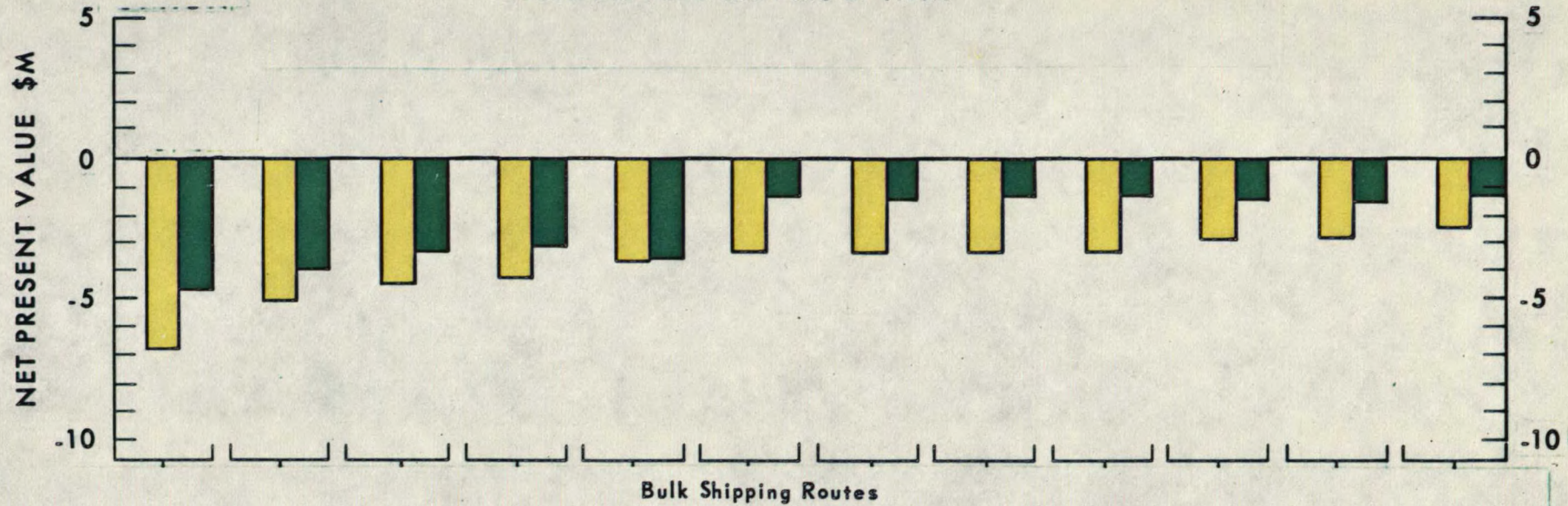
Figure 1 indicates the commercial losses estimated to be incurred by Canadian-flag operators if they were to compete with foreign-flag services on each of the 23 routes identified in the consultants' report. It should be noted that these results, which indicate that Option 4 (Canadian operations with Canadian-built vessels) would be less costly than Option 3 (Canadian operations with foreign-built vessels) apply only to the case where new vessels are available at prices which reflect 1976 cost recovery levels in European shipyards. Under such circumstances, the effects of the Canadian shipbuilding subsidy and the favourable capital cost allowance allowed to Canadian-flag operators of Canadian-built vessels reduce the private losses under Option 4 below the losses under Option 3. If it is assumed that Option 3 can take

Fig. 1

OPTION 3
(Foreign-built vessels)

OPTION 4
(Canadian-built vessels)

ESTIMATED NET COMMERCIAL LOSS OF
CANADIAN-FLAG SHIPPING OPTIONS



advantage of lower vessel prices identified by the consultants as being available in 1976, and that the freight rates facing both the Canadian options reflect these low prices, the use of Canadian-built vessels under Option 4 generates commercial losses which are substantially larger than those generated using foreign-built vessels under Option 3.

ECONOMIC ANALYSIS - METHODOLOGY

The commercial or financial analysis presented above focussed on the question of whether an investment in Canadian-flag options would take place given the existing institutional environment (level of taxes, subsidies, etc.). The results of this analysis could be substantially altered by changes in Canadian government policy. The economic analysis presented below is designed to answer the question of whether it is in Canada's economic interests that an investment in Canadian-flag options should take place. In contrast to the commercial assessment, the economic results are independent of changes in Canadian government policy.

This economic perspective, which involves focusing on the real resource implications of replacing foreign shipping services with Canadian-flag options, can be incorporated by making a series of adjustments to the cash flows generated in the commercial analysis.

