SOUTH AFRICAN SHIPPING AND SHIP FINANCE: CONSTRAINTS AND PROSPECTS OF CONTAINER SHIPPING JOINT VENTURE

By

PHILLIP JOSEPH MVUNDURA

Pectora roborant cultus recti

STUDY PROJECT
Presented in partial fulfillment of the requirements for the
DEGREE OF MASTER OF PHILOSOPHY IN MARITIME STUDIES

At the

UNIVERSITY OF STELLENBOSCH

SUPERVISOR	:	Dr Piet Van Aswegen
DATE OF SUBMISSION	:	October 1999

DECLARATION

I, the undersigned, hereby declare that the work contained in this study is my own original work and has not previously in its entirety or in part been submitted at any University for a degree.

23 Nov '99

Date

SUMMARY

The changes taking place in the maritime trade provide broad and complex areas of interrelationships that can be identified as the main reason leading to the need for a joint venture South African container industry. The world economics and commercial developments, intense competition, low freight rates, high operational cost, liquidations, loss of market share and trade necessitated the investigation of market strategies that will provide the South African container industry with a sustainable comparative advantages on the traditional North/South route.

This study addresses the benefits of a joint venture between Safmarine and a South African Black Operator. The benefit of the joint venture is dual. Firstly, the operational benefits are realising economies of scale, more access to capital finance, stronger bargaining power and acquisition of a bigger market share. Secondly, there are benefits to the South African Balance of Payments because of retained foreign exchange spending on freight rates, the gaining of foreign exchange on freight earnings, the benefits associated with the flying of the South African flag, the skills transfer and maintenance of management skills in South Africa, and the opportunity to create black economic empowerment. With the expected growth and recovery of an export-led economy the latent benefits of a South African operator could have been realised if such a joint venture could have come about. However, Safmarine Container Line was sold to a foreign shipowner, i.e. AP Moller. Although, most of the operational benefits can be realised with such a buy-out, South Africa has lost the opportunity to become a significant player in the shipping trade with ancillary benefits.

OPSOMMING

Die veranderinge wat tans plaasvind in die maritieme handel veroorsaak wye en komplekse areas van onderlingsooreenkomste wat geidentifiseer kan word as die hoofrede vir die behoefte om 'n gesamentlike ooreenkoms in die Suid Afrikaanse houerskip industrie. Die wêreld ekonomiese en kommersiële ontwikkelinge, hewige kompetisie, lae vragtariewe, hoë bedryfskoste, likwidasies, verlies aan markaandeel en handel noodsaak die ondersoek na nuwe vergelykbare mark strategieë wat die Suid Afrikaanse houerskip industrie sal verseker van 'n langdurige kompeterende voordeel in die tradisionele Noord/Suid markte sal verseker.

Hierdie studie spreek die voordele van 'n gesametlike ooreenkoms tussen Safmarine, en 'n Suid Afrikaanse Swart Operateur aan. Die voordeel is tweeledig. Eerstens, die bedryfsvoordele deurdat skaalvoordele gerealiseer word, meer toegang tot kapitale finansiering verkry kan word, sterker mededingende mag en die verkryging van 'n groter markaandeel. Tweedens, is daar voordele vir die Suid Afrikaanse Betalingsbalans deurdie voorkoming van uitvloei van buitelandse valuta aan vraggeld en versekering, die inkomste uit vragverdienste, die verdien van buitelandse valuta aan vraggeld, die voordele wat gepaardgaan met die vaar van die Suid Afrikaanse vlag, die oordrag van vaardigheid en die behoud van bestuursvermoë in Suid Afrika, en die geleentheid om swart ekonomiese volmag te skep. Met die verwagte ekonomiese groei en herstel van 'n uitvoer-gebasseerde ekonomie kon die latente voordeel van 'n Suid Afrikaanse operateur verwesentlik word indien so 'n gesamentlike ooreenkoms plaas gevind het. Nieteenstaande, Safmarine Container Line was verkoop aan 'n buitelandse skeepseienaar, i.e. AP. Moller. Alhoewel, meeste van die bedryfsvoordele verwesentlik word as gevolg van die transaksie, het Suid Afrika die geleentheid verloor om 'n merkwaardige mededinger in die seehandel te word met die aanverwante voordele wat dit bied.

Dedicated to:

My wife Zione Marlie Mvundura

And

The boys: Christopher Mphatso and Christian Tafadzwanashe

TABLE OF CONTENTS

SECTION ONE

SECTION TWO

SECTION THREE

SECTION FOUR

SECTION FIVE

SECTION SIX

SECTION SEVEN

SECTION EIGHT

SECTION NINE

SECTION TEN

SECTION ELEVEN

LIST OF TABLES

LIST OF FIGURES

SCL: Safmarine Container Lines

SGP: Stability & Growth Pack

TEU: Twenty-foot equivalent, 1x20foot= 1teu & 1x40foot = 2teu

WCSA: West Continent South Africa Trade

WTO: World Trade Organisation, taken over from GATT

TERMS

Conference: Organisation of liner operators in one trade who agree to operate a common tariff.

Consortium: A group of liner operators who agree to rationalise sailing in a trade in carrying each other's containers

Cellular: Terms used to hold configuration of purpose built container ship equipped with cell guides into which containers fit.

EDI: Electronic data-interchange

EIU: Economic Intelligence Unit

EMU: Economic & Monetary Union (Europe)

ERM: Exchange Rate mechanisms

FDI: Foreign Direct Investment

GATT: General Agreement in Tariff and Trade

GDFI: Gross Domestic Fixed Investment

GDP: Gross Domestic Product

IMF: International Monetary Fund

JV: Joint Venture

OECD: G7- Group of 7 countries (Canada, UK, Italy, USA, Japan, Germany, France)

PPP: Price Parity Index

ACKNOWLEDGEMENT

It remains for me to acknowledge my indebtedness to those who have assisted me most directly in the writing of this study project:

The **Almighty God** without Whom, I believe, it could not have been possible to undertake this study.

I am especially indebted to **Dr Piet Van Aswegen**, my supervisor, for providing me with insight, for his kindness and constructive guidance, all of which encouraged me a great deal in developing interest in the field of containership joint venture. To him I say: "***Ndinotenda*** Dr Piet", i.e. thank you Dr Piet.

Dr. Henriette C. Van Niekerk, Head of the Unit for Maritime Studies, University of Stellenbosch. My heartfelt thanks to you for financial support, your encouragement and, your in-depth knowledge of Maritime Studies. My history could not be complete without the mention of your name. My family and I have treasure in you and you have a wonderful place in our lives. To you I say: "***Ndinotenda***".

I am also grateful to all **Staff** of the Unit for Maritime Studies particularly **Mr. Floor** for his support, dedication and advice during the course.

To my friends: **Harry, Temba, Eric, Karen, Russell, Riaan, David, Dirk, Annerine;** my sincere gratitude goes to all of you. I congratulate you as well on your success.

Pastor Billy Moses Tengwana and his wife for their prayers, and moral support.

My parents, **Ronika and Oliver**, I say to them "this is the fruit of your toil", "***ndinomutendai***".

My **Brothers and Sisters**: My sincere gratitude to you for your support and motivation during the good and bad times.

My **Mother and Father-in law**: You are wonderful parents I ever had. Thank you for your support and kindness. Words do not express everything, "***ndinomutendai***".

SECTION ONE

1. INTRODUCTION

The on-going changes in the world economy and maritime industry have created new ways of shipping trade and operations. Following the political changes of 1994, the South African economy was fully integrated into the world economy, and trade with South Africa opened new markets. South African commodity of exports captured a high demand in the overseas and regional markets. This was partly helped by the Rand, which lost value against major currencies and globalisation effects (decentralised production and trade liberalisation) which had seen huge capital investment movement all over the world.

Globalisation resulted in intensive competition and low prices, more investment in equipment and commercial services and higher quality or improved services to the consumers. This resulted in smaller revenues. In late 1997, the Asian financial crisis affected many world economies and markets, and triggered a trend of currency depreciation in a number of countries. The Asian crisis also resulted in maritime and cargo trade imbalances, with most container cargoes bound for the west and empty containers to the east or Asia.

The impact of these changes is considerably wider. In maritime trade there has been a response by shifting of services from traditional markets, which are severely affected, to less competitive and potential markets of the North/South. This has threatened the stable markets of Europe/African and indeed South African shipping services, which had for over half a century operated in these routes.

Most of the carrier services moving into markets are top European and Asian companies, who receive many forms of support including subsidies from their governments, while their South African counterparts have never enjoyed commercial advantage provided by the government. The current government has also adopted a far too liberal view of free trade, which leaves the South African shipping industry alone, faced with the threat of foreign carriers and the loss of competitive advantage. Therefore the call for an alternative approach, that carries with it economies of scale and major savings, is inevitable.

The aim is not to drive away foreign carriers from the North/South routes. The objective is to maintain and enlarge market share, thereby allowing growth in revenues.

1.1 Definition: Containership Joint Venture

Joint ventures in the maritime field plays an increasingly important part, in bringing together various shipping organisations from different regions and differing sizes. As a result, the scope of maritime joint ventures is wide and therefore difficult to arrive at a precise definition. However the most important reason behind the launch of a shipping joint venture is because neither party has at its disposal all the elements necessary to realise the objective of the venture alone.

Carden in 1984 attempted a definition of the shipping joint venture by stating that "each party relies on the other to supply the missing elements ....to combine all or part of its functions with those of one or more other owners similarly placed, and thereby offer jointly a rationalised service capable of fulfilling shippers' requirements in a way that no individual owner could do on his own."[1]

Carden implied that the shipping industry could realise growth and advantages by way of pooling together their resources. The resources include capital investment, decision making, expertise and skills, company operations, etc. The main purpose of the majority of the maritime joint ventures is to enhance growth, strengthen market share, profitability and afford to offer quality service. This also means that companies in the joint venture share the synergies and strategic benefits of combining their operations and achieve major savings, which none of them could realise on their own.

