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SOVIET MARITIME POLICIES

The Soviets have established realistic objectives for their merchant marine which will allow them to meet domestic and foreign shipping requirements, implement political activities with the lesser developed nations, project power into the international scene, and provide an auxiliary force for the Soviet Navy. While Moscow can be credited with considerable success in meeting these objectives, the realities of the situation indicate that their resources cannot serve two masters—that is, meet the objectives cited and, at the same time, cause large-scale disruptions on the world trade routes.

An article

by

Mr. Irwin M. Heine

About 2.4 billion metric tons of cargo loadings are carried annually by merchant ships in the international sea-going trades. It is an expanding commerce which has increased over the past 10 years at a rate of about 9 percent compounded annually, and the Russians want to carry as much of it as their capabilities permit. If they succeed, it would enable Soviet shipping authorities to utilize the U.S.S.R.'s large and growing merchant marine more effectively; it would enhance the Soviet's international maritime prestige and make the U.S.S.R. a force with which to contend in international shipping councils. More importantly however, it would enable the fleet to earn hard currencies which the U.S.S.R. is required to pay for the goods and services so urgently needed

for its economic growth and social responsibilities.

Some see the U.S.S.R.'s incursion into international shipping as the "long dark shadow,"¹ others as creating "chaos in world shipping."² A few take a more analytical approach such as Kristian von Sydow,³ who has studied the operations of Soviet shipping for many years. The operable words in any discussion, however, should be *capability* and *performance*.

It is appropriate, therefore, to examine the U.S.S.R.'s merchant marine policies not in the light of press notices, but in relation to the enormous strengths and capabilities of the free world's fleets. After all, many of the maritime nations have been at this business for centuries, not decades, and

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their merchant fleets dealt successfully with competitive factors in all their various forms and manifestations.

Intent and Purpose. The thrust toward the seas and oceans is a recurring dream that Russia's rulers have had for centuries. However, it was often frustrated because of at strategic moments in time the inhibiting interventions, economic disasters, assassinations, wars, internal uprisings, and revolution. But, strangely enough, another frustrating political setback—having great military implications—was probably the catalyst that made dream and reality one. The Cuban missile crisis in 1962 pointed up the strategic and trade imperatives for a merchant marine that could free the U.S.S.R. from dependence upon *capitalist* shipping.

Quite suddenly the U.S.S.R. began diverting from other sectors of the national economy very substantial amounts of its resources to acquire a more effective merchant marine. In 1960 the U.S.S.R. had a merchant fleet consisting of 873 ships totaling 5 million deadweight tons. It was far from a modern fleet and definitely lacked balance with respect to the types, size, and age of its ships. Under the 7-year plan ending in 1965 and the 5-year plan beginning in 1966, substantial gains were made in the number of ships and the overall tonnage of the fleet. Plans for continued growth during the present decade are under consideration by Soviet authorities.

Constantly recurring in the writings and speeches of U.S.S.R. maritime officials are the following objectives, although not necessarily in their order of listing, for a strong Soviet merchant marine:

- **To meet the U.S.S.R.'s internal and external shipping requirements.** According to Timofei Guzhenko, Soviet Minister of the Merchant Fleet, the rapid development of the U.S.S.R.'s

economy, the expansion of its foreign commerce, and its economic agreements require a considerable increase in its merchant marine.⁴ By 1980 it is estimated the Soviet merchant marine will increase to approximately 19.8 million deadweight tons from about 11.4 million tons in 1969. The ultimate aim is to carry not only most of the U.S.S.R.'s foreign and domestic commerce, but to compete for the carriage of cargoes from one foreign port to another. In 1969 Soviet-flag ships carried 82 million metric tons of cargo in the nation's foreign commerce and between third countries and some 70 million tons of coastwise cargo.⁵ Despite every effort made by the Soviet authorities to control⁶ the flag of the ship carrying the U.S.S.R. exports and imports, chartering of foreign-flag tonnage was still necessary.⁷

- **To free the U.S.S.R. from dependence upon "capitalistic" shipping in the development of its foreign trade.** V.I. Tikhonov notes that in the Czarist days large sums of foreign exchange were required for payment of freight charges on foreign-flag ships carrying Russian cargoes. Until recent years substantial outflows of foreign exchange were also required for payment of freights and charters to *capitalist* shipping companies. Such payments are being reduced considerably now that the U.S.S.R. has a large and growing merchant marine and through SOV-FRACHT,⁸ has become a charterer of ships to non-Communist shippers. Underlying practically all comments by Soviet authorities on the need for a large fleet of ships is the dominant theme of earning and conserving foreign exchange. Rubles are the currency of trade between the U.S.S.R. and its partners within the Soviet bloc;⁹ they are not acceptable in the international transactions of the free world.

