

from the Third World, while making more funds available for international lending "to carry significant trade deficits for some years and make efforts to encourage industrialization." Perhaps not accidentally, the *Wall Street Journal* — which leaked the story of Hauge's letter — carried an editorial entitled "Third World Debt" in its June 7 issue which also insisted that liberalized trade and capital flows to the Third World would solve the debt problem.

Discussions with Citibank officials, meanwhile, confirm that there is a growing rift between Citibank, on the one hand, and Bank of America and the other "project-oriented" international banks on the other. A Citibank spokesman expressed the sentiment that it is "too early" to consider institutionalizing co-financing, particularly with the World Bank, since there are "legal problems" still to be resolved. These legal questions proved to be ones concerned with "sovereign immunity"; that is, questions of whether the bank has the authority to seize a borrower's assets in the event of a default, and which creditor has priority over the others. Instead of long-term project loans, Citibank would prefer to see direct

IMF refinancing of balance of payments deficits on an expanded scale. Top Citibank official Irving Friedman has even called for increasing the stalemated Witteveen "special facility" of the IMF to \$100 billion. Clearly, Citibank strategists are fearful that if more capital is steered into actual productive projects that not enough will be left over to bail out their holdings in the "lower tier." Citibank's chairman failed to even attend the Tokyo conference, and the bank sent only one observer to what they considered a "West Coast-dominated" gathering.

The banking policy fight has even spread to the World Bank itself where, according to *New York Times* columnist Clyde Farnsworth, World Bank president McNamara's staff is pushing for a "fundamental change in strategy." The McNamara faction wants to end the bank's involvement in industrial projects and concentrate on "income redistribution." By contrast, the June feature of the joint IMF-World Bank publication *Finance and Development* contains a long, feature article on the advantages of industrial project co-financing by World Bank economist Roger Hornstein.

U.S. Maneuvers To Cut In On World Shipping Collapse

SHIPPING

The depression in world shipping threatens to reach breakdown proportions this year. A growing surplus of oil tankers, given the reduction in oil consumption since 1974, is putting governments of major shipbuilding countries in a squeeze. They can continue to provide subsidies, and cheap credit to shipowners, resulting in greater surpluses of tonnage, lower chartering rates and subsequent defaults on tanker loans, or begin to dismantle their shipbuilding industries.

Inactive and laid-up oil tankers accounted for about 4 percent of the tanker fleet in February 1975. By March 1976 there were 48 million Dead Weight Tons (DWT) of tanker shipping capacity inactive. This was 17 percent of the existing fleet. The severe winter of 1976-77 improved the situation slightly, reducing inactive tonnage to 28.8 million DWT in February 1977. The trend towards large surpluses is continuing with 30.2 million DWT inactive in March; and 31.9 million DWT inactive in April. These figures however, are only the first indications of a year that promises to be the worst ever for oil shipping.

1976 saw large oil stockbuilding by oil import nations, resulting in a 7.3 percent rise in petroleum trade. No such increase is foreseen in 1977, without the implementation of a new world economic order. In addition, the opening of the Iraq-Turkey pipeline, the newly available Alaskan and North Sea crude and a more moderate winter will further reduce oil trade. When these factors are

examined and added to a heavy tanker delivery schedule and limited scrapping for 1977, one can see why the London publication, *Shipping Statistics and Economics*, sees tanker surpluses reaching 130 million DWT this year.

This surplus will be kept on the seas through slow steaming or the purposeful slowing of ship speeds. Although this has been going on for some years, there are recent indications that slow steaming hurts the engine and the hull of large tankers and it is uncertain to what extent owners will continue the practice. With mariners slow steaming, the amount of tonnage left inactive may still reach 80 million DWT — about 25 percent of the fleet. Half of this inactive tonnage will be the new ultra-large and very large carriers which require expensive maintenance programs to be kept seaworthy. Older smaller ships that may never be taken out of mothballs will also be docked.

Taking Apart Capacity

Industry analysts are now predicting that on the basis of current trends including Carter's energy program, the demand for oil tankers will fall 50 percent by 1985.

With this perspective industrial spokesmen are calling for the dismantling of much of the world's shipbuilding capacity. Most countries involved are hesitant to take any action that might result in permanent reductions in their building capacity and loss of their market share.

Planned reductions have been announced by Sweden, Denmark, West Germany, Japan, and the Netherlands. Most are marginal cuts in overtime and expansion programs. OECD nations are worried that Japan's modern shipbuilding industry will grasp a growing

percentage of what little business there is, as Japan's share of the contracts increased from 50 to 57 percent in 1976. Within Europe there is little chance of an agreement being reached on an equitable phasing down of building capacity as the competing countries scramble for the few new orders.

The biggest maverick of the OECD countries is Spain — now planning a major expansion of its fleet. In addition, the Comecon and the Third World countries are building more ships, as evidenced by Poland and Brazil who are now undertaking fleet expansion programs. The 1976 Comecon shipbuilding orderbook accounts for 16 percent of the world's orderbook as compared to 6 percent in 1970.

