Brave new world

Readers fixated on The Stair Report and the House Judiciary Committee have missed some major activity from our nation’s capital. Three recent events in our industry represent the outcome of a complicated story starring ocean shipping.

After four years of delay, changes and compromises, the Senate agreed by unanimous consent to accept a minor amendment to the Ocean Shipping Reform Act. President Clinton is expected to sign the bill into law later this month.

This constitutes a major success for National Industrial Transportation League President Ed Emmett and his staff. They worked hard to align the purchase of ocean shipping transportation with that of other modes. The benefits to U.S. companies and consumers should be significant.

The impact on ocean carriers remains to be seen. The initiative was originally developed between NITL and Sea-Land Service Inc. The other major U.S.-flag operators, American President Line and Crowley, quickly embraced the initiative so as to not be commercially outflanked.

Meanwhile, the major Asian lines have been conspicuous by their silence. Although several have paid lip service to the need to focus on customers and the inevitable nature of deregulation, not one has publicly endorsed this legislation. Although all tell their customers that they support the changes, none wish to go public with this support.

The Council of European and Japanese Shipowners’ Association was involved in reaching a compromise; however, the solution seemed more like an effort to maintain the status quo rather than the development of a new commercial paradigm. Primary in the compromise was maintaining antitrust immunity for conference contracts and denying non-vessel-operating common carriers the right to enter into confidential contracts with customers.

Four years ago, the intended legislation would have signaled sunset for the Federal Maritime Commission. The new law will be implemented and overseen by the FMC. This is quite a resurrection. It is significant because of recent FMC actions. Last week, the FMC announced an investigation into shipper allegations against liner companies involved in the eastbound Trans-Pacific trade.

The FMC will conduct public hearings on allegations that the Trans-Pacific Stabilization Agreement — a discussion agreement of both conference and non-conference lines — has attempted to enforce unilateral changes in contract terms or any other type of coercive action. Although the FMC may not find a smoking gun in its investigation, there will certainly be plenty of anecdotal evidence. The old rule of thumb — one time, chance; two times, coincidence; three times, conspiracy — may seem apt.

This investigation will occur against the implementation of the new legislation, scheduled for May 1. Coincidentally, this is also the date that new service contracts for Trans-Pacific import traffic will go into effect. Since the carriers seem intent on further collective action to drastically raise rates, the results should be noteworthy.

The FMC is also continuing investigations into port practices in China and Japan. Its unilateral action in October 1997, whereby Japanese ships would be refused entry, showed a renewed activism and intolerance of excruciating and unproductive negotiation.

Both of these matters are still open and pose major problems for the trade. Due to vessel-sharing alliances, the impact of punitive action will affect many more lines than simply those targeted for punishment.

Japan’s port problem existed for years. Institutional barriers to change have prevented improvements in port management and labor practices despite international opprobrium.

These institutional problems extend beyond the Japanese waterfront. The Group of 7 finance ministers recently urged Japan to shore up its financial sector through an infusion of funds. U.S. Treasury Secretary Robert Rubin said there was increased urgency for Japan to take strong and effective action. However, there is not a great deal of optimism since these structural problems have remained unresolved in Japan for years.

Japan is a critical component of the global economic economy. The world’s second-largest economy, it is the major trading partner of many Asian countries. Its economic slowdown affects the rest of Asia. The Intra-Asia market, previously one of the fastest growing trades, is decimated. Japan, a major market for U.S. exports, has contributed to the great Trans-Pacific imbalance that threatens the trade.

The threat of deflation continues to loom. Unlike “positive” deflation, which is caused by increasing productivity, the current deflation is caused by overcapacity of assets and decreased demand. Recent vessel orders extend this threat well into the next millennium.

All of these problems confront the ocean shipping lines as they enter a new era. The results should benefit shippers, but it is unlikely that all of today’s steamship lines will survive the transition.

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