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Transportation by Steve Parsons

Price war takes shipping toll

North Atlantic business is contracting for U.S. companies as the recession cuts trade.

Farrell Lines, a leading American-owned shipping company, announced last week that it is terminating service between the United States and northern Europe because of a sharp decline in rates and a contraction in trade volume that has made this part of its business "unprofitable to Farrell." Farrell is the second U.S.-based shipping line to withdraw from the North Atlantic trade in recent months.

In September, Seatrain Lines announced that it was turning over six large container ships that had been plying the North Atlantic route, as well as 7,000 containers, to New Jersey-based Trans Freight for $28.5 million.

Trans Freight is one of the subsidiaries of the Australian transportation conglomerate, Thomas Nationwide Transport. Farrell is selling or trading in five of the container ships in its fleet to the federal government.

The North Atlantic shipping business, which includes trade between the U.S. East Coast ports and ports in France, Britain, the Netherlands, Belgium, West Germany, and the Scandinavian countries, has been hit by a pricing war this year. The volume of European exports to the United States has sharply declined due to the U.S. recession, while the beginnings of an economic slowdown in Europe have also affected U.S. exports to Europe.

Even before 1980, however, the volume of U.S.-European trade was proving insufficient to accommodate all the shipping companies competing for the business. Foreign shippers, especially British- and Australian-owned companies, appear to be emerging as the major beneficiaries of the current pricing war, to the detriment of American-flag lines.

The present crisis erupted in February when Seatrain Lines dropped out of the North Atlantic conference, a rate-setting organization for the industry to which most of the major companies belong. Seatrain, a New York-based conglomerate which nevertheless uses Belgian-flag ships, began to slash its rates—apparently with the aim of increasing its market share. The North Atlantic conference permitted the remaining members to take independent pricing actions.

As a result, rates on westbound cargoes tumbled this year by as much as 45 percent.

However, U.S.-flag shipping is not simply the victim of the recession and cutthroat competition. In virtually every other major country, the national shipping industry is heavily subsidized and nurtured by the government; in the United States, a "free trade" policy has prevailed.

In the view of George Lowman, chairman of Farrell Lines, the federal government is not subsidizing the industry "to the point of parity." U.S. -built ships are generally more expensive than foreign-built ones because of higher materials and labor costs, aggravated by years of underinvestment in shipbuilding capacity.

Existing subsidy levels, Lowman believes, do not permit the U.S. industry to compete effectively with the less costly foreign ships. The U.S. industry has also been hurt by the Justice Department's strict enforcement of anti-trust laws, which have not been extended to the industry's foreign-owned competition.

A complicating feature is the recent establishment of an international shipping industry code by the United Nations Commission for Trade and Development (UNCTAD).

This code, which specifies that at least 40 percent of a given country's trade be carried in ships owned by citizens of that country, was ostensibly designed to aid developing countries.The code has already been endorsed by 45 to 50 countries, but not by the United States, with the possibility that an even greater share of U.S. trade will be lost to foreign-owned companies.

The real issue here is not that foreign-owned shipping is inherently evil but that the U.S. republic may be losing control of an area which will be critical if this country is to adopt a serious reindustrialization strategy, based on expanding exports—particularly capital goods exports—to the developing sector. The foreign-owned companies attempting to emerge on top in the current shakeout may be hostile to such a reindustrialization strategy, particularly those which are linked to various anti-industrial British and British Commonwealth banking and insurance interests.

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