In April 1977 industry analysts were shocked by two developments: a flurry of new orders for large tankers, some without charter agreements in sight. These have been made by shipowners not known for speculative building but for taking advantage of generous subsidies offered by countries trying to generate business for their shipyards. The other unprecedented development was large ships entering into five-year chartering contracts at rates so low that they barely cover operating costs and leave no money for loans and interest repayments. *Shipping Statistics and Economics* sums up the predicament:

"Governments of shipping and shipbuilder nations throughout the world would do well to take note of the situation. If they do not take the necessary corrective measures (especially control of shipbuilding capacity and output) they may well find that in addition to subsidizing moribund domestic shipping industries, they will be paying for the funerals of their shipbuilders."

U.S. Role

The U.S. role in this crisis is to sanction a larger share of U.S. import trade for exclusive chartering of U.S. built ships and protect its own shipyards.

In 1950 42 percent of U.S. imports were handled by U.S. flag-ships; in 1960 11 percent, and in 1969 4.5 percent. In 1970 the U.S. Congress enacted the Merchant Marine Act of 1970 making available construction and operating cost deferral subsidies for all ships contracted to be built in U.S. shipyards. Over the past five years over 100 commerce vessels totaling 5.2 million DWT have been delivered — about half of them subsidized. Of these only 34, a small percentage of the world orderbook, were foreign trade tankers. The reason being the high cost of construction here due to obsolescence in shipbuilding technology. Today it is cheaper to build a tanker in Japan than to build one in the U.S. — with a 50 percent subsidy. The U.S. orderbook now shows 72 vessels to be built; 51 of which will be delivered in the next 18 months. The U.S. fleet consists of 547 vessels, totalling 15 million DWT, making this country tenth in the world. Its orderbook, however, is presently second only to Japan and the U.S. is expecting to move up to seventh by 1979.

The problem is, as described by Robert J. Blackwell, the assistant Secretary of Commerce for the Maritime Administration, that the orderbook of U.S. shipyards "will be seriously depleted by deliveries during the next 18 months." This, he said, could be "catastrophic," leading to the closing of two yards. Mr. Blackwell, however, is optimistic for a number of important reasons.

Oil is expected to start flowing through the Alaskan

pipeline in August 1977 creating a surplus of 500,000 barrels a day on the West Coast by next year and 925,000 barrels a day by 1985. Most of this will have to be shipped to the Gulf Coast. This will be done exclusively by U.S.-built ships.

Secondly, the U.S. is planning to build strategic oil reserves to be stored in salt domes on the Gulf Coast. Carter's present plans call for a 500 million barrel reserve by 1982 and a 1 billion barrel reserve by 1985. By law 50 percent of this oil must be carried by U.S. flagships. This year imports will provide work for 1 million DWT of U.S. tankers.

Thirdly, there are presently in Congress three bills which would establish preference requirements for shipping of U.S. oil imports.

The most well-known, sponsored by Congressman John Murphy, calls for 20 percent of oil imported to be shipped on U.S. tankers and specifies that this be increased to 25 percent by 1978, and 30 percent by 1985. The Murphy bill is identical to legislation passed by Congress but vetoed by President Ford in 1974.

Last year only 4 percent of U.S. imported oil was carried by U.S. flagships. The shipping industry estimates that ships could be built fast enough to increase that to 11 percent by 1980 and 30 percent by 1985.

Finally, there is the tanker safety legislation. The Bill that has gotten farthest is one sponsored by Senator Warren G. Magnuson, Chairman of the Senate Commerce Committee. Like the tabled Kennedy bill for tanker safety it calls for double hulls, segregated ballast, redundant propulsion and other safety navigational equipment as part of all ships that dock in U.S. ports. In addition the bill specifies liability charges for accidents.

Much to the dismay of all other interests in world shipping, Blackwell is predicting the passage of these bills.

Norwegian Ambassador to the U.S. Soren Summerfelt warned that U.S. flag oil preference requirements "could create the most serious consequences for international shipping and trade." He said it would raise fuel prices, aggravate the tanker surplus problem and hurt the American consumer. He also pointed out that U.S. flag tankers are generally much older than their foreign flag counterparts and preference would result in more spills. His complaints were echoed by the Earl of Inchape in an address to the General Council of British Shipping. The Earl called U.S. specifications unnecessarily complex and blamed the situation on "pressure by environmentalists."

The tanker safety bills have brought angered responses from the United Nations shipping agency (IMCO) and the U.S. Coast Guard.

IMCO contends that "unilateral action by the U.S. would throw the worldwide battle against unsafe shipping into disarray." IMCO was planning a worldwide conference early next year but fears if the U.S. tries to go it alone other countries will break rank. Blackwell says the strength of U.S. public opinion since the rash of spills last winter would not allow the U.S. to wait for the IMCO.

The idea that these measures are aimed at a U.S. protectionist policy presently detrimental to world trade is underlined by criticism from other quarters. The U.S. Coast Guard points out that double hulls and some of the other "safety" measures prescribed actually will make ships more dangerous and spills more likely. The Coast Guard for years has been a major advocate for the only

real solution to the safety problem — off shore deep water ports. The U.S. is, as we know, the only major industrial country without such ports, thereby excluding the use of the newest and most modern tankers for U.S. oil imports.