Grammenos and Xilas in 1996 provided another definition of maritime joint venture as follows: "a venture in the maritime sector that involves the association and existence of two or more partners in the formation of a separate new organisational and legal entity. It has its own force, momentum and operations, and can incur debt; sign shipping contracts or undertake other activities in its own registered name. However, it is jointly owned and controlled by the parent companies, without consequence to the financial or legal positions of its parents, except to the extent of their equity participation in the joint venture."[2]

Grammenos and Xilas further separated their definition onto two key criteria, the first one being "... separate new organisation and legal entity..."[3] They implied the creation of shipping pools with an aim of trading the vessels of members in a single fleet. These vessels are operated by one centralised marketing organisation at the same time the owners retaining the owners' obligations, for example operating costs of the joint venture. The pool then pays out the income revenues of the vessels divided up among the participating owners in some pre-determined way. To this extent the pool acts as the owners' agent in respect of the vessels it operates. In addition this definition does not include liner and conference agreements within the sphere of maritime joint ventures.

The second criterion is "...without consequence to the financial or legal positions of its parents..."[4] This means that the parent companies which are providing financial support, technical expertise, managerial skills local market knowledge, etc should not be legally or financially responsible, except to the amount of the equity contribution, to the joint venture.

Cooke in 1986 gave an interim definition of the shipping joint venture as follows: " an enterprise, corporation, or partnership formed by two or more companies, individuals or organisations, at least one of which is an operating entity wishing to broaden its activities for the purposes of conducting new profit- motivated business of a more or less permanent duration."[5]. Cooke and Carden's definitions have common ground, which include companies that compliment each other in terms of their individual missing elements.

In 1984 D'Orsay defined the maritime joint ventures as "an association of generally two, sometimes three or several, partners, in order to achieve a common purpose or target...when one partner is incorporating another into his organisation, it is a merger or acquisition, but not a joint venture... Association, co-operation, marriage, are criteria of the joint venture."[6] D'Orsay's definition of joint ventures makes some clear distinctions between mergers/acquisitions and joint ventures. In the case of a merger or acquisition a partner is incorporated into another organisation while a joint venture entails integration of two or more companies on equal basis.

1.2 Types of Shipping Joint Ventures

Although the scope of the maritime joint ventures from the above appear wide the orientation of the joint venture should be viewed in respect of the purpose and intensity of the co-operation relative to the objectives of the joint venture. However, the Euro-centric view entails a wide spectrum of economic growth and development, makes distinctions of maritime joint ventures in terms of the state of the economic development. The observation takes a general view of joint ventures between shipowners in developed and less developed or developing economies.

1.2.1 Joint Venture between Shipowners

Most maritime joint ventures, which are between shipowners, are found in developed economies, and most of them are private companies. Joint ventures in less developed or developing countries are mostly government or state-controlled organisations and not private entities. The reason being the lack of capital, managerial skills and experience, as well as government control over cargoes or tonnage supplied.

The difference between the two forms of joint ventures lies in the objectives of the organisations. For instance joint ventures in developed economies are more concerned about stabilisation of income through risk spreading, increasing income through economies of scale, the reduction or control of costs. While the joint ventures in less developed economies are driven by the ability to participate in previously unattainable business, because of size constraints, lack of capital, insufficient experience, thereby resulting in increased market coverage.[7]

Regardless of these differences the world economic slump depressed the freight market that increased the need to stabilise income and control costs in all organisations. For instance both in developed and developing economies the containership sector, which previously exhibited a degree of stability has essentially been driven to cost reduction and consolidation by the Asian crisis, increased competition, newbuilding deliveries, etc. In South Africa the need for a container shipping joint venture is mainly driven by competition, cost controls and market survival. This is so because there has been a substantial shift of carriers moving into less competitive markets of the North/South route.

1.2.2 Joint Venture between Shipowners and Charterers

Another interesting form of joint venture is one between shipowner and charterer. The main objective of the charterer is to arrange the transport of cargo, while the shipowner wants to provide the transport to fulfil this requirement. In this regard the vessel ownership for the charterer or chartering activity for the shipowner do not constitute the main areas of business.

Apparently, a conflict of interest arises due to the fact that the shipowner and the charterer have opposing freight rates. For example when the market is high, the charterer pays high rates on the spot market. Because ship values and profits are high, there are more incentives for the charterer to move towards a joint venture. To the contrary, there are little or no incentives for the shipowner to call for a joint venture. On the other hand when the market falls the situation is reversed. The charterer pays low rates because the ship values and profits are low. There is no incentive for the charterer to push for a joint venture while the incentives for the shipowner to participate in a joint venture are greater.

Charterers may also take a speculative view of the market; for example the charterer may decide to participate in a joint venture, taking an equity interest when the market is low in order to profit when the market turns, aiming to save on capital costs.

However, a joint venture may also be achieved by the charterer through offering of cargo and labour, while the shipowner provides capital and management. This type of joint ventures are more common from the Euro-centric view point- between shipowners of developed economies and charterers of developing economies. The shipowners want constant availability of cargo (stability), improved revenue, and increased vessel utilisation with decreased costs (i.e. ballasting and chartering). The charterers on the other hand want stability of transport costs and security (availability of transport) accompanies by profit generation in the case of equity participation.

In South Africa the Euro-centric view does not matter much because about 65% of the commercial deep-sea shipping is in private hands. Safmarine the largest South African shipping company has been in the business for over fifty years and its success was due to the North/South markets, which are under threat from shipping companies from developed economies. The study explores a South African container shipping joint venture that is deemed to bring economies of scale and allowing the new entity run as a single company on the basis of the synergies of the participating companies.

This position goes beyond ship sharing in order to reduce both sea and land costs. The push for this co-operation arises from the realisation by the carriers that rates are diminishing, and hence cost has become their public enemy number one. In South Africa and elsewhere the need for a carrier with the possible lowest unit cost with the ability for market dominance could be comprehended in a consolidated containership joint venture and this is the thrust of the dissertation. However, this proposition is also founded on the equation for ship-related costs in operating, that constitute somewhere between 30% to 45% of the carriers' expenditure. The balance relates to non-marine activities. Against this background a joint venture arrangement could be embraced to access savings in the remaining 55% to 70% of the total costs.

1.2 3 The Containership Joint Venture Challenges in South Africa

Following the socio-economic changes of 1994 there has a relative growth of international trade in merchandise products between the rest of the world and South African. As a result there have been strategic changes in the container industry between South Africa and the world. Growth in merchandise has attracted major container players into the North-South routes from their traditional markets of the West-East, which are proving competitive and less profitable. Therefore an "umbrella" organisation such as a joint venture could be adopted to help consolidate business in order to hold strong positions in the North-South markets. For that reason the study proposes a theoretical Safmarine/South African Black operators joint venture to make such a challenge and to create a competitive strength in South African container shipping. The joint investment would be geared towards cost savings, market dominance and profitability. It would also change or influence the South African trade balances and contribute towards a positive growth of the economy.

The joint venture is of strategic value, as the two companies would acquire value by cash infusion. This will create new opportunities for shipping finance from the local and international sectors. By merging capital and operations the JV would reduce costs by having all their financial concerns under one roof, gain better buying power, improve their credit rating and have the ability to renew and expand their fleets. This could help the company break into new waters and benefit from the high influx of sophisticated financial availability in the markets.

The joint venture would register their vessels with the South African ship registry. Since the end of the trade and cargo embargo the South African registry still holds about six commercial ships flying the national flag even though Safmarine, Unicorn and some ship operating companies have their ships under the foreign registries for tax and commercial advantages. The venture would certainly elevate the level of the registry, create additional fiscal contribution and national prestige.

1.3 Development and Dynamics of the Containership Industry

1.3.1. Conference System

Market dynamics and the desire to cut down costs on the other hand threaten the hegemony of the conference system's future. The demands of the complicated logistic systems of the present container shipping with its diverse variations in service and quality are calling for the need for flexible new forms of co-operation. Many operators would want the cumbersome procedures that have frequently prevented the conferences from reacting quickly to sudden shifts in market growth to be abandoned. For many newcomers the open conferences are just simply not worth joining, while closed conferences have been unwilling to offer new entrants sufficient elbow room to be able to offer economically viable service.

In the words of Hans-Jakobs Kruse, the Chairman of Hapag-Lloyd AG, "co-operation systems such as conferences will survive and prosper if they:

- keep their tariffs, services and conditions market oriented;
- streamline cumbersome decision making procedures;
- allow their members as much freedom as possible; and
- improve public relations."

However the future of the container lines is assured because the industry is the backbone of international commerce. It is also assured if their unit costs are minimised; if the industry is better prepared for the continuous investment needed in hard and software and with long-term commitment to the trade as operators will not be prone to a "fast buck" attitude which is more prevalent in individuals.

1.3.1.1 Consortia

During the last twenty years the container line industry has moved through several organisational phases in the search for lower costs, improved pricing system reinforced market presence, improved competitiveness and profitability. At the outset of containerisation, it was the consortia concept, which held sway, either with or without joint marketing. There was a swing towards independent operations in the 1980s as lines looked to assume sole control of operations. At the end of the 1980s it became apparent that this approach was impossible- even the largest lines could not assume sole responsibility for either funding growth needed to keep pace with cargo flows or for filling the increasingly larger vessels which were being deployed. This led to the idea of "partnerisation"- an approach of stabilisation agreements and bi or tri-partite vessel sharing agreements. None of these developments delivered acceptable levels of carrier profitability.

These developments were all introduced into conference and non-conference liners. Their biggest achievement was improved co-operation among operators. Many of these included voluntary capacity that served to permit the industry to survive large-scale capacity additions and low freight rates over a long period of time.