Since foreign trade, as every other aspect of the Soviet economy, is con-

ducted on a planned basis, imports are given primary consideration. Imports of ships and shipping equipment alone amounted to 523 million rubles in 1969. Import requirements are based on both economic and political considerations, and the necessary exports are allocated to pay for them. For years the Soviet Union relied primarily upon the sales of raw materials, furs, timber, even gold to obtain hard currencies. In 1969, for example, raw materials and semi-finished goods accounted for about 51 percent of total exports. Soviet economic planners are trying to stop this trend, since it is quite dangerous over the long term for a nation to finance its industrial buildup solely through the costly expansion of raw material production.¹⁰ Moreover, the picture which such exports of raw materials present to the emerging and industrial nations is one of economic weakness and does not accord with the image of industrial power and prestige the U.S.S.R. wants to project. Accordingly, the U.S.S.R. has been giving increasing attention to selling industrial products and processes to the non-Communist nations as a means of earning foreign exchange and improving its balance of payments position.

The U.S.S.R. looks hopefully to its merchant marine as a means of conserving and earning foreign exchange by carrying as much as possible of its export and import cargoes on Soviet-flag ships. But equally as important, the Russians hope to earn hard currencies through the services it can render foreign shippers in trade between third countries and by chartering its ships to shippers in capitalist nations. In 1965 it was estimated Soviet ships carried about 50 percent of the cargoes in U.S.S.R. foreign trade. By 1969 Soviet ships were carrying approximately 56 percent of a larger foreign trade volume. Russian commentators on maritime affairs point out that when Soviet ships began carrying wool from Australia, the U.S.S.R.

was able to conserve foreign exchange equivalent to \$1 million annually which it had formerly paid to foreign shipping companies.¹¹

• To implement the U.S.S.R.'s political activities in the less developed countries (LDC's) and by "showing the flag." One of the factual cliches which Soviet shipping authorities repeat constantly is the increasing number of visits U.S.S.R.-flag ships make to ports in Asia, Africa, and Latin America. Tikhonov, Deputy Minister of the Maritime Fleet, noted that Russian ships serve Asian, African, and Latin American countries by carrying millions of tons of building materials, vehicles, spare parts, fuels, various kinds of equipment and units for industrial and other products built in those countries with Russian technical assistance. Soviet ships are particularly active in services to the United Arab Republic, Syria, Libya, and Iraq, although no mention is made of the enormous supplies of military cargoes with which the U.S.S.R. supplies these countries and others within the Soviet sphere of influence. Soviet-flag ships carry large volumes of cargo to the Communist countries of Cuba, North Vietnam, North Korea, Bulgaria, East Germany, Poland, Rumania, and Yugoslavia. In 1969 Russian ships made about 3,200 calls at ports in these countries, and in addition to carrying huge supplies of military equipment, they also delivered food, clothing, motor vehicles, farm machinery, machine tools, locomotives, medicines, paper, fuel, metals, and building materials.

According to the Soviet Ministry of the Maritime Fleet, capitalist shipping lines serving the LDC's formerly earned about \$2 billion annually in freight charges. The monopoly they enjoyed for years, however, has been broken by Soviet shipping lines which are offering increased services at lower rates, forcing Western maritime shipping companies to

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carry cargoes in the LDCs' trades at more equitable rates. The propaganda impact upon the developing nations of the benefits to be derived from Soviet maritime activities, economically and politically, is probably out of proportion to the services rendered by Soviet shipping.

It should be noted in this context that, on a ruble basis, the total turnover of U.S.S.R. trade amounted to 19.8 billion rubles in 1969.¹² Of this amount, Communist countries, including Council for Economic Mutual Assistance (CEMA) members took 65 percent of 12.9 billion rubles, while the LDC's accounted for 13 percent of 2.5 million rubles. Trade between the U.S.S.R. and the United Arab Republic amounted to 420 million rubles, making it the Soviet Union's largest trading partner among the LDC's. At least one-third of the trade with the LDC's was with countries involved directly or indirectly in the Middle East conflict of which over 450 million rubles was for arms to be cleared through trade.

