

STATEMENT OF RICHARD F. WALSH, ACTING DIRECTOR, OFFICE OF MARINE TRANSPORTATION, U.S. DEPARTMENT OF TRANSPORTATION, BEFORE THE HOUSE MERCHANT MARINE AND FISHERIES COMMITTEE, MERCHANT MARINE SUBCOMMITTEE, CONCERNING THE UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT (UNCTAD) PROPOSED CODE OF CONDUCT FOR LINER CONFERENCES, APRIL 26, 1979

Mr. Chairman and Members of the Committee:

I am pleased to have this opportunity to present the views of the Department of Transportation on the UNCTAD Code of Conduct for Liner Conferences.

Adoption of the UNCTAD Liner Code would have serious implications for U.S. ocean shipping policy, for the U.S. flag liner industry, for U.S. foreign traders and U.S. consumers, and for overall U.S. foreign policy.

Next month in Manila at UNCTAD's fifth session the Code of Conduct for Liner Conferences will be an item of discussion. In the past, UNCTAD's debates on ocean shipping have tended to stress the theme that the developed countries, by virtue of their economic dominance and the conference system, have denied the developing countries opportunities to build up their own merchant shipping capabilities. Inasmuch as nations have, historically, tended to identify their overall national interests closely with the fortunes of their liner fleets, UNCTAD's initial focus was, understandably, directed to this sector. Thus, even though liner traffic accounted for only 20 percent of

experiences with pooling and equal access agreements, such as currently exist in some U.S. - Latin American trades.

Nevertheless, it is clear that the U.S. cannot ignore the portents of recent developments concerning the Code. At this juncture, it appears that the European Economic Community (EEC) and Japan may accede to the Code in the near future. If they do, their combined tonnage would be sufficient to bring the Code into force. The EEC's accession would, however, be subject to a reservation which essentially would make the Code's provisions applicable only to trade between the developed and developing countries. Crosstraders of developing countries would be guaranteed access to trade between developed countries. Barring any surprises we should anticipate that the EEC will announce its decision to adopt the Code in May.

The likely near term effects of the Liner Code, once it comes into force, are difficult to predict since it would only apply to those countries which adopt it, subject to their reservations. Currently, about a third of our foreign liner trade is carried in U.S. flag vessels. However, U.S. liners engage in little crosstrading compared to many other developed countries. Our major trading partners are other mature economies rather than developing countries.^{1/}

^{1/} The charts attached to this testimony show major trading patterns and U.S. flag liner participation.

concept of government impelled cargo as we know it in the U.S. Also, the Code limits general rate increases to one every 15 months. The rigidity of this restriction would likely fuel inflationary pressures by forcing shipping firms to anticipate future inflation in their current rates. Other obvious disadvantages include a more restricted choice of services for shippers and the dampening effect that reduced competition would have on incentives to both technological and service innovations.

For the long term, we will want to examine the implications for U.S. liner policy of the emerging cargo sharing in international ocean shipping that is reflected in the provisions of the Code. The open U.S. trades and conference system would be particularly vulnerable to excess capacity of third flag carriers in an international ocean shipping environment that is otherwise characterized by restrictive cargo sharing arrangements. We will be following these matters very closely.

The UNCTAD Liner Code would apply only to the liner conferences, which in total carry only about a fifth of the world's trade. It would not apply to the carriage of bulk commodities, and its reach could be further limited by reservations regarding government impelled military cargoes.

and of the increasing importance of intermodal services in both inland and ocean transportation. Any move, therefore, towards greater reliance on non-market forms of cargo allocation and the inevitable rigidities and inefficiencies that result therefrom, should be approached with the greatest caution.

As the world's largest trader, no country has more at stake in ensuring a stable, efficient international shipping system than the U.S. In this connection the Department of Transportation has been an active participant in the current interagency review of maritime policy. As evidence of this interest, and in an effort to understand and contribute to the resolution of problems in this area, Secretary Adams has created the position of Assistant Secretary for Marine Transportation.

This concludes my prepared statement. I will be pleased to try to answer any questions you may have.