1.3.2 Industrial Consolidation

Consolidation means the movement of the container industry from fragmentation to an environment that created large players. This includes container phases of alliances, mergers and joint ventures. It has led players to be able to differentiate both their product quality and production technology. As a result consolidation has improved the voyage economics in terms of voyage quality and production technology and also achieved better levels of profit and return on capital.

1.3.2.1 Alliances

The concept of global or grand alliances emerged during the first half of the 1990s. It was also borne out of financial necessity rather than preference. The alliances spurred on by the need for established operators to replace ageing fleets and establish a new type of operation with the optimum economy of scale effect. It brought some of the members into new trades and of much greater importance, moved beyond the confines of single route alliance and simple ship sharing and extended to land side operations as well. As a result the rapid growth in new capacity created opportunities for new combination possibilities in cargo mix i.e. Bulk and Container operators and led to new competitors. The new entrants had less regard for traditional patterns of the industry and in particular, to the existing differentiated tariff systems in these markets. This triggered a fundamental change in the liner trades from a specialised niche operator business into an undifferentiated commodity business. The commodity was the container slot, and the issue was price.

Table 1.1: The World Global Alliances

	World Ranks*	Total Fleet Vessels	Total Fleet Slots
APL	11	38	81,547
MOL	7	66	118,208
Nedlloyd	6	60	118,599
OOCL	19	23	55,811
Global Alliance Total		**187**	**375,165**
Hapag-Lloyd	15	28	71,688
NOL	16	35	63,469
NYK	5	73	137,018
P&OCL	8	46	98,893
Grand Alliance Total		**182**	**371.068**
Maersk	2	97	186,040
Sea-Land	1	109	196,708
Alliance Total		**206**	**382,748**
Cho Yang	20	21	33,014
DSR-Senator	14	39	75,497
Hanjin	9	35	92,332
Alliance Total		**95**	**200,843**

*Basis of total vessel slots operated 1 September 1995

Source: Drewry Shipping Consultants Ltd.

The minimal differentiation between the competitors, which emerged, led to intense competition and the emphasis was focussed on low cost operations and the efficient management of the land activities. In addition to the logistical advantages achieved through co-ordination of activities into one single operation the formation of alliances generated substantial cost advantages, namely;

- increased bargaining power, through combining the purchasing requirements of the parties (berthing right, supplies, etc.);
- by swapping TEU slots and boxes both the ships and the boxes become logistically more flexible, reducing the number of ballast legs and increasing capacity utilisation levels;
- by combining services the client is offered greater frequency, reducing land storage and other capital costs (i.e. improved productivity);
- by consolidating freight into more economical "parcels", ships are able to call at fewer ports and save on both port charges and lost productive sailing time; and
- being able to react rapidly to changes in the demand, swapping a large ship for a smaller ship (or vice versus) to maximise fleet utilisation on a particular trade route.

The explosion of capacity on the entire world's major routes forced the liner industry once again moving into an era where the emphasis is be on product differentiation. However carriers are satisfied with the service improvements which alliances have produced but it is not certainly the most novel element in the motivation to form such partnership.

While alliances offer the prospects of co-operation between members, companies have their own marketing and administrative strategies, and are slow to deliver the scale benefits that is basically required. Lack of complete integration still provides for differential costs and hence could not enhance the basic strategy of the alliances. On the other hand the scale of alliance agreements, and the expense involved in dismantling old partnership and inaugurating new ones, has been so great that the alliances are all long-term ventures. The Grand Alliance, for instance, is a ten years pact, while the Global Alliance is fixed to 2005 in the transpacific markets and to 2001 in the Asia-ECNA and Asia-Europe trades.

Today multinational and national container groups have re-emerged as new forms of co-operation offering consolidated joint investments, with considerable cost savings as opposed to global or grand alliances. It has been realised that the logistical potential is unlikely to materialise until resources are pooled under a single management operation in which joint venture arrangements are favoured over alliances.

1.3.2.2 Joint Ventures, Mergers and Take-overs

Joint venture is not a new word in international business although it has been regarded by the students of strategic management as a new concept bound to reduce costs and employ equity in the most effective way in order to reap reasonable return on capital investment. Mergers and take-overs alike are also business strategies more or less on the same lines with joint ventures depending on the level and degree of integration of the merging companies.

However, if joint investment negotiations that form co-ordinated operations and a sharing of the capital obligations, fail to produce a profitable carrier industry, it would be unavoidable that some carriers sacrifice their market by hostile take-overs. As a result joint ventures and mergers are shaping the liner industry into a more consolidated industry.

The joint venture concept has been instrumental in the current large-scale increases in unit size of container carriers from 5,200 TEUs to over 6,000 TEUs, and the planned introduction of the post post panamax size of 15,000 TEUs. These units will however pose new challenges in the 21st century. However the orderbook in 1996 showed an excess of 30% and in 1997 container capacity shot up by 18% while the world-wide container trade was running at a snail pace. These will result in short-term lower slot capacity utilisation, lower freight rates and lower vessel/asset values. However there are also demands for further investment and improvements in the economics of carriers that includes container inventory, acquisitions and management.

Finally the joint venture process will reduce global competitors. The process will result in a fierce competition that will drive down freight prices. Profits and positive cash flows, which are currently in the red in many shipping companies, could be mainly a result of cost savings and efficient services. This is however the other major contention of this study. Above all the study favours a national joint venture rather than a transnational JV (i.e. a joint venture comprised of two or more companies of different nationalities).

1.4 Purpose of the Study

The study uses a hypothetical approach that proposes a joint venture between Safmarine Container Lines and a South African black ship operator merging their container shipping businesses on a 50/50 basis. The purpose of the study is to expand and vie for market consolidation by South African shipowners through joint venture investment rather than independent or fragmented container ownership. The South African container carrier needs to grow and defend their market share in the North-South routes of Europe- Africa (West, East and South Africa) and North America-South Africa. These are crucial markets in the sense that the world's most industrialised markets such as the East-West route preoccupy most major container players. Because the North-South markets are developing and proving profitable, while the West-East markets are becoming unprofitable and very competitive, it is logical that big container player will soon join the North-South markets.

To justify expansion of the carrier fleet the study also provides a review of the World and South African (African) economy, trade analysis and theoretical cost savings offered by joint investment. These would reflect a clearer assessment of the risks associated with the financial lending decisions and appropriately pricing of the loans. The study also discusses the constraints of JVs and also provides possible prospects of container shipping in South Africa.

1.5 Methodology

The empirical foundation of this study is based on interpretative research methodology by utilising the previous studies, structured interviews, brain storming and analysis of published shipping investment materials. This would help draw a scenario based on trends in order to point out areas of success and failure of a joint venture of this nature.

---

1. Carden, P.M.A. "Maritime Joint Venture- Liner and Through Transport Operations, Conference Paper 1984
2. Grammenos, C Th and Xilas, E.M. "Shipping Investment and Finance", 1996 page 17-2
3. Ibid, page 17-2
4. Ibid, page 17-3
5. Cooke, G.C.M. "Finaing Maritime Joint Venture", presentation at International Piraeus Meeting, 1986
6. D'Orsay, P.P. "The Risk Element in Joint Venture" Conference Presentation- International Chamber of Commerce and Lloyd's of London Press Ltd, 1984.

SECTION TWO

2.1 The Strategic Value of the Joint Venture

The theoretical Safmarine/South African Black operators joint venture is both timely and of great value. The capital infusion of the two companies would create less financial burden as compared to a single or an independent company. The Basle Committee of July 1988, which was preceded by the introduction of the capital adequacy rules in 1993, resulted in stricter capital input measures. The rules severely limited lending risk; introduced greater client selectivity and appraisal; more strict loan terms and conditions (e.g. higher spreads); shorter maturities and greater security requirements; a decreased in guarantees; and more emphasis on fee generation as opposed to interest generated income.

As a result the owners' capital inputs for vessel acquisition went up to a range between 20% and 50% depending on particular cases and circumstances. Previously the owners' capital inputs had dropped from a minimum of 50% in 1940s/50s to 20% and even dropped to 0% during the liberal credit periods of 1967/73 and 1980/82. (C.Th. Grammenos and E. M. Xilas, Shipping Investment and Finance, page10-16). To overcome these capital requirements the call for joint investment could be reinforced in the South African container industry in order to scoop the benefits of shared capital and joint operational costs.

Apart from the capital infusion in the partnership the South African joint venture would enjoy the operational stability already achieved by Safamarine in the commercial shipping operation. Through good management Safmarine survived the international trade and cargo embargo prior to 1994 and Safmarine expanded and intensified their operations. They are predominantly running three major markets namely, bulk; reefer; and container shipping. In addition Safmarine had diversified into many other similar sectors of air transport services, freight and terminal logistics;

and also invested into hotels and casinos before the recent unbundling of some of these units.

Safmarine's success is that of a growing company and business confidence in the region and the North-South markets. It also gained higher professional expertise, networking and logistical facilities of international standards. This could however lift the joint venture's creditworthiness to higher levels in order to meet their investment financial requirements.

Inviting the Black operators in the container joint venture investment is a challenging proposition. The strategy is to ensure that South Africans rather than foreign carriers enjoy the benefits of the joint venture consolidation. Assuming that the South African Black operators are a theoretical medium size company, which has successfully operated chartered and leased vessels in numerous sectors of deep-sea shipping. The operators have created wealth and decided to specialise in the container sector. They intend to exploit the joint venture with Safmarine Container Lines as an "umbrella" organisation to strengthen their positions in the North-South markets.

The containership joint venture with Safmarine is a consolidative strategy to create a cost competitive advantage in the Europe/South Africa route. The Black operators alone cannot effectively compete without the support of an African giant.