The first step, referred to as the primary economic adjustment, involves evaluating the investment in terms of the total return to capital invested. The total return includes all revenues net of operating costs (i.e., includes all taxes paid), while the capital invested is equal to the entire vessel cost, inclusive of subsidies.

The second adjustment is termed the benefits of foreign financing and is applied to the economic analysis of Option 3. This adjustment is necessary to incorporate the advantages accruing to the Canadian economy from the concessional financial arrangements offered by foreign shipbuilders and their governments. Inasmuch as most of the capital necessary to finance newly-built foreign ships is made available at very low or negative real interest rates, the purchase of such foreign vessels can be considered as imparting a "capital gift". It should be noted, however, that while this adjustment serves to confer an advantage on Option 3 relative to Option 4, Option 3 does not benefit relative to Option 1 (the provision of foreign shipping services), since the same terms are offered to all purchasers of foreign-built vessels.

The third adjustment involves assigning a benefit equal to 15 per cent of the net foreign exchange generated by the Canadian-flag options. This adjustment, which is based on an economic argument regarding the "distorting" effect of tariffs and subsidies, is quite controversial and is not accepted by many economists. Inclusion of this adjustment thus serves to put the economics of the Canadian-flag options in a favourable light.

The fourth adjustment involves assigning a benefit related to the unemployment-reducing impact of Canadian-flag shipping investments. These labour benefits were estimated for both the labour used in ship-building as well as for the labour potentially employed aboard ship.

The former benefit was incorporated into the economic analysis of Option 4, while the latter was applicable to the assessment of both Options 3 and 4.

Given the importance of shipbuilding labour benefits in the public debate over Canadian deep-sea shipping policy, and the likelihood that individuals may well be laid off from the shipbuilding industry in the absence of deep-sea vessel construction in Canada, it was considered important to examine the labour adjustment problem in shipbuilding in some detail. This was achieved by developing a formal economic model of employment and unemployment in the Canadian shipbuilding industry. It was assumed that the construction of a deep-sea vessel would postpone layoffs in the shipbuilding industry, and that the resulting benefit could be measured by examining the economic costs associated with such layoffs. This work involved a rather considerable amount of new research, and represented, in part, an extension of the work presently being undertaken in the government of Canada on estimating the social costs of plant shut-downs.

The base case estimate of \$5,100 per man-year (in \$1976) for a shipbuilding labour benefit was derived from a very detailed examination of the alternative employment opportunities (or the absence of such opportunities) available to shipbuilding employees. Where empirical uncertainties were encountered, an attempt was made to err in the direction of producing a high value for the labour benefit. Estimates of \$3,400 per man-year and \$8,100 per man-year were also generated using more extreme assumptions.

A less rigorous approach was used to estimate a benefit for the labour used aboard ships. First, no benefit was assigned to employment in the officer category, inasmuch as there is and has been a shortage of such trained personnel in Canada that has been met in part by immigration from abroad. For the non-officer complement of ships, the benefit was set equal to the average DREE subsidy of \$8,100 per permanent job created under the Regional Development Incentives Act. Use of this more simplified approach was in part necessitated by data constraints, and in part based on the realization that the effect of creating 20 to 30 jobs for Canadians on highly capital-intensive and expensive vessels seemed likely to take on secondary importance to the other costs and benefits evaluated in the economic analysis.

ECONOMIC ASSESSMENT - RESULTS

The effects of incorporating all of the preceding economic adjustments are presented in Figure 2. Investment in any of the Canadian-flag options on each of these routes would generate net economic costs. Operations with Canadian-built vessels would involve the largest economic costs.

