

~~SECRET~~

S-4073

5359

17 January 1972

MEMORANDUM

Non-Communist Experience in
Cargo Sharing and Similar
Arrangements with the USSR

Summary

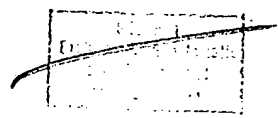
Since 1956 the USSR has signed bilateral shipping agreements with six countries -- India, Egypt, France, the United Kingdom, Spain, and the Netherlands, and one with Belgium and Luxembourg awaits formal signing. Besides these accords, seven company-to-company agreements calling for joint operations are also in force involving enterprises in five West European countries and a consortium in Japan.

Of the bilateral agreements, only those with India and Egypt provide for cargo sharing; the rest emphasize the principle of freedom of navigation and the rights of third party ships to participate in the trade. The agreements with France and the Netherlands, however, specify that both sides will promote the use of ships of both signatories in their joint trade. Although India complained about Soviet violation of its accord as early as 1958, data for 1968, the only year for which there is complete information, show that Soviet ships handled about 53% of the cargo -- only a slight variation from the 50-50 agreement. In 1970 there were Indian complaints, thus far unsubstantiated, that the USSR was understating the tonnage of cargo delivered by its ships to Indian ports.

A large variation from the agreement occurs in the Egyptian trade, more than 75% of which has been carried in Soviet ships. However, Egypt has only a small merchant fleet and probably could not carry 50% of its greatly

A HISTORICAL REVIEW PROGRAM
RELEASE AS SANITIZED
1999

~~SECRET~~



~~SECRET~~

expanded trade with the USSR in Egyptian ships. Moreover, Egypt has not complained about the disproportionate carriage of this trade in Soviet ships.

With respect to the French and British agreements, the French in June 1971 complained that they were not getting their fair share of revenues from their trade with the USSR. We suspect however, that this is more a function of the Soviets carrying a larger percentage of goods with high freight rates than an imbalance in the total carriage. In the British case, Soviet ships in 1970 carried 44% of the trade, British ships 31% and third party ships 25%.

Under the company-to-company arrangements, the Japanese have complained of Soviet failure to honor cargo sharing agreements. In 1964, Japanese ships handled only 39% of the cargo moving in both directions over specified routes. Data for the ensuing years are sketchy, but Japanese ships definitely carried less than half of the tonnage in 1967, and it is likely that an imbalance still exists. The only other complaint on the company-to-company level was by two French firms in 1966 prior to the signing of the bilateral accord between the Soviet and French governments.

In conclusion, the USSR, since its early accords with India and Egypt, has eschewed cargo sharing in its bilateral shipping agreements. In the absence of such commitments, it has not greatly dominated the carriage of trade with the other party. In the case of the two cargo sharing accords, India has complained, perhaps justifiably; Egypt has not complained. In the company-to-company agreements, the USSR appears to have violated the letter of its agreement with the Japanese consortium and allegedly the spirit of its arrangements with French firms.

~~SECRET~~

Experience Under Inter-Governmental Agreements

1. The first country with which the USSR entered a bilateral shipping agreement was India. This agreement, signed in 1956, did not seek to establish arrangements for the sharing of all Soviet/Indian trade by Soviet and Indian ships. (1) Its cargo sharing aspects concentrated on the movement of dry cargo moving between Soviet Black Sea ports and Indian west and east coast ports by a joint liner service. Soviet exports of petroleum to India and tramp movements of dry cargo between Soviet areas other than the Black Sea and India were not covered.
2. Under the agreement, equal numbers of Soviet and Indian ships were assigned to a Black Sea/India line. Distribution of cargo on the line was to be "on a parity basis" between Soviet and Indian ships. Later refinements of the agreement added a requirement for the sharing of revenues as well as cargoes. The USSR's ship chartering and freight booking agency Sovfracht and India's General Directorate of Shipping were designated to coordinate the service and oversee fulfillment of the agreement. To this same end, a joint secretariat for the line was created at Bombay in 1958.
3. As early as 1958 the Indians began to complain that Soviet ships were making more than their quota of voyages on the line. Similar complaints have been voiced as recently as 1966, and more recent data indicate that in 1968 Soviet ships carried 486,000 tons, 53% of the 923,000 that moved on the line. (2) In 1970, the leader of India's dockworkers even complained that the USSR in an attempt to violate the 50/50 agreement was understating the tonnage of cargo delivered by its ships to Indian ports.

