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Report of the Secretary-General

Addendum

Maritime transport in small island developing States*

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* The present report was prepared by the United Nations Conference on Trade and Development. It is a concise update of document E/CN.17/1996/20/Add.4 and the result of consultation and information exchange between United Nations agencies, interested government agencies and a range of other institutions and individuals.

I. Role of shipping in sustainable development for small island developing States

1. Economic development, trade and maritime transport are inextricably linked. This is particularly evident with developing countries because exports are growing faster than gross domestic product (GDP). For example, exports of goods and services expressed as a share of GDP increased from 13 per cent in 1970 to 28 per cent in 1995. Accompanying this expansion of exports was a corresponding annual average growth in real GDP. Between 1970 and 1995, economies of developing countries as a group grew at an average annual rate of 4.3 per cent. For the low-income group, the annual average growth in real GDP was 5.5 per cent, and that of the high-income group 4.1 per cent.¹

2. Efficient maritime transport and port infrastructure are essential for the expansion of foreign trade. This is particularly important for those small island developing States that are geographically and economically disadvantaged. Such handicaps are manifested in high distribution costs, lack of reliable shipping services, expensive trans-shipment charges, inadequate port facilities, limited maritime administration and diseconomies of scale when freight rates are negotiated with shipping conferences. For example, estimates of total freight costs for small island developing States in 1993 were more than 55 per cent higher than those for developed market-economy countries in the same year and more than 66 per cent higher in 1996. Table 1 provides a comparison of small island developing States with other country groups and indicates the large disparities among small island developing States. Moreover, most small, remote islands incur even higher freight costs as a percentage of import value; the proportions range from 12 to 18 per cent, and are almost double those of other developing countries as a group and nearly three times those of developed countries.

3. The work of the United Nations Conference on Trade and Development (UNCTAD) in the field of transportation, including maritime transport, is based on the Midrand Declaration,² adopted at the ninth session of UNCTAD, held in South Africa in 1996. Research and technical cooperation are geared towards trade-related aspects of maritime transport thus improving the quality of trade-related services and the ability of small island developing States to participate effectively in world trade. Research, technical cooperation and human resource development activities are complementary parts of an integrated approach to transport problem-solving. Research provides new insights into methods of tackling development problems. Of particular significance in this context is the *Review of Maritime Transport*, an annual publication of UNCTAD analysing short- and medium-term trends in world seaborne trade and shipping. The 1997 issue of the *Review*³ specifically dealt with maritime transport problems of small island developing States, their participation in world shipping and their position as consumers of maritime transport services. The results of this research can be disseminated through training programmes to policy makers, administrators and the private sector in developing countries. Technical cooperation provides the means for follow-up assistance, to be made available to developing countries at their request. At the same time, the information and ideas that technical cooperation experts communicate from the field enable members of the secretariat to better understand the needs of developing countries and how the work of the secretariat can be oriented to help meet such needs; thus technical cooperation becomes an important source of ideas for research and policy development.

4. An example of a technical assistance programme that combines elements of assistance in both policy formulation and training is a recently concluded pilot project on assisting private participation. After a first implementation in Thailand, a project of this nature has now begun in Indonesia; the intention is to extend similar activities at a later stage to small island developing States. In fact, even though Indonesia does not figure among the small island developing States, a number of maritime transport problems encountered by this country, particularly in inter-island transport, are similar to those experienced by small island countries of the region. In the course of these projects, UNCTAD assists the beneficiaries in designing policy frameworks conducive to the development of the maritime sector and conducts training seminars for transport operators to assist them in providing efficient transport services, and for transport users to enable them to make the best use of the available low-cost transport services.

II. Overview of the current situation in shipping

5. The present section of the present report includes an update of small island developing States international trade and the characteristics of the small island developing States merchant fleet. The maritime transportation issues continue to be quite different, however, for the various small island developing States. The group is significantly diverse in geographical location, natural endowments and stages of economic development. It is evident that maritime markets and maritime issues in a country such as Singapore, with its excellent geographical location, the second largest container throughput in the world,³ a highly competitive shipping industry and a per capita GDP of almost \$25,000,⁴ are very different from those of most other small island developing States. For example, per capita income for developing countries in Oceania ranges from a low of \$543 (Kiribati) to a high of \$2,640 (Fiji),⁴ and a noticeable involvement is lacking in the ocean carriage of their foreign trade.

A. International trade of small island developing States

6. During the period 1985–1995 the growth of exports of small island developing States with a population of under 5 million remained globally stable in nominal terms (about 5 per cent per annum). Meanwhile, the growth of imports of the same group of small island developing States slowed down significantly in nominal terms (from an average 8.3 per cent per annum in 1985–1990 to 3.8 per cent in 1990–1995) as a result of the slightly slower GDP growth performance of these countries in the first half of the 1990s.

7. Developed country destinations account on average for two thirds of the total value of small island developing States exports, while developing countries account for the balance. Only in very few small island developing States (for example, Seychelles and Tuvalu) did merchandise exports to other developing countries exceed exports to developed countries in 1995. In that year, an estimated two thirds of small island developing States exported more merchandise to countries of the European Union (EU) than to any other region of developed countries, while the remaining third comprised in equal parts small island developing States exporting more merchandise to Northern and Central America, and those exporting more to Japan. Island countries that have demonstrated a particularly strong increase in the European share of their merchandise export destinations include Barbados, Cape Verde, the Comoros and Maldives, while Dominica and Sao Tome and Principe are among the small island developing States that have recorded noticeable increases in the Northern American and Central American shares of their total merchandise exports.