Some idea of the costs to the Soviet Union in 1969 of supporting the economies of Cuba, North Vietnam, North Korea may be gained from the following total turnover amounts: Cuba, 770 million rubles, North Korea 295 million rubles, and North Vietnam 186 million rubles. This turnover consists predominantly of shipments from the U.S.S.R. Apparently, the political gains to be derived from such trade agreements are worth the costs to the Kremlin authorities.

• To gain stature and influence in the international sphere as a maritime power and to project that power in pursuing international maritime policies. As a latecomer among the principal maritime nations, the Soviet Union is anxious to flex its shipping muscle in international circles. What influence it commands on maritime matters is made through its memberships in a number of

intergovernmental and nongovernmental organizations such as the Intergovernmental Maritime Consultative Organization (IMCO), the Shipping Committee of the United Nations Conference on Trade and Development (UNCTAD), the Maritime Committee of the International Labor Organization (ILO), and the Permanent International Association of Navigation Congresses.

As Soviet shipping enlarged its scope of operations through the addition of new merchant vessels to its fleet, SOVFRACHT and Soviet shipping lines sought membership in nongovernmental international maritime organizations and shipping conferences. Acceptance was not always easy. For example, it was not until 1965 that the Baltic Steamship Line of Leningrad was accepted as a membership-owner of the Baltic and International Maritime Conference with headquarters in Copenhagen, Denmark. This organization is an exclusive trade association with none of the functions of a shipping conference.

After application for membership in the Baltic Exchange was twice turned down, SOVFRACHT was finally admitted to full membership in 1968. The Baltic Exchange, located in London, is a house for shipowners and brokers where information on ships and cargoes is exchanged and charter fixtures are made. It is a world center for the tramp shipping industry and affords many advantages to its members in this highly technical and competitive field.

For many years Soviet steamship lines did not participate in shipping conferences.¹³ One reason may have been that many of the cargoes carried by their ships in their major liner services were moving on routes generally not subject to conference rates. Heine and Coe¹⁴ noted that "as Soviet shipping activities became world-wide in scope and their authorities less parochial in their outlook, membership in shipping conferences and pooling agreements appeared advantageous."

Admittance of U.S.S.R. steamship companies to shipping conferences is a slow process. In some cases they have to obtain membership by literally fighting their way into a conference. A Soviet shipping line will cut rates, see its sailings bracketed by conference ships, and usually maintain nonproductive sailing schedules until the line shows conclusively it means to continue operations despite all obstacles. A classic example of the foregoing was the method the Russians used to obtain membership in the Outward Continent-Australia Conference and United Kingdom-Australia Conference, as well as membership in Australian Oversea Transport Association. The three conferences are of the "closed" type which predominate in Europe.¹⁵

Soviet ships offered up to three sailings monthly at rates 15 percent under the conferences' charges. The fact that the Soviet line was able to obtain a contract for large quantities of wool destined for British and European ports deeply disturbed officials of the 27 lines in the Australian inward and outward conferences. As a result of lengthy negotiations in London, an agreement between the respective conferences and the Soviets was ratified. It provided that the Baltic Steamship Company would be granted full membership in the conferences with a fixed schedule of sailings beginning 1 March 1969.¹⁶ About 6 months later the Soviets became members of the New Zealand/European Shipping Conference. If, as expected, the Far East Steamship Company (FESCO) joins the Far East Freight Conference on routes from Singapore/Malaya to Europe, only four Soviet cargo lines will remain in operation as independents on routes where they are in direct competition with non-Communist conference lines.

Membership in governmental and nongovernmental international maritime organizations often gives the Soviets leverage to promote their own interests

and those of its clients of the moment, particularly the LDC's, in the strategic areas of the world.

Many conferences now seem to be prepared to accept the Russians on the theory it is easier to control them from the inside than as an outside independent. Western maritime nations hope that by joining conferences the Soviets will restrain their propensity for rate cutting. Thus far, Soviet lines are adhering to the rules and are cooperating with other shipowners on routes on which they are conference members. After all, there are higher earnings of foreign exchange to be gained from such associations, and there is no point in operating on uneconomic terms unless the goals are much more worthwhile to the U.S.S.R.'s maritime strategy.