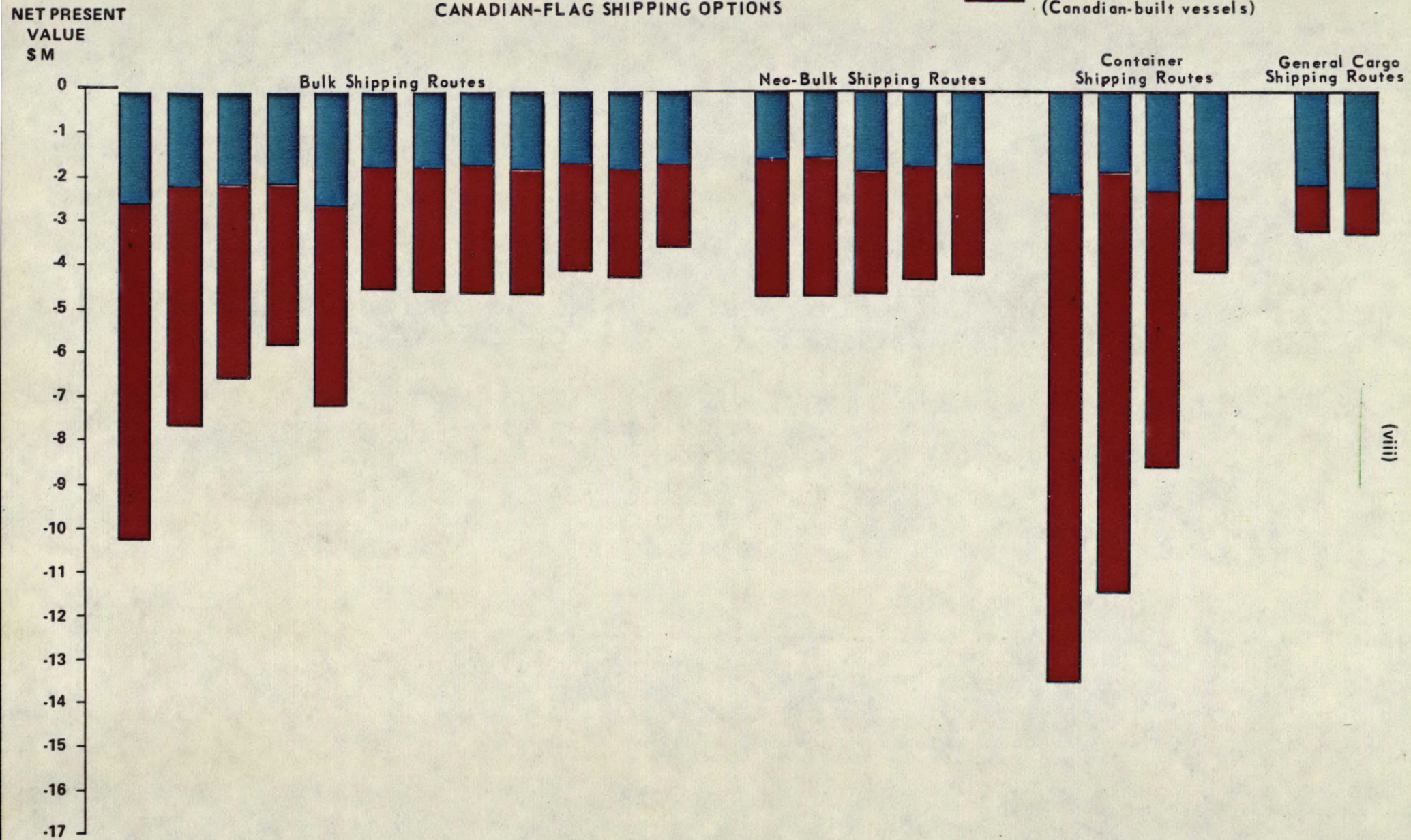
An examination of the detailed results for each route indicated that the benefits of foreign financing associated with Option 3 were approximately equal to the shipbuilding labour benefit of Option 4, while differences in foreign exchange benefits between these Canadian-flag options were relatively minor. The benefit for labour used on

Fig. 2

ESTIMATED NET ECONOMIC COSTS OF
CANADIAN-FLAG SHIPPING OPTIONS

OPTION 3
(Foreign-built vessels)

OPTION 4
(Canadian-built vessels)



board ships was the same in both options. Consequently, the primary reason for the different economic costs between Options 3 and 4 related to the higher vessel costs under the Canadian-built option.

As noted previously, the results presented above are not indicative of the current market situation, but are rather based on the premise that both freight rates and foreign vessel costs will return to cost recovery levels. In the present market, however, the Canadian-flag options would likely have to compete with vessels purchased at lower price levels. The effects of modelling this market with the lower Asian prices for new vessels identified by the commercial consultants as being applicable in 1976 are indicated in Figure 3.

In comparing Figures 2 and 3, it can be seen that the use of low vessel prices does not appreciably affect the competitiveness of Option 3, since these prices are also available to foreign ship operators, but has a substantial negative impact on the economic viability of Option 4. The implication is that there would be much greater economic costs associated with encouraging a Canadian-built deep-sea merchant marine at the present time than might be the case at a later date. An alternative, and more positive, interpretation is that it is in precisely the present circumstances that Canada benefits most from relying on foreign shipping services, since the economy gains from the availability of low freight rates and avoids incurring the costly "rescue operations" recently experienced by countries with a more substantial investment in international merchant shipping.