Other critics point out that tanker treaties with other countries have sat in the Senate for years unsigned.

Rounding out a well-planned offensive against foreign

shipowners is a Justice Department study, released a few months ago, charging that shipowner "conferences" or agreements regulating rates and other aspects of world shipping violate U.S. anti-trust laws. Foreign shipowners are now expecting indictments and are saying: "It's time the U.S. understands it cannot rule over world shipping."

U.S. Demand For Protectionism— A Cover For Industrial Backwardness

STEEL

The American Iron and Steel Institute's white paper on the "Economics of International Steel Trade," the industry's keynote statement on protectionism, charges that the Japanese and to a lesser extent the Western Europeans have the advantages of a modern steel industry whereas U.S. steelmakers have allowed their industry to sink into obsolescence. The study released last month lists three main elements of the development of the Japanese steel industry which have placed Japanese steelmakers in an advantageous position vis-a-vis U.S. producers and which, the study argues, have led to wide-scale dumping on the U.S. market:

"First, the steel industry was provided with enormous capital inputs, primarily in the form of debt. Second, the Japanese steel industry benefited from a rapidly expanding production volume which permitted modern capacity additions and scale economies and hence, the lowest possible operating costs. Third, government and business have worked together to maintain high operating rates in order to maintain Japan's cost competitiveness in steel and to protect the steel industry's highly leveraged financial position."

While the AISI's report declares that the Japanese capital investment in steel is based on high exports and the dumping of its steel on the U.S., what the report actually makes clear is that the cries for protectionism issuing from the U.S. steel industry are attempts to cover for its extreme backwardness. The steel industry has followed a policy of no capital investment and underspending on maintenance and repairs. Industry demands for freedom from environmental regulations and tax concessions do not remedy the fact that the steel industry is running its plant into the ground.

Secondly, the calls for increased labor productivity to match Japanese steel are equally spurious. The nearly three-fold increase in productivity in the Japanese steel industry over the last decade was achieved by the introduction of modern machinery; the standard of living of Japanese workers and hence their productivity continued to lag behind U.S. workers. U.S. steelmakers now think they can compete with the Japanese by accelerating the trend of destroying labor power, the U.S.

producers' one remaining asset.

Over the long-term, the number of workers has declined significantly, while raw steel output increased marginally. Between 1956 and 1976 employment shrank from 621,000 to 454,000; the number of production workers declined from 509,000 to 339,000. Under conditions of a declining workforce, and aging plant and equipment, the stagnant level of U.S. steel output could only have been maintained through speed-up.

Raw Steel Production¹						
(in millions of net tons)						
	USA	Japan	EEC(9)	Rest of Free World ²	Red Bloc	Total
1950	96.8	5.3	53.2	13.3	39.2	207.8
1951	105.2	7.2	59.0	14.7	44.7	230.8
1952	93.2	7.7	64.4	17.4	50.0	232.7
1953	111.6	8.5	63.2	19.8	55.2	258.3
1954	88.3	8.5	69.0	20.4	59.5	245.7
1955	117.0	10.4	80.3	24.0	65.5	297.2
1956	115.2	12.2	85.7	28.0	69.7	310.8
1957	112.7	13.8	90.4	25.1	79.7	321.7
1958	85.3	13.0	86.0	25.5	88.8	298.9
1959	93.4	18.3	92.6	30.2	102.7	337.2
1960	99.3	24.4	107.9	34.1	115.9	381.6
1961	98.0	31.2	105.9	37.9	117.1	390.1
1962	98.3	30.4	103.9	41.1	120.4	394.1
1963	103.3	34.7	106.4	51.7	126.1	422.2
1964	127.1	43.9	121.2	51.0	135.8	479.0
1965	131.5	45.4	125.5	54.7	146.0	503.1
1966	134.1	52.7	121.5	57.3	153.5	519.1
1967	127.2	68.5	126.3	60.0	165.6	547.6
1968	131.5	73.7	138.2	65.5	173.6	582.5
1969	141.3	90.5	148.5	69.6	182.1	632.0
1970	131.5	102.9	151.7	76.2	192.9	654.2
1971	120.4	97.6	141.3	75.7	204.9	639.9
1972	133.2	106.8	153.4	85.3	215.8	694.5
1973	150.8	131.5	165.5	93.7	227.3	768.8
1974	145.7	129.1	171.5	99.2	237.3	782.8
1975	130.9 ^r	112.8	138.1	85.5	244.7	712.0
1976	128.0 ^p	118.4	148.1	105.1	253.5	753.1

^p = preliminary

^r = revised

¹ Bulgaria, North Korea and Red China were not reported separately and have, therefore, been included in the Rest of Free World prior to 1967.

² Calculated as the difference between total world raw steel production and the sum of USA, Japan, EEC(9), and Red Bloc raw steel production.

Source: *AISI Annual Statistical Report, 1969-1976*.

Source: "Economics of International Steel Trade"