• To serve as an auxiliary to the Soviet Navy. Since the end of World War II, the Russians have developed the use of their navy, in addition to its primary military purpose, for the political and diplomatic advantages it can provide. To implement these advantages and to serve as military auxiliaries, Soviet military planners have tightened the degree of integration between the naval and merchant fleets.

The merchant marine is a ready source of supply of trained seamen and officers for the Russian Navy. Training merchant seamen is a function of the Ministry of the Maritime Fleet. Command personnel are trained at the Ministry's four higher and 12 specialized secondary educational schools. According to V.I. Tikhonov, one out of every four men in the merchant marine has a diploma of a higher or specialized secondary educational institution. Soviet ships provide the practical experience, and it is not unusual to find some with excessive crews in relation to their type and size.

Soviet naval vessels are showing the flag in the Mediterranean Sea to an increasing degree, in the Indian Ocean,

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and, more frequently, at the front doors of the United States in the Caribbean and off its eastern seaboard. Agreements between the U.S.S.R. and a number of the LDC's in Africa and Asia make it possible for Soviet tankers to take on fuel for Russian warships at sea, while Soviet freighters act as supply ships as required.

• To demonstrate the benefits of Soviet nationalization and planning. Soviet pride in its merchant marine extends beyond mere chauvinism. It also represents a pragmatic understanding of the merchant marine's political as well as economic functions. *First of all*, the modern fleet is a reality; the result of a planned effort that paid off. *Second*, because of the fleet the government is able to take care of expanding foreign trade with less expenditures of foreign exchange for freights and charters to capitalist shipping companies. *Third*, given the developing state of the Soviet inland transport system, which still leaves much to be desired, shipping must play a major role in moving increasing quantities of goods in domestic trades, particularly to northern Siberia and the Far Eastern provinces. *Fourth*, the existence of the fleet enables Soviet leaders to reap the planned political and economic benefits from increasing calls at LDCs' ports. *Fifth*, the merchant marine is recognized as the Soviet Union's principal supply line for military and economic aid to its widely scattered political dependents in the Caribbean, Mediterranean, and South China Seas and the Sea of Japan. *Sixth*, as the creature of the state every aspect of the Soviet merchant marine is planned. Tikhonov points out: "Nationalization enabled the merchant marine to go over to planned development and operation. Plans cover the volume and direction of shipping cargoes, technical operations of the ships, the rate of expansion of the fleet and the shore servicing establish-

ments, and also training qualified personnel."¹⁷ *Seventh*, but by no means last, Soviet planning authorities can presumably pinpoint the blame if planned objectives are not achieved. It is a convenient system, especially when such objectives are not met for improvements in port facilities, loading and discharging productivity, ship deliveries, output of ship repair enterprises, and the elimination of operating losses.¹⁸

Fact and Myth.

The Soviet Merchant Marine. By any standard the U.S.S.R. must be reckoned as a major maritime power. U.S. Maritime Administration data show their fleet to consist of 1,717 ships of 12.8 million deadweight tons.¹⁹ This, however, is not the *competitive* Soviet merchant marine since the foregoing data are believed to include some 300 ships of about 1.5 million deadweight tons used primarily on the Danube River and Caspian Sea. Authoritative Russian and other United States sources concur on the figures of about 1,400 ships totaling some 11.4 million deadweight tons.

If the Maritime Administration's larger figures are used, the Soviet merchant marine has 8.8 percent of the world's merchant ships but only 4.3 percent of its tonnage.²⁰ On the basis of the larger tonnage, the ratio at the end of 1969 is actually less than the 4.6 percent in 1965. Compared with the size of the world's non-Communist merchant fleet²¹ of 17,073 ships totaling 278.5 million deadweight tons, the Soviet merchant marine is still relatively small.

A more meaningful comparison of the Soviet merchant marine and the fleets of other countries is shown in table 1. The imbalance among types of ships in the Russian Fleet is apparent. There are no container ships (of the full or partial variety), lighter aboard ship (LASH) types, ore/oil carriers, or oil/

TABLE I—FREE WORLD, U.S.S.R., AND OTHER COMMUNIST*
MERCHANT FLEETS, BY TYPES OF SHIPS, AS OF DECEMBER 31, 1969
(1,000 GROSS TONS AND OVER)