~~SECRET~~

4. The USSR's shipping agreement with Egypt, signed in September 1958, goes much farther than any other in terms of cargo sharing. Article 8 of this agreement states:

"Each contracting party will grant the other contracting party for the transportation by vessels of its country's flag 50% of the goods exported from the Union of Soviet Socialist Republics to the United Arab Republic and from the United Arab Republic to the Union of Soviet Socialist Republics" (3)

In theory, third party ships are excluded entirely. However, Egypt has apparently never had enough ships to carry its share and recent port statistics from that country indicate that Soviet ships carry more than 75% of the trade and that third party ships carry more of the remainder than Egyptian ships do. With a merchant fleet whose capacity was less than 250,000 DWT at the end of 1970, (the Soviet fleet's was almost 12 million DWT) Egypt has never been in a position to complain about the USSR's domination of the trade.

5. The third country to join the USSR in a bilateral shipping agreement was France. This agreement, in effect since September 1967, was the USSR's first with a major non-Communist shipping power and its first to acknowledge adherence to the principle of freedom of navigation. In keeping with its stand on freedom of navigation, it stipulates that both parties agree to abstain from all discriminatory activities that hinder the development of international commerce and recognizes the right of third party ships to carry cargoes between the ports of the two contracting parties. The farthest this agreement goes in the direction of cargo sharing is to state that both contracting parties agree to encourage the participation of French and Soviet ships in the movement of cargo between the two countries. There is no language requiring or acknowledging the desirability of parity in tonnage carried or revenue earned.

~~SECRET~~

~~SECRET~~

6. As recently as June 1971, the French, one of whose motives in entering the 1967 agreement was a desire to increase the earnings of their fleet in the movement of French/Soviet trade, complained that too large a share of the freight revenues from the trade was accruing to the Soviet Fleet. It was claimed that Soviet ships had earned \$30 million in the trade during 1970 while French ships earned only \$7.4 million.⁽⁴⁾ Such an imbalance could reflect an equivalent imbalance in tonnage carried, but it may also reflect continuation of the USSR's policy before the treaty was signed of carrying a high percentage of the goods with high freight rates on its ships and leaving most of the cargoes with lower rates for French ships.

7. The only other nations that have signed bilateral shipping agreements with the USSR to date are the Netherlands, the UK, and Spain. In its handling of the problems of flag discrimination and access to cargoes, as in most other respects, the agreement with the Netherlands, ratified on 14 September 1971, is more similar to the agreement with France than to any other. The Dutch agreement upholds freedom of navigation and the right of third party ships to participate in Soviet/Dutch trade, but does stress promotion of the use of Dutch and Soviet ships in their mutual trade and (unlike the agreements with France and the UK includes this, among the matters to be dealt with by the mixed commission set up under the treaty. There are no references to parity and there is no evidence outside of the treaty that the Dutch are particularly disturbed by the fact that Soviet ships have heretofore played a larger part in Soviet/Dutch trade than Dutch ships.

8. Because the UK is one of the foremost opponents of flag discrimination, its agreement with the USSR includes language similar to that in the French and Dutch agreements upholding freedom of merchant navigation and the rights of third flag ships. The agreement with the UK, however, handles the matter of participation by the fleets of the contracting parties in their mutual trade in a less direct way than even the French and Dutch agreements. It states that, "each High Contracting Party shall abstain from taking measures which may limit the opportunities of vesse

~~SECRET~~

~~SECRET~~

of the other High Contracting Party to compete in relation trade between its own ports and ports of the other High Contracting Party on equal commercial conditions". The question of parity does not arise. Indeed, in 1970 Soviet ships carried 44% of the trade compared with 31% on British ships and 25% on third party ships. (5) Although this agreement was signed in 1968 and a Soviet/British mixed commission created at the time of the signing has met three times since final ratification has not yet occurred. It was scheduled to take place at a meeting of the Mixed Commission in the fall of 1971, but both events were postponed at that time because of the UK's expulsion of large numbers of Soviet spies.