FURTHER CONSIDERATIONS

There is general agreement that Canada's international trade interests are best served by an efficient transportation system which provides an adequate supply of services at minimum cost. Since Canada can generally be considered to be a "price taker" with respect to both imports and exports, the burden of higher shipping costs would not be borne by our trading partners, but would fall on Canadian consumers and producers.

The assumption made in the economic analysis was that the freight rates faced by Canadian shippers are and will be predominantly determined by competitive forces in the international market. Within this framework, the economic analysis indicated that employment, foreign exchange considerations, etc., do not justify steps to promote higher cost Canadian-flag shipping. Other arguments for promoting a Canadian-flag fleet are based on the view that the above competitive assumption is invalid, and that Canadian-flag shipping is necessary to protect our trade interests.

Threats to Low Cost Shipping

The first of these arguments is that competition in deep-sea shipping is or will be reduced because of the "barrier to entry" imposed by the substantial amount of capital required to purchase ships. It is hypothesized, in other words, that shipping markets may be "natural monopolies".

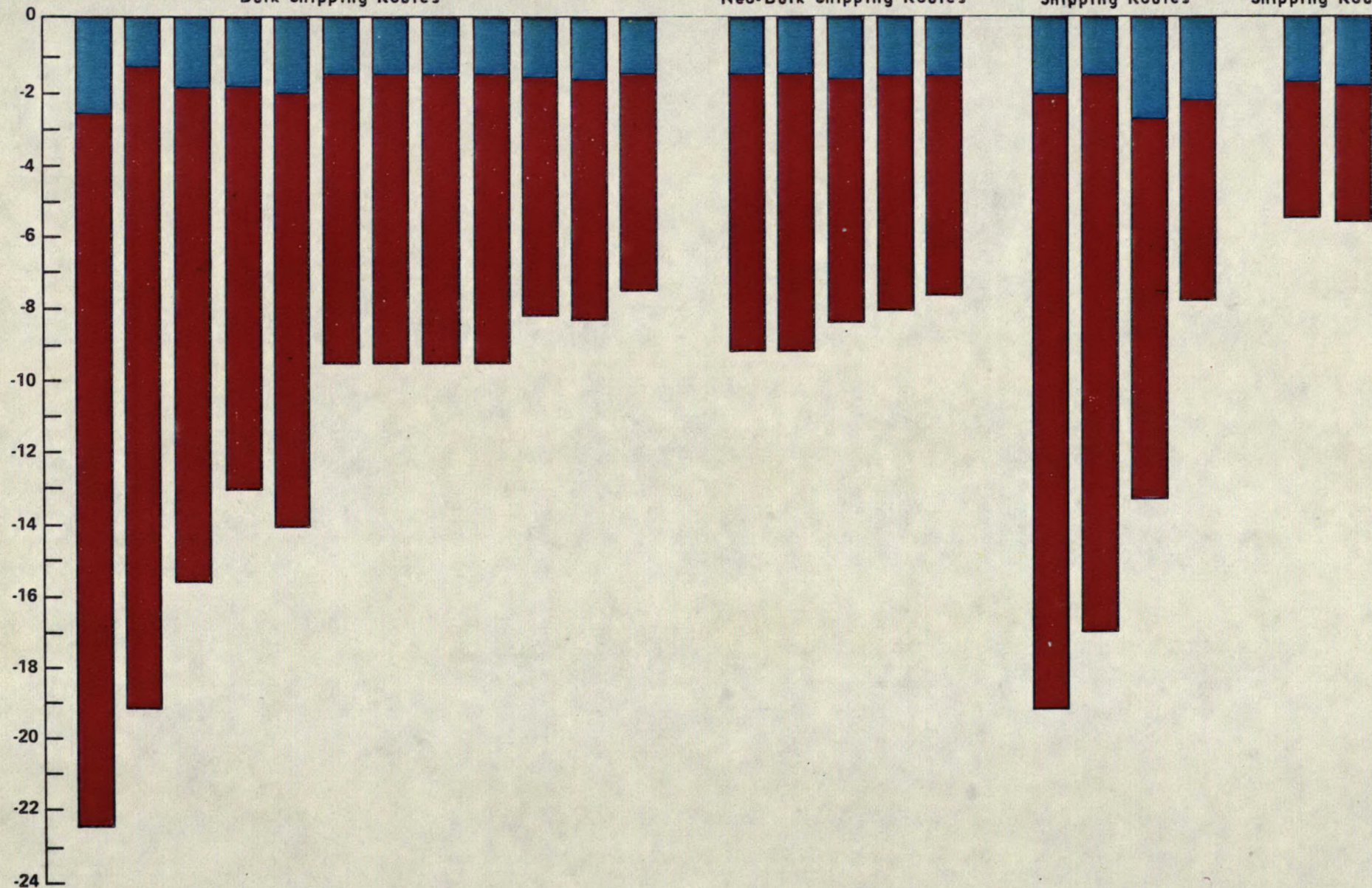
FIG. 3

ESTIMATED NET ECONOMIC COSTS OF CANADIAN-FLAG
SHIPPING OPTIONS WHEN FREIGHT RATES REFLECT
LOW FOREIGN VESSEL PRICES

OPTION 3
(Foreign-built vessels)

OPTION 4
(Canadian-built vessels)

NET PRESENT
VALUE
\$M



(x)

A second argument is that government intervention in support of national flag fleets, whether by subsidization or by cargo preference laws, is eroding the competitive nature of deep-sea shipping. The subsidization threat is believed to arise primarily as a result of the support extended to their shipping by the "state trading" or communist bloc nations. It is feared that this support will enable these fleets to eliminate their principal competitors, thereby reducing the choice available to Canadian shippers. The supply of shipping from state trading nations is also said to be subject to interruption for political purposes.

The cargo preference threat arises from two sources. First of all, unilateral cargo preference laws, which have been practised for some time by certain third world countries, are believed to represent an increasing threat to Canadian trade. Secondly, the UNCTAD Code of Conduct for Liner Conferences, if ratified, would involve a multilateral extension of cargo reservation practices. Provisions in the UNCTAD Code would permit the allocation of liner conference trade between two countries according to an agreed formula. The most commonly referred to example of such a formula is the so-called "40-40-20 rule"; 40 per cent of the liner conference trade between two countries would be reserved for each of the national-flag fleets of the trading partners and the remaining 20 per cent would be available for carriage by third country shipping lines in the Conference.

Assessment of Threats to Low-cost Shipping

Natural Monopoly and Cartelization