Type of Ship	Free World		U.S.S.R.		Other Communist*	
	No.	DWT Tons (000)	No.	DWT Tons (000)	DWT Tons (000)	
Freighter	8,912	71,430	829	5,543	555	4,052
Tanker	3,357	125,195	344	4,620	55	824
Freighter/Reefer	659	3,911	158	637	23	73
Bulk Carrier	1,624	42,556	44	333	67	675
Comb.Pass./Cargo	793	3,984	73	193	28	81
Comb.Pass./Reefer	33	318	1	1	2	10
Ore/Oil Carrier	173	9,989	0	0	3	59
Whaling Tanker	10	210	7	118	0	0
Ore Carrier	337	9,320	32	195	23	357
Auto Carrier	61	524	0	0	2	13
LPG Tanker	146	1,146	2	5	0	0
Collier	239	1,706	57	282	16	127
Timbar Carrier	150	1,360	170	831	6	24
Container	157	1,793	0	0	0	0
Partial Container	101	1,243	0	0	0	0
32 Other Types**	321	3,785	0	0	0	0
Total	17,073	278,470	1,717	12,758	780	6,295
Total World Fleet	19,570	297,523				

*Albania, Bulgaria, Communist China, Cuba, Czechoslovakia, East Germany, Hungary, North Korea, Poland, Rumania.

**Includes among others, chemical tankers, cement carriers, oil/bulk/ore carriers (OBO), and "LASH" ships.

Source: U.S. Maritime Administration

bulk/ore (OBO) combination ships that are found by the principal non-Communist maritime nations to be more versatile, productive, and profitable than the ordinary freighter, bulk carrier, and tanker. Soviet bulk carriers are few and minuscule in size, as are its ore carriers. The largest tanker is 50,000 deadweight tons; 123, or 36 percent, of all its tankers are under 5,000 deadweight tons. In fact, over 51 percent of all Soviet merchant dry cargo ships and tankers are under 5,000 deadweight tons.

The concentration on ships of low deadweight and draft is deliberate. There are very few ports in the U.S.S.R. capable of accommodating ships of large drafts. In view of the developing stages of the Soviet Union's internal transportation system in relation to the requirements of its industrial structure and the

needs of its provinces, which stretch from the Baltic to eastern Siberia, it is necessary for a large part of the nation's domestic commerce to move via its coastal waters and rivers. A considerable number of the Soviet merchant fleet is, therefore, required for this purpose. The closure of the Suez Canal for the past 3 years has required even more ships to serve Soviet Far East provinces.

Annual deliveries of new ships to its merchant marine from the U.S.S.R. and foreign shipyards are substantial. In this context, however, reference rarely is made to the huge number and tonnage of ships delivered to the free world merchant fleets with their technological innovations in ship design and types that make them more productive and competitive on world trade routes.

In 1969 the U.S.S.R. took delivery of 79 ships of all types totaling 748,000

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deadweight tons, primarily from shipyards in the U.S.S.R., Finland, East Germany, Poland, and Yugoslavia. Deliveries to the non-Communist nations' merchant fleets totaled 864 ships of 28.1 million tons or *11 times the number of ships and 38 times the tonnage*. In delivery of freighter types including timber ships, which the U.S.S.R. uses to compete with free world shipping, the Russians took 47 ships totaling 399,000 deadweight tons. On the other hand, the non-Communist fleets took deliveries of 445 freighter types of 4.5 million deadweight tons or almost 10 times the number and more than 11 times greater than the Russians' tonnage. But even these comparisons, as outstanding as they are, do not present a true picture of the disparities, for included in the free world deliveries were 158 container-type freighters of 1.8 million deadweight tons whose competitive productivity is from 2.5 to as much as 5 times greater (depending on the size and speed of the ship) than the ordinary freighter type in the Soviet merchant marine.

Construction of the U.S.S.R.'s first container ship was begun in 1970, and plans for a modestly large tanker (150,000 deadweight tons) were completed with delivery expected in 1973. At the beginning of 1970 the U.S.S.R. had under construction and on order 268 dry cargo ships and tankers totaling 2.5 million deadweight tons and six small passenger ships each averaging about 3,000 gross tons. When the 106 ships of 1.7 million deadweight tons being built for seven Communist countries are added to U.S.S.R. construction, the Soviet bloc will have a gross total of 374 ships of 4.2 million tons for its fleets in the next few years.

Contrast that total with the 1,936 ships of 94.7 million deadweight tons on order and under construction for the non-Communist merchant fleets. Included are 216 container ships of 3.3 million deadweight tons and the most

advanced types of dry and liquid bulk carriers that will reduce ballast legs of voyages to a minimum.