The strategic advantages of the joint venture are as follows:

- the provision of easy capital inputs through joint investment;
- the provision of a dominant market share ;
- the JV will act as a hedge against foreign container powers;
- reduction of the current high shipping costs through shared costs;
- the creation and saving of foreign currency earnings, and

- no dividends or profit share will be expatriated to overseas owners.

Beside this the joint venture will be a strategic tool to pursue support in container expansion under the economic empowerment programme of the government.

2.2 South African Merchant Shipping Policy

The current shipping policy of non-intervention may suggest that the government has not acknowledged the important role played by shipping in the economic development of the country. This policy was carried forward from the previous government and has not catered for the changes taking place in maritime trade, resulting in the bulk of the cargo business is still in the hands of foreigner carriers. More than 50% of the containerised trade, over 75% of the exports and over 80% of the imports of the bulk commodities that include petroleum are still in the hands of foreign carriers. (Report of the Committee of Inquiry into National Maritime Policy for the Republic of South Africa, page 72, 1993).

The study is not calling for the government to adopt a protectionist policy or subsidising the South African shipping industry. The government could have legislative support that makes it possible to intervene when ever necessary. Since the era of the previous government South African shipowners operated under economic sanctions and trade embargo without governmental assistance or support in the past while their competitors still continue to receive support from their governments up to today.

The government needs to be aware of the benefits of developing and advancing the South African shipping industry in order;

- to reduce dependence on foreign carriers,
- to increase the country's net foreign currency earnings,
- to promote the country's foreign trade, and
- to strengthen the political position of South Africa.

These can be achieved when the government creates and influences a business environment that gives a lease of life to the South African shipping industry. The government could introduce incentives necessary to attract exporters and importers to choose South African vessels by way of offering reduced duties. This can also be used to cargoes moved on CIF to overseas and FOB into the country. These incentives could amount to a subsidy to the South African shipowners, but can do little to breach international agreements or conventions. Similar incentives are more common in market oriented countries in Europe and America.

In terms of financing acquisitions of vessels, government policy matters quite substantially. Financiers would want to see a clear government policy in order to warrant their capital financing. Subsidies may not always be attractive in ship financing, but a country's shipping policy should be elaborative and a signal showing support in a business environment.

The policy of economic redistribution and empowerment could be used to enhance the development of the shipping industry in South Africa. In South Africa shipping is one industry with a strong economic potential that has not been exploited at full scale. If this policy is realised in shipping then the container joint venture proposal would merit government support and backing for effective participation of the Black operators. Government backing can help the joint venture to access sophisticated international finance.

In short the tool of economic redistribution and empowerment should not lie idle. It could be a strong weapon used to source international finance. In the joint venture it could be used to equip the Black operators with experience and techniques and promote the advancement of the whole industry. Companies in the joint venture of similar arrangements would also benefit from the moral and economic support granted by the government in terms of investment guarantees.

2.3 Economic Incentive for the Joint Venture

The most important objective for the joint venture is the reduction of cost or cost savings, shared capital investment, spread of financial risk, improvement in capital asset utilisation, the benefits of network integration and market knowledge. The incentive for this joint venture may go further as the integration of Safmarine and the Black operators may achieve the economies of scale. The recent mergers between containership owners such as P & O and Nedlloyd, and Neptune Orient and American President Lines mark a common move but could in the long run be marred by different nationalities and the lack of common objectives.

However, the Safmarine/Black operators joint venture could afford to provide much more frequent, more extensive and more reliable services, which would result in an increase market share. Typical JVs have been able to increase their traffic volume across the board, particularly the traffic of time sensitive, high value cargo and low tariff cargo. As a result margin could grow substantially and costs contained as revenue increases. Beside greater utilisation of vessels and equipment JVs have greater impact by use of shared integrated information management and EDI systems particularly in equipment, cargo flow, and ship loading management systems.

In short the economic incentive of the Safmarine/Black operators joint venture falls into the following categories:

- improvements in service frequency and quality and therefore door-to-door service time and cost;
- improvements in vessel and equipment utilisation and thereby reductions in fixed and variable costs;
- improvements in market share and high value cargo bookings;

- reduction in intermodal storage (inland depot) and port terminal throughput costs;
- reduction in financial and other fixed costs such as insurance;
- co-ordination and integration of MIS and EDI systems and services for greater efficiency and market penetration;
- improvements in logistic chain management and economies of scale by equipment, depot, terminal and vessel utilisation, and
- pooling of knowledge and sharing of research efforts.

Overall the container JV will help operators to not only become more profitable, but to overcome entry barriers to domestic and international markets, to increase market share internationally and to acquire market power in the North-South markets.

2.4 The Impact of Joint Ventures on Container Shipping

In view of limited and insufficient financial resources- shipping lines resort to more forms of co-operation which would reinforce the economic vitality of the companies. Since shipping requires huge capital investments and costs incurred on a daily basis, it has been proved that non of the companies is in a position to hold out alone. Therefore joint ventures have exerted decisive pressure on world-wide container shipping to find a partner with whom to pool resources together. As a result there has been effective shutting out of independents and closing of ranks by grouping of operators. Independent operators, Consortia and Alliances have been forced into financial distress and some of them eventually collapsed, some bought out or taken over.

These changes taking place in the maritime sector have been characterised by the inevitable necessity to come together and the demand for approaches such as joint ventures reinforces co-operation. Therefore the theoretical joint venture proposal between Safmarine/Black operators is not coincidence. It is borne out of the need to create a competitive front that would stand any form of domination by foreign container owners, and to maximise revenue earnings. The joint venture is also a direct response to world economic developments. There is pessimism about the scale and extent of the Asian financial crisis. Following the crisis many markets are sliding into economic slump and hence bear less activity and experience a reduction in volumes.

Economic developments elsewhere have pushed many major carriers out of their traditional markets to less competitive markets of the North-South. As a result they have threatened established operators of the North-South markets namely Safmarine, hence the need for joint venture consolidation and a change for survival.

SECTION THREE

3. ECONOMIC AND POLITICAL CONDITIONS

The state of the world economy and political events exercise a major influence on shipping markets and form an important part of the conditions for shipping investment analysis. They can also have a direct influence over the supply and demand and price trends. Economic and political developments carry with them structural changes, regulatory and legal development, affect competition, cyclical and seasonal trends, product differentiation and marketing. These factors have been quite evident in shaping the dynamics of the shipping markets including the container industry.

3.1 World Economic Prospects

According to the IMF survey on world economic outlook of 1998 the global GDP was slowed by the Asian financial crisis, which dropped from 3.1% in 1997 to 2.7% in 1998. The IMF affirms that North America was partly offset by improvements in the transition economies of, Western Europe and sub-Sahara Africa. The same survey shows Asia as the slowest-growing region in 1997/98 while the transition economies were the fastest growing economies. Similarly, the EIU forecast shown in Table 3.1 indicates that nineteen economies would have grown by 6% or more by end of 1998, these include the transition economies, Asia, sub-Sahara Africa and the Middle East. The same forecast also suggests that developing economies in 1997/98 would be slower partly caused by the Asian financial crisis and weaker economic performance, especially in Latin America and Middle East.

Table 3.1: World Economic Growth

Regions	1996	1997	1998
Asia & Australia	3.8	2.8	2.4
Latin America & the Caribbean	3.7	5.1	3.2
Middle East & North Africa	4.5	2.7	2.8
North America	2.7	3.7	2.5
Sub-Sahara Africa	3.9	3.2	3.6
Transition Economies	0.1	2.3	4.1
Western Europe	1.8	2.6	3.0
Total Growth World	3.1	3.1	2.7

Source: EIU Ltd.

However the slower global economic growth of 1998 was also accompanied by lower inflation. This is evident in the world consumer price inflation going down from 5.1% in 1997 to 4.3% in 1998 as indicated in Table3.2. Generally inflation in the developed world was less than 3% by end of 1998, while deflationary pressures were quite evident in Japan. In the developing world the inflation rate will be expected to decline in all regions as sound macroeconomic policies build on the progress seen over the last few years. The global disinflationary pressures are reinforced by the prospects of commodity prices.

The fall of Asia in the growth league table has been sudden and sharp. After heading the table in 1996, the financial crisis spread from the ASEAN economies to South Korea by end of 1997, exposing the weaknesses in many Asian countries' financial markets. The corrective measures that will be necessary will inevitably lead to a sharp slowdown in growth and an increase in inflation, but there will be an improvement in the current account deficits.

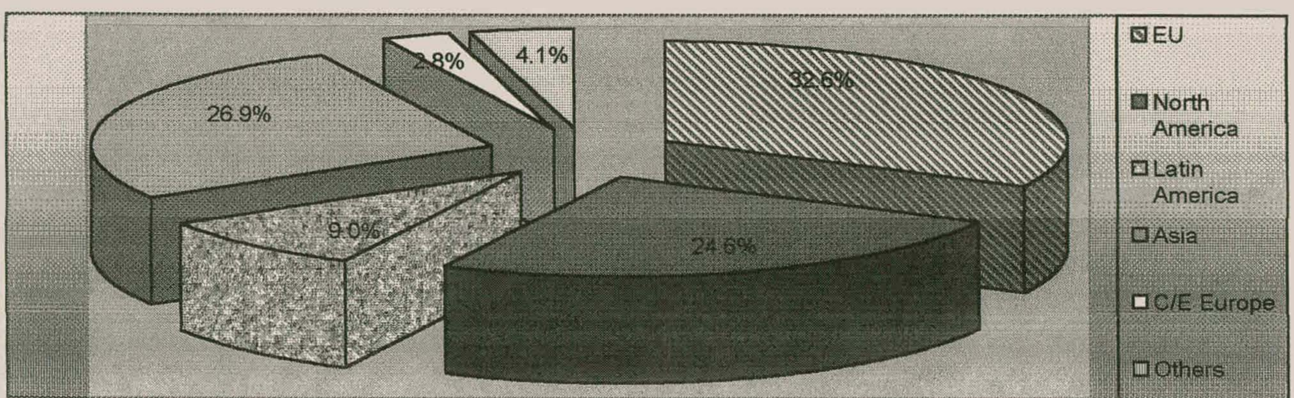
Table 3.2: World Inflation

Regions	1996	1997	1998
Asia & Australia	2.3	3.0	3.0
Latin America & the Caribbean	21.2	11.8	8.7
Middle East & North Africa	17.6	14.1	13.6
North America	2.8	2.4	2.5
Sub-Sahara Africa	49.2	48.8	33.5
Transition Economies	44.0	41.6	19.0
Western Europe	3.6	3.5	3.5
World Inflation	5.9	5.1	4.3

Source: IMF Ltd.