There is little evidence that deep-sea shipping is developing into "natural monopolies" because of the size of the investment necessary to acquire ships. These capital requirements are presently somewhat less of a problem for entry into shipping, of course, given current levels of government assistance to shipbuilders and exceptionally low prices for many new and second-hand vessels. Nor have capital requirements in the past prevented rapid expansion of capacity in shipping markets. Finally, the size of the investments necessary to enter many shipping markets cannot be associated with non-competitive behaviour. The bulk markets, for instance, are usually regarded as competitive in operation. There are cartels or "conferences" in the general cargo trades -- but these cartels are not a new phenomenon and there is little that is "natural" about them. The prices charged by these cartels are nevertheless restrained by non-conference competition, which accounts for about 60 per cent of tonnage in Canada's general cargo trades.

The assumption adopted in the present analysis -- that Canadian deep-sea shipping markets are for the most part competitive in economic organization -- would therefore seem to be broadly supported by the evidence.

Government Intervention

In assessing the threats to low-cost shipping posed by government intervention in deep-sea shipping, it is important to review historical trends in flag registration for the world fleet as a whole and for vessels engaged in Canadian trade.

Figure 4 indicates the percentage shares of deep-sea tonnage registered in various country groups in the period 1970-77. It can be seen that by far the most significant development in this period has been the growth of fleets registered in flag-of-convenience countries, and that this growth came primarily at the expense of the share of the world fleet held by the OECD countries. In contrast, the share of the state trading nations remained virtually static over the period studied, while the share of the third world countries increased only marginally.

A more detailed analysis of the principal categories of shipping confirmed the trend towards unregulated, competitive shipping observed in Figure 4. Indeed, this analysis indicated that the increase in the share of flag-of-convenience fleets over the period 1970-77 has been greater than that of any other shipping bloc in all major shipping categories -- oil carriers, ore and bulk carriers, general cargo and container ships.

Figure 5 provides data on the share of the various shipping blocs in tonnage actually carried in Canadian trade over the period 1970-77. The principal facts of interest which emerge from the figure are the virtual constancy of these shares over time and the relatively small shares of the state trading and third world countries.

Turning to assessment of the threats to low-cost shipping posed by government intervention in shipping, subsidization by foreign governments of national-flag shipping would, in general, seem to benefit Canadian trade. Shipping from the state trading nations, which is alleged to practise "predatory pricing" with the aid of government subsidies, would also appear to present no particular problems for Canadian trade.