It should be noted that the Soviet merchant fleet has not kept pace with the anticipated growth scheduled under the 1965 Five Year Plan. On the other hand, free world shipping continues to expand at a much faster rate than that of the Soviet Union and its satellite countries. It may be that since the Arab-Israeli war of 1967, Soviet priorities in the use of its national budget have been undergoing changes that affect its shipbuilding program. The delay in holding the scheduled Communist Party Congress until 1971 may suggest that the Kremlin recognizes its economic shortcomings and is searching for new economic policies. It may also be an indication of the struggle among the various ministries for favorable shares of the national budget covering the period 1971-1975.

Shipping Operations. Theoretically, the 15 Soviet steamship companies should outperform steamship lines that do not operate in accordance with computer planned norms. This is not the case. In fact, the Soviet lines are subject to the vagaries inherent in any government bureaucratic control that tends to stifle initiative. Guzhenko and Lukyanchenko have commented²² from time to time on some of the merchant marine's operational problems, viz:

- Soviet ships are idle for long periods of time without taking on or discharging cargoes. Approximately 56 percent of the time dry cargo vessels spend in ports and 65 percent of the time spent by tankers does not involve loading operations. Moreover, about 20 percent of the delays affecting ship operating productivity occur after the loading operation is completed.

- Port workers productivity is inclined to be static.

- Mechanization for loading and discharging cargoes is not fully utilized.

- Control over the preservation of state property, i.e., ships, port facilities, and mechanical equipment is poor.

- Soviet planners have decreed that in 1970 operating usage of dry cargo ships will be increased to 330 days and to 325 days for oil tankers. Even if these goals are reached, they are well below the usage of 350 days for Western merchant ships.

Under the new reform and economic incentive plan instituted in 1968-1969, a basic task for the maritime fleet in 1970 is to introduce complete cost accounting in all divisions of maritime transport. What is most interesting, however, is that under the new system the capitalist theory of profits and economic incentives to improve labor productivity is being put into effect.

Soviet Ships in International Seagoing Shipping. As the world's second largest economic power, the Soviet Union generated only 112 million metric tons of cargo loaded and unloaded in the U.S.S.R.²³ Compared to the United States (454 million tons), Japan (351 million tons), the United Kingdom (219 million tons), Italy (201 million tons), the Netherlands (192 million tons), and France (148 million tons), Russia's cargoes in foreign trade are small. Soviet loadings and unloadings accounted for 2.7 percent of the world's total seagoing movements in 1968, about equal to the ratio it reached in 1964, and less than for any of the intervening years. In 1967, the latest date for which figures are available on a worldwide basis, the U.S.S.R. loaded 45 million tons and unloaded 10 million tons of dry cargo, the former comprised largely of raw materials and semifinished products; the latter consisted primarily of high technical products and foodstuffs.

Although much has been written about incursions of Russian shipping in

the movement of cargoes between third countries, most of it is in the nature of tramp movements and the overall amounts are relatively small in comparison with the total world loadings of dry cargoes which in 1967 amounted to 885 million metric tons.

As Soviet shipping moves from tramp shipping to scheduled or liner operations, the major maritime nations are years ahead in operating capability through the use of the more efficient and productive container ships in their fleets. Neither the Russian nor the Soviet bloc merchant marine has this capability. A complete reorientation of Communist nations' internal transportation, infrastructure will be required, which may take years, before the U.S.S.R. and its CEMA associates can have an effective intermodal system that is essential for a container ship operation.

In June 1969, for the first time in almost 20 years, a Soviet ship entered a U.S. port with cargo. The Far East Steamship Company (FESCO), which operated the ship has since filed tariffs for scheduled operations between Japan, Canada, and west coast United States ports with the Federal Maritime Commission. They became effective on 23 October 1970. Basically, the tariff rates are estimated to be equal to, somewhat lower or higher, depending on the commodity, than those of other independent and conference lines. As an independent, the Russians will be competing with some 35 other independent lines operating under United States, Swedish, Greek, Korean, Japanese, Chinese, Yugoslavian, British, Panamanian, Liberian, Canadian, and Philippine registries. Between June 1969 and September 1970, eight Soviet-flag ships made 13 calls on separate occasions at Seattle, Portland, San Francisco, and Los Angeles-Long Beach, averaging less than 1,000 tons of cargo, primarily steel from Japan, with an occasional cargo of titanium sponge from Siberia. *No car-*

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goes were laden for the outbound voyage. The operations of FESCO's ships in this trade, especially under existing highly competitive conditions, will undoubtedly be closely studied by American shipping men.