The major risk to the global economy arising from the Asian financial crisis is of contagion, with the possibility that Asia's woes have already infected other regions in the world. This is going to lead to a meltdown of the global stock markets. The sharp fall of asset prices in Asia in 1997 presents a global deflationary impact, especially in the developed world and particularly the United States. For example Asia account for nearly 30% of the US exports and 40% of the US imports. There is already a significant deterioration in the United States trade deficit with Asia as the United States exports market in Asia drying up. At the same time Asian exports to the United States will be competitively priced. Western Europe is less affected as only 10% of its total trade are with Asia, although Asia investment in Europe will suffer.

Figure 3.1: Global Foreign Direct Investment Flows, 1994



Source: UN World Investment Report, 1995

3.2 The OECD Economies

Despite the Asian financial crisis, economic expansion in industrialised countries has been significant. The impact of the crisis on growth prospects for the principal OECD economies except Japan, is still modest. Constant expansion will continue beyond the turn of the century. According to the IMF assessment, the global output growth went up from 3,5% in1995 to 3,8% in 1996, and further improved by 4% in 1998. As a result the currently OECD aggregated economic performance is by far superior than experienced during the slump of the early 1990s. This is due to a solid prospective growth of domestic demand in these countries and limited spillover effects of the Asian crisis.

Table 3.3: Economic Development, G7 Countries (% GDP growth at Market price)

	USA	*Japan*	*Germany*	*France*	*Italy*	*U.K.*	*Canada*	*G7 Total*
1990	1.3	5.2	5.9	2.5	2.1	0.4	-0.2	2.4
1991	-1.0	4.0	13.3	0.8	1.1	-2.4	-1.7	1.4
1992	2.7	1.0	1.8	1.2	0.6	-0.5	0.8	1.7
1993	2.3	0.1	-1.2	-1.3	-1.2	2.1	2.2	1.0
1994	3.5	0.5	3.0	2.8	2.1	3.9	4.1	2.8
1995	2.0	0.8	2.1	2.2	3.0	2.3	2.3	1.9
1996	2.4	3.7	1.1	1.2	0.6	2.4	1.9	2.2
1997	2.2	2.0	2.5	2.5	1.4	3.6	3.8	2.3
1998	2.1	2.5	2.4	2.4	2.5	3.5	2.1	2.4
1999	2.2	2.2	2.3	2.3	2.7	2.6	2.1	2.3
Avg. 2000/04	2.1	2.7	2.3	2.3	2.3	2.0	2.1	2.2

Source: National Institute Economic Review, Oct 1996

3.3 North America

The Asian crisis coincided with a strong performance in North America, with the United States operating at near capacity. Expansion particularly in the United States is in advanced stages. In 1997 economic growth led to tightening in the labour markets conditions with unemployment falling to 4.5% by 1998. Growth has also stimulated a gradual pick-up in wages. The falling import prices associated with the strengthening dollar have helped to contain inflationary pressures that emerged in the face of sustained above-potential growth. Deflationary impact of the Asian crisis on the American economy had in late 1997 put U.S interest rates on hold. High investment in new capacity has helped to contain cost pressures with advances in productivity growth outpacing the rise in wages.

The strength of the U.S. economy has however buoyed government revenues. The general government deficit was almost eliminated in 1997 and recorded a budget surplus of over US$17 billion in 1998, the first ever in a period of 29 years. The growth rate of real GDP in 1998 is about 3%, reflecting the weakening of external demand associated with the Asian crisis and the strengthening of the dollar.

3.4 Western Europe

The economic slow down in Europe of the first half of the1990s weakened domestic demand. But when output recovered in1996 industrial confidence gradually strengthened. This has made possible the economic and monetary union (EMU) making progress towards convergence. Of the 15 EU member states, only 4 are not planning to participate at the onset. Denmark, Sweden, and the United Kingdom have indicated that they do not wish to participate at this point, and Greece is aiming to join by 2001.

The eligibility for joining the EMU was based on economic performance in relation to convergence criteria in the area of inflation, public finance, interest rates, and exchange rates, specified in the Maastricht Treaty. As result there has been considerable progress in reducing inflation and fiscal imbalances since the signing of the treaty in 1990. With the exception of Greece-, which nonetheless has made important progress- inflation and long-term interest rates in the EU, countries were below the Maastricht reference value in 1997. The general government deficit satisfied the 3% of GDP reference value as indicated in Table 3.2

There has been no major tension within the exchange rate mechanism (ERM) since 1995. There seems little question about the sustainability of inflation performance, with prices projected to rise by 2% a year in 1998/1999 in the EU as a whole. Priority has been given to price stability in the statute of the European Central Banks (ECB).

Regarding the government debt particular attention has focused on how EU council will interpret the Maastricht criteria for countries with debt ratios that, while falling, are of the order of 100% or higher. Long-term interest rates will differ by a ¼ of 1% point or less among the countries participating in the EMU in 1999.

Table 3.4: European Union: Convergence Indicators (%)

	Consumer Price Inflation				General Govt. Balance/GDP				Gross Govt. Debt/GDP				Long-Term Interest Rates
	1996	1997	1998	1999	1996	1997	1998	1999	1996	1997	1998	1999	
Germany	1.5	1.8	1.6	1.7	-3.4	-2.7	-2.7	-2.5	60.	61	63.	63.	5.6
France	2.0	1.2	1.4	1.8	-4.1	-3.0	-3.0	-2.7	55.	58.	59.	60.	5.5
Italy	3.9	1.7	1.8	1.7	-6.7	-2.7	-2.5	-2.5	124	122	119	117	6.7
U.K.	2.9	2.8	2.9	2.6	-4.8	-1.6	-0.3	-----	53.	55.	52	50	7.0
Spain	3.5	2.0	2.1	2.3	-4.4	-2.6	-2.2	-2.0	70.	68.	67.	65.	6.3
Holland	2.1	2.2	2.0	2/3	-2.3	-1.4	-1,7	-1.3	77	72.	70.	68.	5.5
Sweden	0.8	0.9	2.0	2.0	-3.5	-0.4	1.3	2.0	77.	77.	71.	67.	6.5
Austria	1.9	1.3	1.4	1.5	-4.0	-2.4	-2.5	-2.5	70.	66.	65.	65.	5.6
Denmark	2.1	2.2	2.6	2.7	-0.9	0.4	1.2	2.0	67.	63.	58.	53.	5.6
Finland	0.6	1.2	2.3	2.5	-3.1	-0.9	0.5	1.0	58.	56.	54.	52.	5.5
Greece	8.2	5.4	5.0	3.7	-7.6	-4.0	-2.4	-2.0	112	109	107	1o3	9,8
Portugal	3.1	2.2	2.1	2.0	-3.3	-2.5	-2.5	-1.9	66.	63.	62.	62.	6.2
Ireland	1.7	1.5	2.2	2.1	-0.4	0.9	0.5	0.3	73	66.	61.	56.	6.7
Luxembo	1.4	1.4	1.2	1.4	2.5	1.7	0.6	0.9	6.6	6.7	7.7	7.5	5.6
Belgium	2.1	1.6	1.7	1.8	-3.2	-2.1	-1.7	-1.6	127	122	118	115	5.7
ALL E.U	2.5	1.9	2.0	2.0	-4.3	-2.3	-2.0	-1.7	74.	73.	72.	71.	6.1
Ref Value	**2.4**	**2.6**	**2.8**	**3.0**	**-3.0**	**-3.0**	**-3.0**	**-3.0**	**60.**	**60.**	**60.**	**60.**	**7.8**

Source: IMF staff projections

Of the countries participating in the EMU in 1999, Finland, Ireland, and Luxembourg had underlying fiscal positions of balance or surplus in 1998. For the other eight, structural fiscal deficits are the range of about 1-2.5% of GDP. These countries are expected to strengthen their fiscal positions if they are to comply with the medium term requirements of the agreed Stability and Growth Pact (SGP). Of the four countries that do not plan to join the Euro area at this stage, Denmark and Sweden have already achieved a structural budgetary surplus, and the UK was getting closer to structural balance by end of 1998.

However, economic performance in most EU countries has been hampered by excessive rigidities in product and labour markets. Lack of increased flexibility in labour markets, which is critical for a stable and successful Euro-area economy. The broad consensus in favour of policies was directed at price stability and insufficient progress was made in reducing structural unemployment. Without such support consolidation will be difficult. A decline in unemployment can facilitate fiscal consolidation, while the durability of fiscal consolidation in the face of persistent high unemployment will inevitably be open to criticism.

A satisfactory fiscal position is a prerequisite for tax cuts needed in most EU member countries to strengthen incentives to work and investment. Thus, fiscal consolidation will also need to focus on spending, while measures to tackle unemployment should be broadly based, emphasising deregulation and reform of social benefits as well as tax reduction.

On the other hand the United Kingdom economy continued to grow at above-potential rate for 1997. Unemployment declined to 5%. Inflation has been around 2.5%. Domestic demand has continued to provide the main impetus to growth, with net exports rising in the face of the sterling's real appreciation since 1996. However exports began to slow down in 1998 due to loss of competitiveness and the Asian crisis. Domestic demand moderated partly reflecting the tightening of monetary conditions during 1997 and continuing fiscal consolidation.