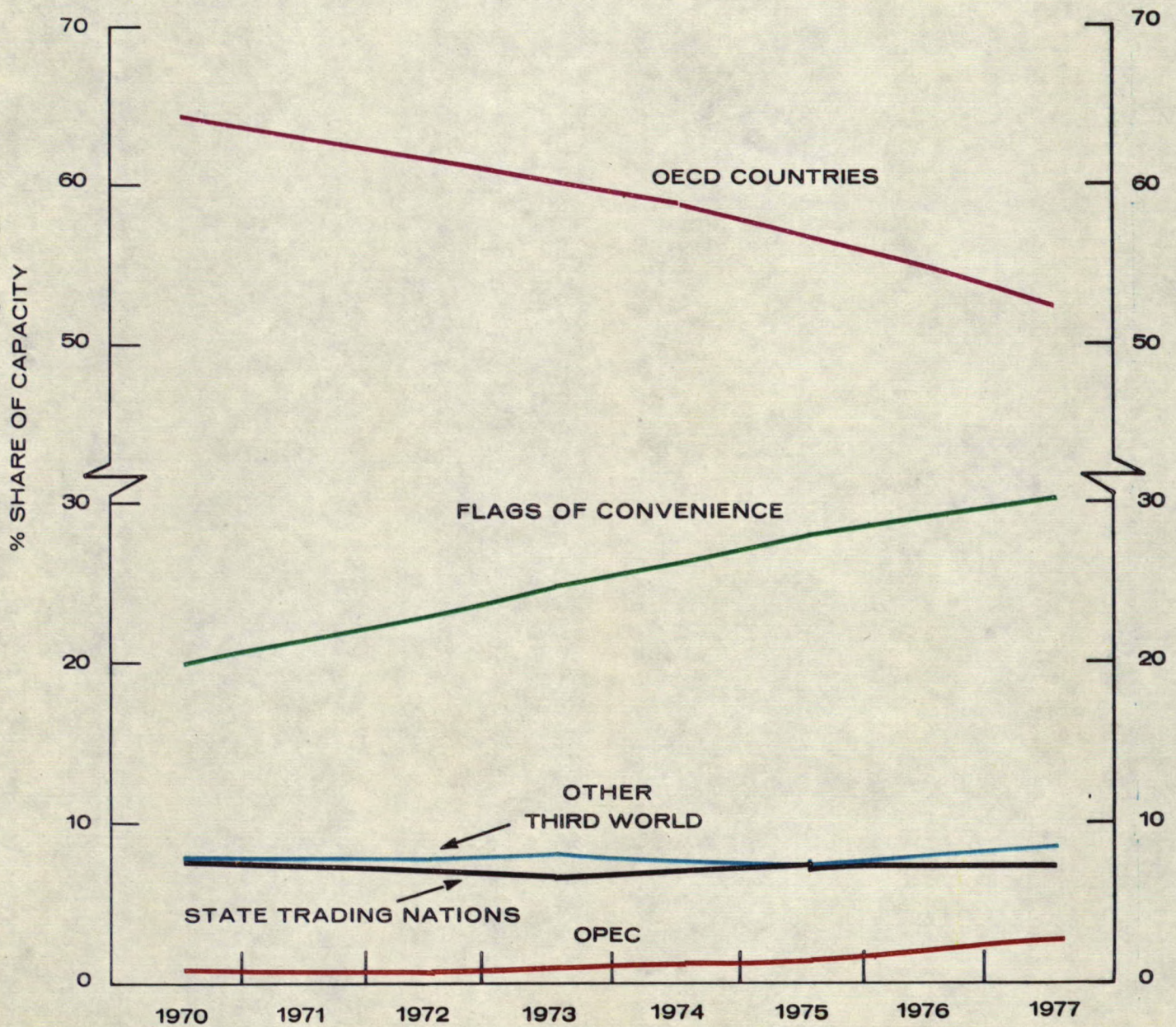
Shipping from state trading countries has accounted for a small and stable share of tonnage carried in Canadian trade over time. Roughly 75 per cent of the tonnage involved consists of cargoes destined to or originating in these countries. In the event of serious political difficulties with the state trading nations, the availability of their shipping services would seem to be a less significant issue than continuation of the trade itself. Withdrawal of state trading fleets from Canadian trade with other nations would seem to be both unlikely and an ineffective political weapon, given the availability of alternative shipping services.

While unilateral and bilateral cargo reservation policies have been practised for some time by several third world countries, there is little evidence that this represents a general or a growing problem. As can be seen from Figures 4 and 5, the share of the world fleet and the share of Canadian trade represented by the third world fleet are both small and have remained relatively stable over the last 8 years.