FESCO's trade through the years it has been operating between Siberian, Japanese, and west Canadian ports has been largely one sided and hardly profitable. For example, from 1965 through 1968 FESCO ships made 286 voyages to west Canadian ports and carried a total of 2,800 long tons of cargo inbound. *Not one ton of cargo to Canadian ports was carried on 169 of those calls.* Apparently, the U.S.S.R.'s urgent need for foodstuffs was the reason for so many 4,500 mile ballast voyages since the ships carried over 2 million long tons of wheat and other products on the homeward voyages. Of the 78 voyages in 1969, FESCO's ships carried 44,000 tons of cargo to Canada and took back 194,000 tons consisting principally of wheat, forest products, and sulphur.²⁴

Soviet efforts to operate profitably in the Canadian Great Lakes trade apparently has not come up to expectations. Over the 1965-1969 period the Russian ships made 187 calls at Canadian lake ports, averaging about 850 long tons on arrival and approximately 583 tons on departure.²⁵ SOVINFLLOT, the organization that supervises the Soviet shipping lines to Canada, expects the volume of traffic carried by U.S.S.R.-flag ships in the Canadian Great Lakes trades to be about the same in 1970 as it was in 1969. In that year Soviet ships made 56 calls with 31,400 long tons of general cargo inbound and 22,138 tons outbound. Of the two Soviet lines in this trade, one serves ports in the Mediterranean area, the other calls at north European ports.

Factual evidence available to the West should dispel many of the myths regarding the capabilities and performance of the Soviet merchant fleet. There can be no guarantee that Soviet

shipping will not attempt to intrude by rate cutting on a given trade route or service. Soviet shipping lines have done this in a number of instances, the most recent being the cut rates instituted by the Far East Shipping Company (FESCO) in opening up its service to U.S. west coast ports, and will probably continue to do so as economic and political reasons dictate. On the other hand, shipping companies of the principal maritime nations have long practiced and are practicing rate cutting to gain competitive advantages. There is a growing trend, however, by government maritime agencies and national shippers councils to prevent disruptive practices on international sea routes. Furthermore, the great majority of the maritime nations of the world grant subsidies²⁶ in one form or another to their shipping industries. They are not likely to tolerate "rate dumping" practices of Communist countries on international sea routes to the detriment of their

BIOGRAPHIC SUMMARY



Mr. Irwin M. Heine did his undergraduate work in economics, earned an M.B.A. from the University of Pennsylvania, and did further graduate work at Cambridge University in England under the Penfield Traveling Scholarship. He has had varied and extensive experience in the maritime field, the most recent being Chief Statistician and Economist, U.S. Maritime Administration (1953-1966), and Chief, Division of International Affairs, U.S. Maritime Administration, from 1966 to his retirement in 1970. He has served on a number of U.S. interagency committees and boards concerned with international trade and shipping matters and chaired the Western Hemisphere Technical Committee, Planning Board for Ocean Shipping, NATU. Mr. Heine has published numerous monographs and books on international maritime trade and monetary subjects and currently publishes and acts as consultant for international maritime and trade matters.

national flag lines without some form of government assistance.

The realities of the Soviet merchant marine indicate that the fleet is presently, and for the immediate future, not capable of serving the multiple purposes of carrying a major part of the nation's

foreign trade, all of its domestic waterborne commerce, and serving as a naval auxiliary for its expanding navy and at the same time causing large-scale disruptions on world trade routes.

* * *

FOOTNOTES

1. Lord Geddes, President of the United Kingdom's Chamber of Shipping, in a speech before that chamber, October 1968.

2. James Reilly, Navy Information Officer, in a speech at Wilmington, N.C., September 1970.

3. Managing Director, Swedish East Asia Co., Ltd., Goteborg, Sweden.

4. "Maritime Shipping of the U.S.S.R. in 1970," *Journal de la Marine Marchande*, 4 June 1970.

5. V.I. Tikhonov, "Flying the Flag of the Soviet Union," *Soviet Military Review*, June 1970.

6. Soviet exports are sold on a cost, insurance, and freight (c.i.f.) basis, and imports are purchased on a freight on board (f.o.b.) basis, contrary to accepted shipping procedures in international trade.