9. The USSR is party to two shipping agreements with Spain, an "accord" signed in 1967 that marked the end of a 28-year suspension of shipping relations between the two countries and an "agreement" signed in 1969 that authorized calls by Soviet merchant and fishing vessels in Spanish ports for bunkering and other services. It is not known whether or not topics such as flag discrimination and cargo sharing were touched upon in these agreements. The USSR and the Belgium/Luxembourg Alliance initialed a shipping agreement in September 1971 that is reportedly similar to those with France and the Netherlands, but it has not yet been signed and few details are available.

Experience Under Company-to-Company Agreements

10. In arrangements dating as far back as the mid-1950's, steamship companies in six developed countries -- West Germany, the Netherlands, Belgium, France, the United Kingdom, and Japan -- operate joint cargo lines under company-to-company agreements with Soviet steamship companies. Except for the lines involving French companies, all of the Western European companies' joint operations link ports of their countries with Soviet ports in the Baltic. French companies are involved in joint services to both Soviet Baltic and Soviet Black Sea ports. The joint service with Japanese companies connects ports of the Soviet Far East with Japan.

~~SECRET~~

~~SECRET~~

11. Among the Western European companies participating in joint services, we know of only two that have complained of unfair treatment by the Soviets -- Compagnie Generale Transatlantique, the French company involved in the service between French Atlantic ports and the Baltic; and Messageries Maritimes, the French company in the service between Southern France and the Black Sea. Their claims in 1966 that Soviet ships were carrying more than their share (about 70%) of the cargo may have contributed to France's decision to enter a bilateral shipping agreement with the USSR. (6)

12. The three Japanese companies in the consortium that works with the Soviet Far East Steamship Company in the joint service known as the Japan-Nakhodka Line have often complained about Soviet failure to live up to the agreement under which that line was set up in 1958 and its subsequent revisions. The agreement provided for equal numbers of sailings each year by ships of the Far East Steamship Company and of the Japanese consortium. Language dealing with cargo sharing was as follows: "Both sides will make efforts for equal and fair distribution of cargoes between Japanese and Soviet ships". (7) In 1964, Japanese ships carried only 39% of the 310,000 tons of cargo that moved in both directions on the line. (8) In 1968, the latest year for which data are available, Japanese ships carried 54% of westbound cargoes but only 29% of eastbound cargoes. The equivalent percentages in 1967 were 44% and 22% respectively. (9) Because data are not available on the absolute tonnages moved in both directions during these years, it is uncertain how far the imbalance has been redressed since 1964.

~~SECRET~~

~~SECRET~~

Source List

1. State, New Delhi 1090, 9 April 1956, UNCLASSIFIED.
2. UN/ECAFE, E/CN.11/TRANS/Sub.3/L.30, 28 September 1970, UNCLASSIFIED.
3. Navy, Cairo, 51-S-58, 24 November 1958, SECRET.
4. Journal of Commerce (New York), 11 June 1971, UNCLASSIFIED.
5. Chamber of Shipping of the United Kingdom, London, 1971, UNCLASSIFIED.
6. State, Paris, A-29, 7 July 1966, UNCLASSIFIED.
7. Unpublished CIA report, SECRET.
8. Shipping and Trade News, Tokyo, 22 June 1965, UNCLASSIFIED.
9. Shipping and Trade News, Tokyo, 25 April 1969, UNCLASSIFIED.

~~SECRET~~

GROUP 1
Excluded from automatic
downgrading and
declassification