

ADVANTAGES OF GATS BINDINGS FOR THE TRANSPORT SECTOR

I GENERAL

The classical arguments in favour of undertaking commitments for services (i.e offering legal guarantees and certainty to foreign services providers and thereby introducing foreign competition or fostering existing foreign competition) apply fully to transport services :

- more investment through legal certainty and irreversibility of conditions of operations
- wider choice of services for the consumer including state of the art services such as supply chain management for instance
- lower prices of services through competition with national incumbents and other foreign providers
- effective technology transfer through the use of modern equipment and management methods and through the employment and training of local staff then able to create its own businesses at least in sub sector with low costs of entry (e.g freight agency , road transport)

However transport is an extremely diverse sector and the relative importance of these various benefits as well as the economics cost of non – binding has to be examined mode of transport by mode of transport .

I MARITIME TRANSPORT:

Maritime transport as negotiated in the framework of the GATS is traditionally divided in the four pillars :international maritime transport, access to / use of port services, auxiliary services and multimodal transport

a) international maritime transport :

The elimination of unilateral cargo reservation and of bilateral cargo sharing has an immediate impact on the freight rates (at least minus 20 %)and the choice of vessels available

The price difference due to protected cargo in the final CIF price of the goods may be high enough to render the good uncompetitive international markets. This explains in particular the quasi absence of cargo reservation or cargo sharing scheme in the bulk –tramp sector which carries low value items (oil ,coal, ores , grain) or in countries traditionally protectionists but exporting textiles

Import substitution theories applied to shipping may have in certain instances been successful in the past centuries (eg Cromwell's navigation act or more recently Korean cargo reservation scheme abolished on entry to OECD) but have become increasingly unsuccessful in a globalized world .In particular the 1974 UN liner Code of Conduct for Maritime Conferences which is their ultimate recent expression has completely failed to create efficient merchant marines to the benefit of developing countries in the rare areas where it has been effectively implemented (Europe West Africa trade) .

In the end the cost of protection is borne by the consumer (and in certain instances the tax payer). This is particularly true for the imports of least developed countries where thin volumes of traffic and landlocked situation already make the freight expensive and where in addition this kind of protection system are frequent. Pushed at the extreme, there is no physical fleet to protect and the system amounts to the sale of rights i.e of rent whose profits do not by the way necessarily end in the coffins of the general budget of the state .

By artificially protecting the national incumbent or the bilateral partner , these schemes delay the need for investment in larger and more productive vessels as well as in modern IT systems and in the long term hamper the competitiveness of the maritime sector and through it the competitiveness of exports while making imports more expensive . They also prevent the rationalization and optimization of networks (hub and spokes system)

b) access to /use of port services :

Although the rule "first arrived first served" seems to be generally implemented ,there is no legal guarantee for that else than WTO commitments. With waiting time growing up to a week in the main North American, Asian and now European at a daily costs that has tripled in three years (now around 40.000 \$ a day) temptations are growing to find ways to "jump the queue" thereby earning 40.000 \$ a day and making loose the same 40.000 \$ a day to its competitors .

In addition the growing implication of shipowners in the private management of terminals operations create an additional incentive for discrimination not only in terms of delays but also physical berthing .

Finally in the "first arrived" ,fist served rule is generally implemented , there is no political cost attached to binding it

c) auxiliary services (cargo handling, storage and warehousing , maritime agency , freight forwarding , customs clearance ...)

1) cargo handling :

If local political and social conditions allows it , the involvement of the private sector in the management of terminals (adoption of the landlord port model)if not full privatization greatly foster the efficiency of harbours. An important and converging economic literature demonstrates quick and massive productivity gains. Most if not even all of the numerous port projects that have been launched in the last five years and that are still being launched to cope with congestion are following that model .

In addition this allows for BOT type of scheme which provide the high amount of money necessary for the equipment of these infrastructure at no costs for the public budget . It is noticeable that countries relatively traditionally closed to foreign investment have liberalized first investment in harbours services (eg India , China) .

The benefits for the general economy of quickly built and productive harbours are also obvious .

A noticeable fact is that some of the major actors of this business are coming from developing countries (ICTSI from the Philippines , Dubai port Authority from the United Arab Emirates , Port of Singapore Authority from Singapore ,Hutchison Whampoa holdings from Hong Kong, China) .

Another interesting feature of this sector is that it does not necessarily require an hinterland :through the hub and spoke system and transhipments some of the biggest conainer ports have no real hinterland or at lest a traffic far bigger than their natural hinterlend (eg Singapore, Dubai , Colombo, Salalah, Djibouti , Cotonou, Gioia Tauro, Algeciras, Malta) . Hence it constitutes a source o wealth and employment *per se* .

Where the " waterfront " conditions are more difficult or sensitive (eg USA , Japan , France Australia ,India to name a few) public-private partnership formula can be found and have been found to still derive benefits from this evolution while not creating major social and political disruptions.

2) maritime agencies , customs clearance ,freight forwarding :

A large part of maritime transport activities (and of the profits derived) takes place onshore, this is also the place where now restrictions are more common due in the one hand the progressive disappearance of blue sea side restrictions and on the other hand the existence of strong local vested interests .

Requiring by law that maritime agencies or all other profession intermediary between the shipper and the shipowners remains in national hands amounts clearly to creating a rent, a "cash machine" says the professional since no liner ship can call without an agent and since in addition there are no important investment implied

This is relatively common situation in small developing countries . This often prevent larger scale activities of major foreign liner operators that wants to control at least part of their business onshore .

Furthermore it conflicts with the will often expressed by the same countries to make a regional hub of their harbours (eg Lebanon) . Not to give at least partial control of their onshore activities is the best way to deter shipping lines to call more than necessary in one harbour and to bring there transshipment cargo.

One must admit that liberalization of these activities is a painful decision (a country as liberal as Singapore only took it in the eighties for instance) and that this rich and structured lobby is always difficult to overcome.

This has also a cost for the global economy : in the absence of foreign competition freight forwarding commission are higher ; in the absence of modern IT system , services is also not a efficient and speedy as they could be :

This question is not limited to the commercial representation of shipowners: in the absence of global freight forwarders, solution offered in terms of networks ,costs ,frequencies an deliveries are also suboptimal compared to what they could be .

3 storage and warehousing .

This area that require relatively important investments (notably or refrigerated warehouse and oil and gas storage facilities) is politically less sensitive.

Undertaking commitment there may help fostering investment and therefore the conditions for the establishment of a transshipment hub as well as a better treatment of perishable exports for instance .

d) multimodal transport :

By allowing foreign maritime transport operators to contract with local providers of domestic transport (coastal , inland waterways, rail ,trucking) this additional commitment ensures economy of scales and a smoother flow of goods since the maritime operators may impose its standards and apply its IT system to its local land transport provider thereby allowing real door to door services rather than simple port to port services .

The cost of not allowing or not guaranteeing such type of contract between foreign maritime transport operators and local land transport providers is that less lines will call at the port because the blue sea side" of shipping is generally not profitable in itself , that the cargo will then be left in local hands right from the quay ,, with higher costs due to smaller size(les market power) an rent effect an without prop e door to door follow up ,not to mention the –real- risk of loosing the container or not recovering in time for proper repositioning .

This is a central question for exporting countries when factories are moving inland as they do in China and India and that is why those two countries have precisely taken steps (autonomous at this stage and not bound) to ease land transpost activities fo foreign maritime operators .