7. V.G. Bakayev, former Minister of the Merchant Fleet, often noted the inadvisability of trying to carry every ton of Soviet cargo and that from an economic point of view, chartering of foreign-flag ships would often be necessary and even desirable. He and other Soviet shipping experts realized that continued use of foreign-flag ships would be necessary for "business cooperation" and "for the development of foreign commerce."

8. SOVFRACHT—the all-union chartering corporation was founded in 1929 as the sole charterers' agent for all Soviet foreign trade organizations and the sole shipbroker for all of the 15 Soviet steamship lines. SOVFRACHT engages in chartering Soviet and foreign dry cargo ships as well as tankers for Soviet and foreign charterers. It maintains contacts with shipowners, charterers, shipbrokers, forwarding and steamship agents throughout the world.

9. The value of the ruble in terms of dollars is arbitrarily fixed at \$1.11 by the U.S.S.R. It is often used as an economic weapon in the U.S.S.R.'s trade relations with its partners in CEMA (Council for Mutual Economic Assistance).

10. Curt Linnemann, "USSR Foreign Trade Undergoing Scrutiny," *Handelsblatt*, Dusseldorf, 27 April 1970.

11. Dev Murarka, writing from Moscow in the *Washington Post*, 1 October 1970.

12. *Economic Gazette* No. 24; Moscow, June 1970, p. 20-21.

13. S.A. Lawrence in his book on "International Sea Transport" (to be published) estimates there are now approximately 380 shipping conferences of which 120 regulate conditions and freight rates on major trade routes, while the remaining 252 serve minor and more local or intermediate trades.

14. Irwin M. Heine and Muriel W. Coe, *The Soviet Merchant Marine* (Washington: U.S. Govt. Print. Off., 1967), p. 25.

15. In a "closed" conference the members agree among themselves on the frequency of sailings, the ports of call for each line, and also the amount of cargo to be carried by each line for a certain period. Consideration is given to the demands of the trade and requirements of the shipowners to receive a minimum return on capital investment. In this way a "closed" conference tends to guarantee a constant supply of shipping tonnage corresponding to the demands of the consignors.

16. V. Novikov, *Morskoy Flot*, no. 3, Moscow, March 1970.

17. Tikhonov.

18. S. Lukyanchenko, Head of the Economic Planning Administration and member of the Ministry of the Maritime Fleet, "Plan for 1970s," Moscow, *Morskoy Flot*, no. 2, February 1970.

19. 31 December 1969. Ships are merchant types of 1,000 gross tons and over.

20. 19,570 ships totaling 297.5 million deadweight tons.

21. Excluded from the world total are 2,497 ships of 19.1 million deadweight tons in the 11 Communist (excluding Yugoslavia) countries' merchant fleets.

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22. T. Guzhenko, Moscow, *Morskoy Flot*, no. 8, 1969, and S. Lukyanchenko "Plan for 1970," Moscow, *Morskoy Flot*, no. 2, February 1970.

23. United Nations Statistical Year Book 1969.

24. Dominion Bureau of Statistics, Canada, 1970.

25. *Ibid.*

26. Irwin M. Heine and Muriel W. Coc in their book *Maritime Subsidies* (Washington: U.S. Govt. Print. Off., 1969) point out that few national merchant fleets enjoy a comparative cost advantage in ocean transportation. To overcome such competitive cost disparities as may exist, the great majority of the maritime nations grant some form of direct and/or indirect aid to their shipping and shipbuilding industries, such as operating subsidies, construction subsidies, trade-in allowances, loans at low interest rates, interest subsidies, credit guarantees, accelerated depreciation, tax-free reserve funds, cargo preference, cabotage restrictions, et cetera. Additionally, they also grant a number of social, economic, and political types of assistance to their maritime industries.



The other matter of concern is the massive build-up of the Soviet Merchant fleet. At present Russia is building ships at about 10 times our construction rate. In a few years if they continue as they have assured the world they will continue, their fleet of cargo ships, bulk carriers and tankers will be far beyond the requirements of their own economy. Obviously, they intend to use this vast fleet as an instrument of their national policy.

*Daniel D. Strohmeier, Vice President, Bethlehem Steel Corp.
to Chamber of Commerce of Metropolitan Baltimore,
23 May 1966*