Generally, demand has strengthened in much of Western Europe and North America. This is mainly due to reduced real interest rates owing to the redirection of financial investments toward mature markets. Domestic demand will see much of its support from the terms of trade gains brought by the fall of commodity prices as a result of depreciation of currencies in Asia and much of the developing economies. In total the Asian crisis has exerted disinflationary effect on industrialised economies, thus reducing the risk of overheating in countries operating at high levels of resource utilisation, in particular the United States. As a result there has been be a strong consumer confidence in the advanced economies. In the United States consumer confidence has neared the highs reached in the 1960s.

3.5 Japan and the Far East

The roots of the Asian economic growth dates back to the 1960s with Japan being the economic dynasty of the region. The main driving force creating this growth was the economic performance of the countries in the region, which in turn stimulated consumption and expansion of production. Despite the 1990/91 world economic slump, countries in the Far East continued to enjoy high economic growth, as can be seen in Table 3.5 and Figure 3.2. Output growth was ahead of the principal OECD economies.

However, increased expansion of production capacities outpaced regional demand and this caused the built-up to the 1997 Asian economic crisis. As a result companies are grappling with inventories built up after domestic sales dropped. Industrial output fell down to lowest levels. Demand for merchandise and luxuries have diminished. Exports dropped down by 20% due to downsized production and loss of competitiveness following lower freight rates, which were primarily caused by devaluation of several regional currencies in 1997. The total effects of the crisis are felt much through weaker commodity prices. This has helped net importers of the Far East products to enjoy favourable terms of trade gains, while net exporters (the Asian Countries) are negatively affected on growth and on current account and fiscal positions that will be significant in majority cases.

Table 3.5: Far East economic data, 1994.

Country	*GDP in 1994 (US$ mn)*	*Annual GDP growth, 1990-1994 (%)*
Japan	4,396,000	1.1
China	538,000	10.1
Korea	333,00	7.6
Taiwan	222,000	6.5
Indonesia	146,000	6.8
Thailand	124,000	8.8
Hong Kong	118,000	4.9
Malaysia	64,000	8.7
Singapore	56,000	8.3
Philippines	55,000	1.8

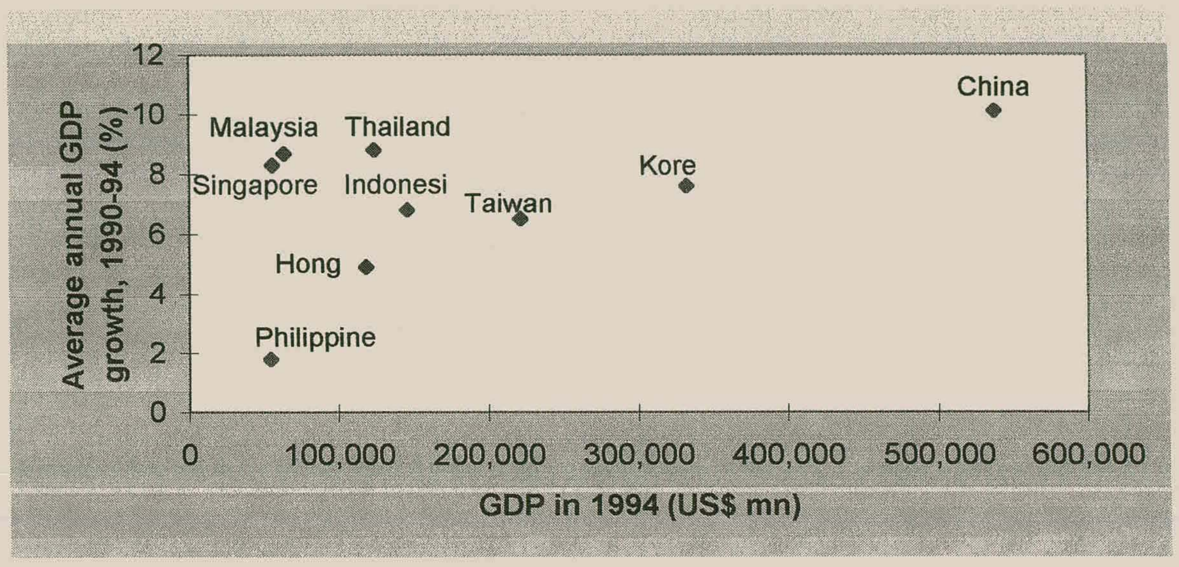
Source: Financial Times Energy Publishing.

As a result the crisis has prompted bankruptcies, rising unemployment and falling wages and living standards. Private foreign and domestic capital investment has deteriorated and there are evident declines in asset values. Economic growth estimates have been revised, with the largest downward revisions for Indonesia, South Korea and Thailand- the three most affected economies. By 1998 the Japanese growth was zero, while South Korea it slid down to -0.8%.

Japan's medium-term outlook has deteriorated further. Its economic weakness will delay economic turnaround in the Far Eastern region where it is the biggest foreign investor and a key export market. In spite of the measures that have been taken to address the financial sector problems and to support domestic demand, overall activity is now stagnant in 1998. Therefore further economic measures are needed to bring about an early resumption of growth.

In contrast, China has been relatively immune to contagion from the crisis, partly because its capital inflows consist primarily of direct investment. Although the real effective exchange rate has been affected as a result of the deprecations in the region, but the trade positions remains strong, with large international reserves. However growth slowed moderately to 8.4% in 1998 from 9.2 in 1997 owing to weakening domestic demand and more difficult international environment However China may decide to devaluate its currency in order to with stand competition against other Asian countries.

Figure 3.2: Far East economic growth up to 1994.



Source: Financial Times Energy Publishing.

The root cause of the crisis is largely attributed to self made problems, including regional financial sector weaknesses, offering bad debts, poor control of risks and lax enforcement of prudential rules, and delays in implementing structural reforms needed to reinvigorate the economy. Of late there is compressed investment and consumption in order to improve trade positions. This will however help to offset the domestic demand although output will still be expected to decline.

Another view of seeing the crisis is the expected reduction of inflationary pressures by weakening demand and activity in many countries. This will cause a sharp drop of world prices for many primary commodities, which the Asian countries have a significant share of global demand. The large depreciation of a number of currencies will however reduce the US dollar prices of those products for which the Asian countries are important world suppliers.

This argument goes even beyond reduced global inflationary pressures that the world economy could slide into the risk of deflation. The excess capacity in some industries reflects the effects of over-investment. Japan for example may already be facing the threat of consumer price deflation in the circumstances where confidence and domestic demand are very weak- typically linked to financial sector weaknesses and sharp declines in asset prices.

Apart from bad trade balances and weak commodity prices many emerging economies are suffering reduced capital flows and loss of funding by private investors. The implementation of strong adjustment measures will ease currency deprecations and slow the growth of domestic demand. The adjustment process will reduce demand for imports from North America and Western Europe and contribute to the expansion of exports thereby fostering a rapid external adjustment. It will also reduce direct investment (in Europe and North America) from Asian companies in financial difficulty.

3.6 Africa and the Developing World

Developing countries' economic growth has exceeded Industrial countries' growth throughput about three decades ago despite the recent Asian financial crisis. However, with the fast recovery of Asian countries the importance of developing countries in the global economy can be expected to continue to increase in the years ahead.

Similarly prospects for Africa are brighter than for many years. Political developments in South Africa, Mozambique and Angola provide something to build on. As a result investment into the countries has been on the increase to support economic growth. Apart from that the continued involvement of the IMF in providing fundamental economic reforms in developing countries, the strengthening of demand in industrialised countries and the possible recovery of commodity prices, should all help to bolster the developing economies and improve the exporting countries' terms of trade. High cost of production in developed economies and some Asian countries would provide a chance for Africa to be able to attract global foreign investment inflows and increase its share of world merchandise activity.

But such improvements are relative. Revised growth in 1997 decreased from 3.75% to 3.25%. This is largely attributable to the impact on a number of countries of adverse weather conditions and declines in commodity prices, and a few cases of political confrontations. Another reason being that the sub-Sahara Africa have the highest ratio of external debt to GDP of any developing country region. There is little private capital attracted and as a result the region is heavily reliant on government and institutional sources for financing as can be seen in Figure 3.3. This reflects on low growth prospects of the region. The political and economic instability obviously makes returns on investment uncertain.

Examples of a few economies are; Kenya: growth retarded partly as a result of financial markets pressures related to political uncertainty. South Africa: (refer to the next session) slowed to 1.7% in 1997 from 3.25% in 1996 reflecting both domestic and external demand. Nigeria: growth was close to 5% in 1997, but economic activity has been affected by power and fuel shortages. The investment climate in Nigeria has remained unfavourable, however its readmission into the Commonwealth League accompanied with changes to democratic rule will raise prospects for economic growth for 1999. Algeria: growth slowed significantly in 1997 owing to the adverse impact of drought on agriculture that caused further delays in the recovery of the industrial activity.

Table 3.6: (a) Growth League for Sub-Sahara Africa (% GDP)

Fastest-Growing Countries	*1996*	*1997*	*1998*
Angola	9.0	7.5	9.5
Uganda	5.0	8.0	7.0
Botswana	6.8	7.6	6.7
Mauritius	5.8	5.0	5.5
Côte d'ivoire	6.5	6.0	5.0
Ghana	5.2	5.0	5.0
Namibia	3.0	4.5	5.0

Source: IMF Ltd.

3.6.1 The Asian Crisis and African Economies

The Asian crisis has affected African countries in a number of ways, although its specific impact on economic growth and external accounts of Africa is difficult to quantify. However, combine with internal factors and other external shocks, such as the effects of El Niño and a decline in commodity prices, the crisis in Asia has led to downward revision of the projected real GDP growth rate. For instance, sub-Sahara

Africa has suffered by nearly ½ of 1% to about 4% real GDP in 1998, and an increase of some 2% points in the projected external current account deficit.