8. The origin of small island developing States imports is predominantly the developed countries, with an overall proportion slightly greater in 1995 (68.5 per cent) than 10 years earlier (64.8 per cent). For almost half of small island developing States, EU was in 1995 a larger source of merchandise imports than any other region of developed countries, while the other small island developing States, in equal parts, were importing more from either Northern and Central America, or Japan. Small island developing States for which the Northern and Central American source of imports increased significantly between 1985 and 1995 include Jamaica and Trinidad and Tobago, while Barbados is among countries that increased their imports from Europe during the same period.

B. Small island developing States merchant fleet

9. The impact of open-registry fleets creates a statistical bias in the analysis of the fleet capabilities of the small island developing States group. Open registries are legal mechanisms used to draw merchant tonnage from countries with more stringent safety regulations and higher operating costs to countries offering more flexibility in operation and taxation and lower registration fees. The benefits for the open-registry countries are additional tax revenues and employment opportunities when ship management companies are established within the country. The main benefits, however, remain with the nationals of the true owners because the share of tonnage owned by open-registry nationals continues to be minimal.

10. Within the small island developing States group, open-registry tonnage represents 82.1 per cent of the total. Thus, a more accurate analysis of the small island developing States fleets should focus on the remaining — beneficially owned — tonnage of 30.5 million deadweight tons. The composition of this fleet is summarized in table 2 and indicates a concentration of registered tonnage in Singapore, Antigua and Barbuda, Saint Vincent and the Grenadines, and Barbados. These four represent 96 per cent of the total small island developing States fleet, excluding the main open-registry countries. This high percentage is partly explained by the recording system⁵ which includes vessels of 100 gross registered tons and over. Thus, many of the smaller ships are not included in the global data bank maintained by Lloyd's Maritime Information Services (London). Nevertheless, a large number of vessels of less than 100 gross registered tons continue to be operated in many small island developing States.

11. The age of the small island developing States fleets is the second qualitative factor. Table 3 gives an indication of the unfavourable age distribution of fleets of small island developing States as compared with other country groups. The apparent economic and technical obsolescence of a major part of the fleet is necessarily reflected in higher operating costs, as repair and maintenance rapidly increase with age, schedule delays and unreliability, and greater environmental risks associated with obsolete vessels. In brief, the small island developing States fleet is ageing and needs to be replaced.

12. Another conclusion from the fleet ownership/vessel type data is that the small island developing States need to increase their capabilities for serving their own trade. Most of the existing fleet (82.1 per cent) are registered in small island developing States offering open-registry facilities and are thus not responding to the needs of the foreign trade of the country concerned. While this focus provides foreign exchange earnings, employment for seafarers and diversification, it is not fully complementary to the trading requirements of small island developing States because most manufactured goods move by container or general cargo ships. The former represented only 5.5 per cent and the latter 16.7 per cent of the small island developing States fleet in 1997. If the vessels registered in Antigua and Barbuda, the Bahamas, Bermuda, Cyprus, Malta, Saint Vincent and the Grenadines, Singapore and Vanuatu are excluded, the small island developing States fleet of these two essential ship types (container and general cargo ships) is a minimal one.

C. Shipping industry changes

13. Restructuring trends and in particular the move towards globalization in the international liner shipping industry constitute another factor affecting the transportation capabilities of many small island developing States. Over the last decade, commercial cooperation agreements between large containership operators and a growing number of takeovers have resulted in a concentration of services. This has created economies of scale and encourages the expansion of hub-and-spoke service patterns between major trading areas. For small island developing States, however, the impact has been in terms of increasing the need for trans-shipment services, acquiring vessels with container lifting capabilities, investing in electronic data interchange technology and training management personnel. Without these infrastructure investments (mainly ships and port facilities), the ability of many small island developing States to generate income from shipping services will be marginal.

III. Recommendations

14. The recommendations contained in document E/CN.17/1996/20/Add.4 continue to be valid and represent minimum conditions that should be fulfilled if small island developing States are to be provided with transport services necessary for balanced structural development as well as improved participation in world trade. More investment is required in infrastructure, ships and manpower. It is also necessary to upgrade legal and political frameworks and to align operational systems with international practice. In order to ensure the creation of the necessary framework conducive to foreign investment and to private sector participation in maritime transport, it is essential to harmonize regulatory instruments at least at the regional level, and to exploit existing opportunities for cooperation which could enable both local and foreign operators to access maritime markets more easily and ensure the competitiveness of small island developing States operators. International organizations should continue to provide assistance to small island developing States in these areas. Particular support should be given to regional efforts aimed at improving regional maritime transportation.

Notes

- ¹ UNCTAD, *Handbook of International Trade and Development Statistics*, 1995 (United Nations publication, Sales No. E/F.97.II.D.7), tables 6.2 and 6.3.
- ² See *Proceedings of the United Nations Conference on Trade and Development, Ninth Session, Midrand, Republic of South Africa, 27 April–11 May 1996, Report and Annexes* (United Nations publication, Sales No. E.97.II.D.4), part one, sect. A.
- ³ UNCTAD, *Review of Maritime Transport*, 1997 (United Nations publication, Sales No. E.97.II.D.9).
- ⁴ UNCTAD, *Handbook of International Trade and Development Statistics*, 1995 (United Nations publication, Sales No. E/F.97.II.D.7), table 6.1.
- ⁵ Lloyd's Maritime Information Services (London).
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