Cargo reservation practices are, however, undoubtedly serious for individual Canadian exporters or importers. While the number of complaints about such practices is not large, and arises primarily in connection with trade with particular South American countries, the potential for disruption of trade by these measures clearly warrants

FIGURE 4
ALL TRADING VESSELS

PERCENTAGE SHARE OF GROSS TONNAGE BY COUNTRY GROUPING

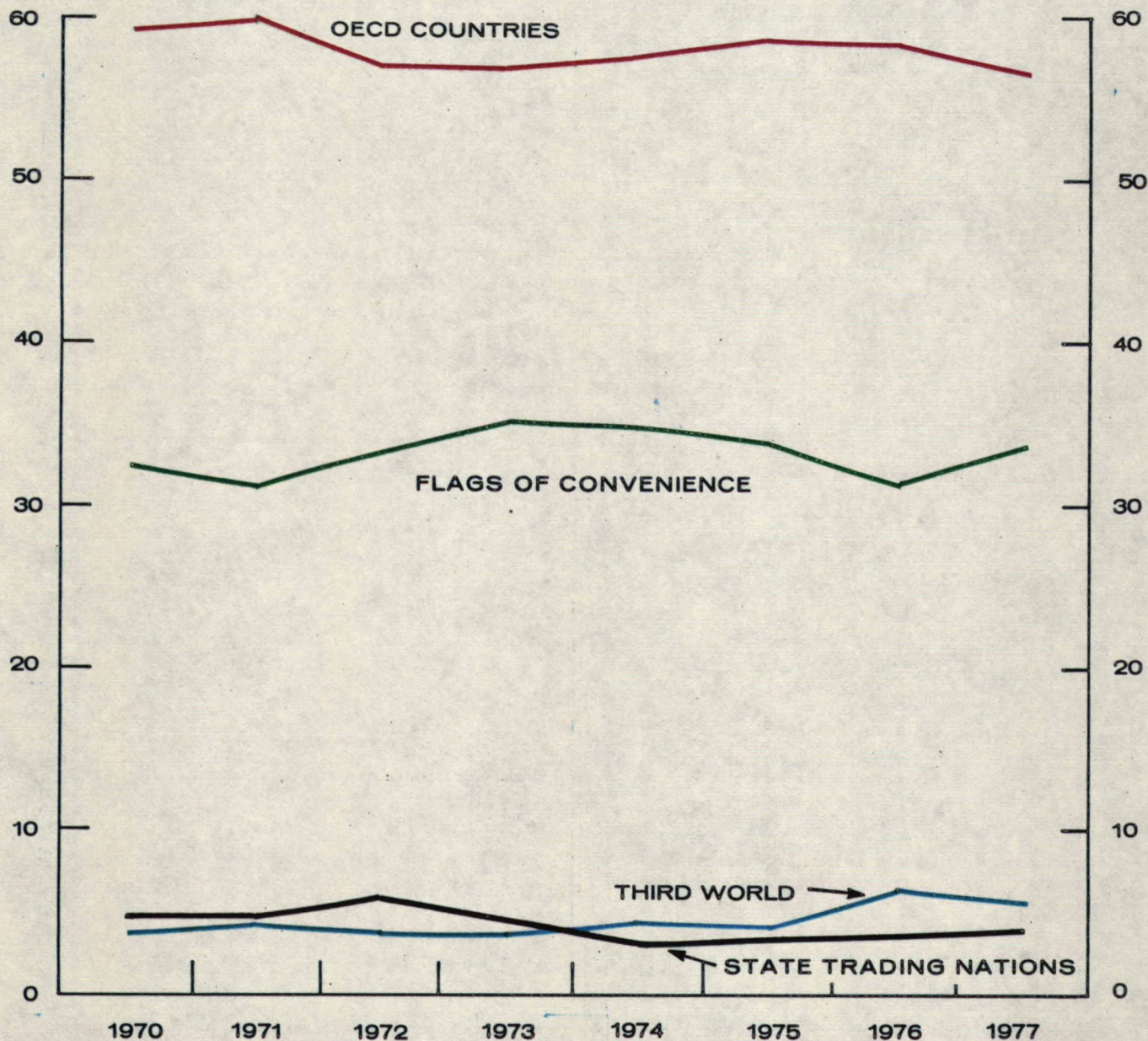


Source: Table E-1

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FIGURE 5

PERCENTAGE SHARE OF CARGO (TONNAGE)
CARRIED IN CANADIAN DEEP-SEA TRADE BY COUNTRY GROUPING *



* Excluding cargo carried by Canadian and USA vessels.