Weakened demand in Asia and the consequent reduction in its imports, particularly of metals, fuels, and agricultural raw materials, which are important exports from sub-Sahara countries, have compounded the decline in world commodity prices. As a result of the considerable gains in competitiveness of the affected Asian countries, African producers are likely to face increased competition in third-country markets. This may adversely affect manufactured exports from South Africa and textile exports from Mauritius and Zimbabwe. Apart from that the financial difficulties facing some Asian countries may slow the much-needed foreign direct investment flows to sub-Sahara Africa.

Looking ahead, growth performance in African countries is expected and will be achieved most by Angola, Uganda and Botswana (Table 3.6(a))- which are among the world's ten most fastest-growing economies. The countries participating in the IMF 's economic reform will continue to outperform the rest of the continent. GDP is growing and inflation is reducing (Table 3.7); trade liberalisation and realistic exchange rates will be a pre-requisite to greater private sector investment.

Table 3.6: (b) Growth League: Sub-Sahara Africa (%GDP)

Slowest-Growing Countries	1996	1997	1998
South Africa	3.1	2.0	2.5
Zimbabwe	6.0	3.3	3.0
Gabon	3.3	4.0	3.3
Kenya	4.6	3.0	3.9
Nigeria	3.3	3.4	4.0

Source: IMF Ltd.

Table 3.7: Sub-Sahara Africa Consumer Price Inflation

Countries	1996	1997	1998
Angola	1,650.0	1,650.0	1,200.0
Uganda	7,7	8.0	7.0
Botswana	10.1	9.0	10.0
Mauritius	6.6	8.5	8.0
Côte d'ivoire	3.5	5.0	3.5
Ghana	34.0	28.0	25.0
Namibia	8.0	9.8	10.0
South Africa	7.4	8.7	6.5
Zimbabwe	21.4	20.0	25.0
Gabon	3.8	4.1	3.0
Kenya	9.0	12.5	11.5
Nigeria	29.3	15.0	18.0

Source: IMF Ltd

3.7 South Africa

Following international integration of the South African economy in 1994, most local goods and commodities reached attractive and competitive overseas markets. This resulted in sustained export growth and healthy net capital inflows to help improve investment confidence. Productivity growth also accelerated to 4.1% in 1997 from an average of less than 1% in the 1980s, 2% in the early 1990s, 3.3% in 1995, and 3.6% in 1996. In 1997 the South African economy entered in its sixth year of expansion since the economic slump of the early 1990s. Total output has increased by 14.9%, about 8.9% higher than the previous peak in 1989.

Real GDP growth rate was 1.7% for 1997 compared to 3.4% for 1995 and 3.2% for 1996. The lower growth is ascribed to the slowdown in gross domestic expenditure (GDE) from 2.7% in 1996 to 1.4% in 1997. In particular, the decline in private consumption growth as well as a sizeable decumulation of inventories outweighed the positive contribution to GDP from improved export performance. South Africa's inventory stock has followed a downward trend similar to that experienced in industrialised countries. The decline is expected to moderate and reflect positively in 1999 and 2000.

Table 3.8: South Africa: GDP

	1995/97	1997/98	1998/99	1999/00	2000/01
GDP (R billion)	556	613	669	734	810
Real GDP growth	3	1.7	3	4	5
GDP Inflation	8.5	8.5	6	5.5	5
CPI Inflation	8.1	8	5.5	5.5	5

Source: Budget Review 1998

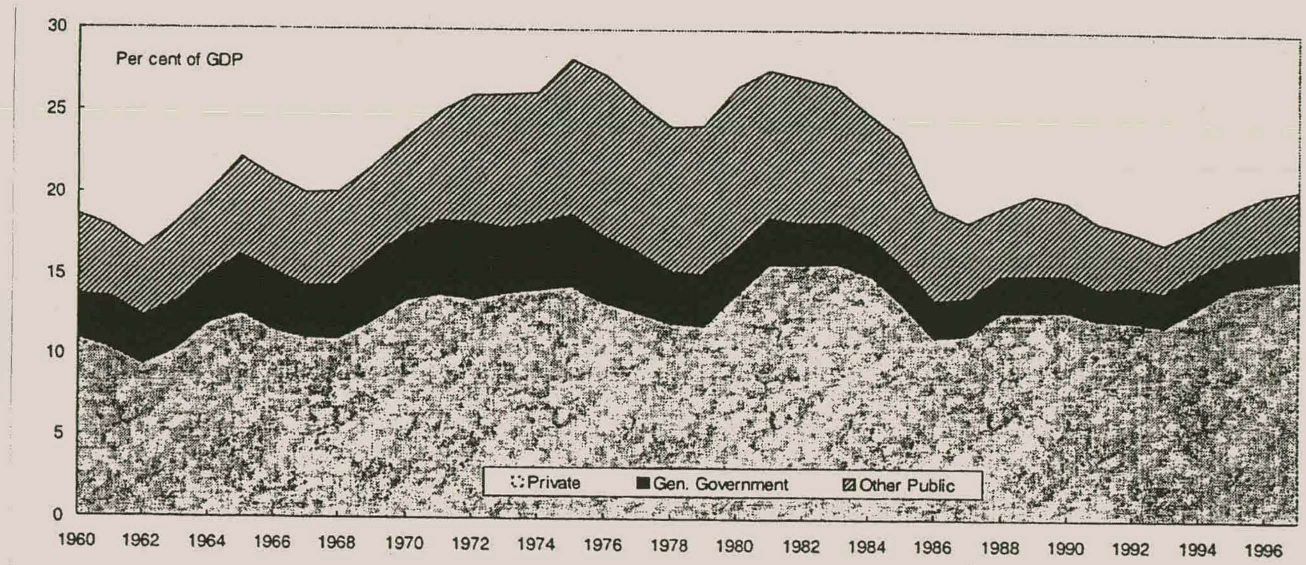
The weak consumption growth in 1997 was a result of higher interest rates, level of debts relative to disposal income and the negative wealth effects of weak prosperity. Comparatively, the real disposable income in 1995 and 1996 increased by 2.4% and 4.2% respectively before sliding down to 0.8% in 1997.

South Africa has experienced an increase in capital-output ratio (the volume of investment required to produce a given level of output). This is due to the expansion of public sector investment (Figure 3.3) focussed on infrastructure development in order to stimulate the economy by supporting aggregate demand. Real investment by public authorities accelerated to an average growth rate of 15% in 1996 and 4% in 1997 that has contributed to a general growth in all spheres of government investment spending. And this will continue to rise at an annual rate of over 5%. Real capital formation by public corporations increased by 5.3% in 1997, having risen by 10.6% in 1996.

However, there is a trend reflecting the slowdown of fixed capital formation in the agricultural and private manufacturing sectors. The GDFI by private business enterprises stood at 13.2% in 1995 went down to 6.1% in 1996 and then 3.1% in 1997. This trend is expected to recover to 4.5% in 1998/99 as export opportunities expand and domestic demand recovers. Foreign direct investment continues to strengthen in response to prospects of higher growth rates in the Southern African region, financial markets reforms and exchange controls deregulation.

Since the beginning of the Asian financial crisis in the late 1997 consumer inflation in South Africa has shown a downward trend. It has remained within the 5-10% band since 1993 reflecting price stability and consumer confidence. This trend is expected to continue right through 2001 showing a relationship between exchange rate movements and PPI import prices. The recent interest rates reduction will stimulate demand. But the major thrust for South Africa is about strengthening its exports and private investment to contribute to stronger economic growth.

Figure 3.3: South African Composition of Fixed Investment



Source: Budget Review 1998

3.8 Summary

The current developments in the state of the world economy will certainly contribute to reduced economic activities and reverse the trade and economic balances. These imbalances emanate from the lack of GDP growth rates in many regions including Asia which used to be the world's most active region. The redirection of investment from the emerging and developing countries to developed economies, depressed commodity prices leading to the fall of the world price benchmark, amongst others, will suppress world demand.

The major thrust hinges on Japan to salvage the battered economies of Asia in order to push for a speed recovery of the Asian industrial growth and output, and also attract foreign investment to re-create demand and balance out the Atlantic/Pacific economies. The current trend of one way export demand if it continues may result in a far reduced world volumes and trigger price deflation shocks in major markets, Japan, for example, has already started feeling the effects of consumer deflation.

The emerging market economies in general have run the risk of financial fragility as experienced in the Far East, Russia and Brazil. Following the Asian financial crisis, capital investment has shifted away from emerging markets to mature market economies. The redirection of financial flows has helped to stimulate growth in developed economies, with the exception of Japan. As a result there has been a trend to cut interest rates and at the same time strengthening the major currencies in particular the US Dollar and the Pound sterling.

Of all the emerging economies, South Africa, despite its depressed demand, has maintained sound economic and financial positions, with the Rand commanding highs against both the dollar and pound sterling. This trend would lead to reduced interest rates and promote domestic consumption. There are however economic problems and these include the lack of employment creation and the lack of private sector investment growth. The privatisation programme may result in the private sector capital redeployment and create employment. A relatively low inflation and high consumption would stimulate import demands and foreign capital investment for 1999 and into the new millennium.

The Asian crisis together with recent commodity price movements will bring about some large adjustments in external positions. It is important that countries whose external balances deteriorate, do not impose barriers to trade or allow competitive currency deprecations. For example, Malaysia has cut off all its economic ties with the world, while Zimbabwe faced with depleted foreign currency reserves and weak domestic currency has also introduced high import tariffs to fend off foreign payments in order to rebuild its foreign currency reserves. Such defensive reactions would be counter productive, slowing the adjustment process of the countries in the crisis and impairing growth world-wide.