Source: Shipping Report, 54-202, Statistics Canada.

attention. Cargo reservation measures are usually adopted to protect higher-cost shipping, and these measures have been shown to disrupt trade.

Until quite recently, the probability of the UNCTAD Code of Conduct for Liner Conferences coming into effect appeared rather small. The recent proposal of the Commission of the European Economic Community that members of the Community might accede to a modified version of the Code (effectively exempting intra-EEC trade from the cargo-sharing provisions), however, raises the possibility that the Code may come into effect.

The practical effect of ratification of the Code on Canadian trade would depend on whatever modifications might be made in the specific clauses relating to cargo preference. There is a possibility, for example, that the proposed exemption of intra-EEC cargoes could be extended to the OECD as a whole. It is also important to note that the Code applies to liner conferences, which only carry about 40 per cent of Canadian general cargo tonnage. It is reasonable to expect that non-conference shipping would continue to moderate the extent to which conferences could raise freight rates in Canadian trade even in the event the UNCTAD Code were ratified.

The possibility that the UNCTAD Code would come into effect is, nevertheless, not one that can be regarded with equanimity. The Code promises to combine some of the worst features of cartels and cargo reservation: freight rates would likely be set to cover the costs of the most inefficient conference members who would be guaranteed entry by virtue of cargo reservation. The Code could, therefore, have a significant effect on freight rates on some of the lower volume Canadian general cargo routes dominated by conferences. The possibility that international ratification of the Code might lead some governments to extend cargo reservation to non-conference general cargo shipping and even bulk shipping is also an obvious source of concern.

Implications for Canadian Policy

There is some doubt as to the seriousness of threats to low-cost shipping in Canada's deep-sea trade. Substantial excess capacity in shipping and shipbuilding, which is expected to continue for the foreseeable future, would indicate the continued availability of shipping at competitive prices. The recent substantial growth of flag-of-convenience shipping could be expected to have similar effects.

The imposition of foreign cargo preference policies would appear to be the most serious shipping problem that could affect Canadian trade. Widespread movement towards cargo reservation would have serious implications. An additional layer would be added to existing international barriers to trade--one which would tend to move countries in the direction of bilateral trading arrangements. Inasmuch as Canada's interests lie in ensuring the maintenance of a freer international trading framework, there is, therefore, a need to take steps to ensure that a low-cost deep-sea transportation environment is maintained.

The specific problems posed by unilateral and bilateral cargo preference laws should be examined in the context of other international trade problems, and dealt with in an analogous fashion. Diplomatic efforts should be used to oppose the unilateral imposition of cargo preference laws, using the political, trade and aid levers at the disposal of the Canadian government. If countries insist on reserving a specified portion of cargo, Canadian policy should be directed towards maximizing the non-reserved portion and ensuring that this portion is carried by low-cost carriers.

It is difficult to envisage circumstances under which encouragement of Canadian-flag shipping would represent an appropriate policy response to cargo reservation practices of other nations. The preceding analysis has indicated that Canadian-flag services could not be operated profitably without increased government assistance and would involve an uneconomic use of resources in any event. The existence of some potentially high-cost shipping as a result of foreign cargo preference laws does not imply that introduction of high cost Canadian-flag shipping would represent an improvement in the situation. Canadian trade with those third world countries which employ cargo reservation practices is generally not sufficient to provide for full utilization of a vessel. In order to justify Canadian-flag options on any of these routes, the freight rates on the Canadian cargo alone would have to rise sufficiently to offset the economic costs incurred in operating over the entire route, including the cross-trades necessary to provide for full utilization of the vessel. Such circumstances are rather unlikely to be observed in practice.

While the original purpose of the UNCTAD Code -- protection of the interests of shippers -- would have been in Canada's interests, the present thrust of the Code is contrary to Canada's efforts to promote a freer international trading environment. Canada's opposition to the cargo sharing provisions of the UNCTAD Code should be forcefully stressed. Consideration of the Code could also provide a suitable opportunity for reassessment of the present exemption of shipping conferences from Canadian anti-combines legislation. The existence of these cartels has always been controversial, and many of the possible adverse effects of the UNCTAD Code on our trade would arise because the powers of these cartels would be strengthened. In the event that the Code were to come into effect, Canada's objective should be to ensure that the largest proportion possible of our trade is carried by low-cost carriers. A variety of options relating to the non-reserved portion of our trade and to the possible designation as Canadian carriers of third country vessels (whether or not under charter) could be pursued.