Many areas of the developing world have major social, political and infrastructural problems, which are a severe handicap to economic growth. Continuing instability is likely to limit the amount of inward investment they can attract. These regions are the most under-developed of merchandise markets and offer considerable potential for high growth rates, from a low initial volume base. As a result any reasonable degree of political and economic stability should result in their share of global activity increasing despite the inherent risk of market fluctuations in annual performance.

To conclude, the current state of the world economy together with the on-going phases of the merchandise strategies, support the eventual philosophy that could offer reduced costs and a fairly return on capital could be the joint venture, whether international or national. The theoretical joint venture of South Africa could however serve a multi-facetted purpose that include; (a) defending the North-South market which many lose making container owners have recently targeted as a prospective market; (b) enrich the nation through foreign currency earnings and savings; and (c) stabilise the prospects of national and international investment.

SECTION FOUR

4. CONTAINER TRADE AND MARKETS

4.1 Global Merchandise Trade

Prior to the Asian crisis of 1997/98 sea borne trade was growing at a steady rate. The United Nations estimates of 1994 show a total annual sea borne trade of 4,458 million tonnes. Of which oil/gas cargoes made up around 45%, dry bulk cargo was at 37% and the general cargo made up 18%, which is about 800 million tonnes. The general cargo includes reefers, heavy lift, ro-ro trailers, break bulk and containers. Of the general cargo, containers accounted for about 334 million tonnes, which represent about 7.5% of the international cargoes by weight and about 59.6% in value.

In 1996 the Drewry estimates also provided a total sea borne trade of 4,700 million tonnes. Oil/gas cargoes were at 2,118 million tonnes (45%), dry bulk at 1,750 million tonnes (37%), and the general cargoes were about 18% (about 846 million tonnes), of which container trades recorded 386 million tonnes. There was a real growth of 50 million tonnes in container trades. While the rate of general cargo trades growth is forecast to reach 900 million tonnes by the turn of the century, this increase will be largely seen in container market penetration, which was rising at 2% annually before the Asian crisis. In addition to that container penetration to other cargoes could reach an average rate of 54% by the beginning of the 21st century despite the short-term interruption posed by the Asian crisis. In the long-term container trade will be driven by economic growth rates from the emerging economies, creating more cargo and greater transhipment.

In another move, the trend in the 1980s/90s shows a significant shift of regional distribution of the container trade to the East from the Western economies. As a result the Pacific Rim regions of South East Asia and the Far East increased their share of the global market from under 25% in 1980 to over 44% in 1996. This elevated Hong Kong and Singapore to the summit of the world container throughput, leaving the traditional giants like Rotterdam and New York way behind. Currently almost half of the world's containership trade is in the transpacific rim.

Similarly, Africa's increasing market share since the first half of 1990s has been reflected in the development of the Mediterranean transhipment in Egypt and the economic integration of the South African market after the trade embargo. This is largely a correlation of direct trade and regional hubbing over Durban that can be seen in Table 4.1. West Africa's share of the continental activity fell from30% in 1990 to 19% in 1995. East African volumes also dropped in market share from 17% to 14%. However Southern and Northern African volumes and market share increased from (30-32%) and (22-34%) respectively. The growth in volumes/market share and lack of competition has attracted some of the major containership players from the traditional WEST-EAST markets to the NORTH-SOUTH markets.

Table 4.1: Degree of Containerisation in Africa: Selected Port (%)

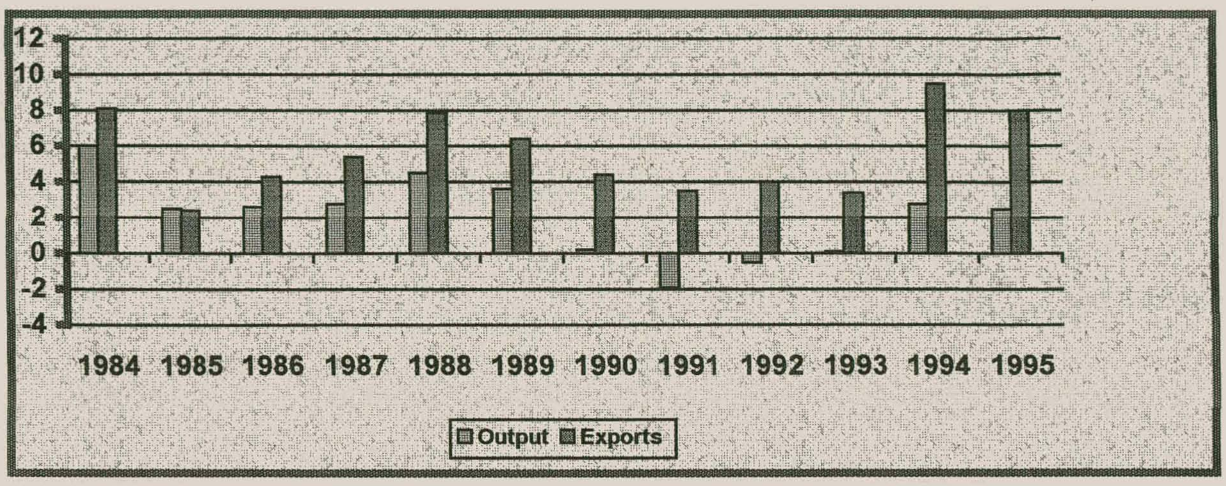
	1988	1989	1990	1991	1992	1993	1994	1995
Abidjan	37.1	41.1	38.3	38.4	38.0	44.7	---	---
Mombasa	39.6	43.1	57.7	62.1	54.7	64.8	---	---
Apapa	45.7	47.3	49.5	42.0	37.8	---	---	---
Cape Town	54.8	53.9	51.2	49.4	43.0	---	---	56.3
Durban	41.5	42.5	40.8	44.4	44.4	---	---	59.9
Port Sudan	24.1	25.8	29.3	23.6	30.3	---	---	---

Source: ISL Bremen

4.1.1 The Effects of Globalisation on Container Trade

Globalisation made a double impact in the recovery of the world trade volumes and high growth rates since the economic slump of the early 1990s. Large amounts of capital investment moved into developing countries which subsequently led directly to increased trade as can be seen in Figure 4.1 and Table 4.2. Despite the recent re-direction of capital to mature markets following the Asian crisis there is an enormous potential still to be tapped in most parts of Africa; China and the South East Asia (Vietnam, Indonesia, etc); India and Brazil. These countries move toward continued rise in container traffic trades. Currently the performance of Africa and Latin America has improved markedly despite the problems related to currency devaluation.

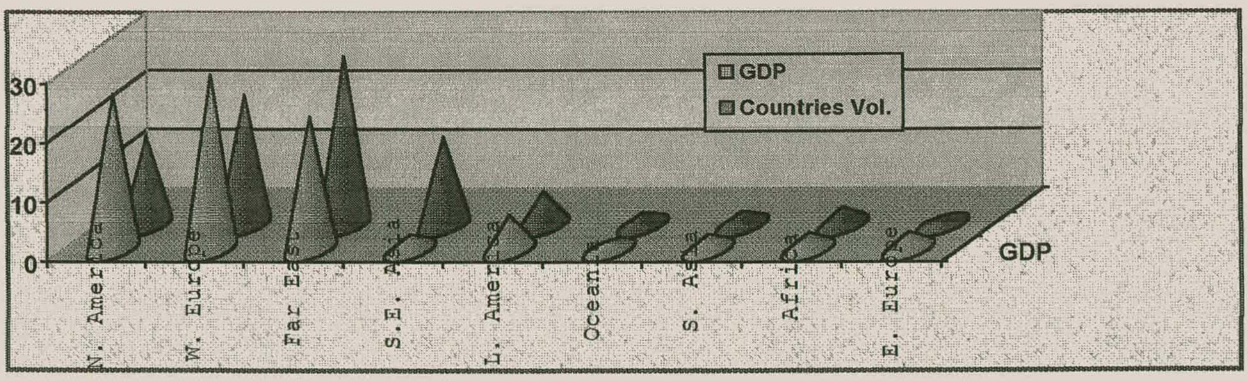
Figure 4.1: World Merchandise Trade and Output (Annual % Change)



Source: World Trade Organisation (WTO)

Production and sourcing by the mult-national corporations has also contributed to this rise in container cargoes. Liberalisation of investment climate in South Africa, and other regions such as Latin America, Eastern Europe, Central Asia and China, where the concept of free trade has been embraced, has reduced barriers to capital movements, consequently, these countries have experienced growing volumes of container trade and hence economic growth despite the inherent failures to defend themselves against the pressures of globalisation.

Figure 4.2GDP and Countries Volumes (% Share of 1995 Global Total)



Source: Drewry Ltd.

Figure 4.2 shows a relative correlation between GDP and countries volumes in the majority of the regions and more significant in developing countries. The scenario in West Europe and North America shows a more similar trend where GDP are higher than volumes, while trade volumes are higher than GDP for the Far East and South East Asia.

Table 4.2 World Output and Trade (Annual % Change)

	1993	1994	1995	1996	1997
World Output	2.4	3.7	3.5	3.8	4.1
Industrial Countries	0.9	2.8	2.1	2.3	2.5
USA	2.3	3.5	2.0	2.4	2.3
Japan	0.1	0.5	0.9	3.5	2.7
Germany	-1.1	2.9	1.9	1.3	2.4
France	-1.3	2.8	2.2	1.3	2.4
Italy	-1.2	2.2	3.0	1.1	2.2
UK	2.1	3.9	2.5	2.2	3.0
Canada	2.2	4.1	2.3	1.4	3.2
Developing Countries	6.3	6.6	5.9	6.3	6.2
Africa	0.9	2.9	3.0	5.0	5.0
Asia	8.7	9.1	8.6	8.0	7.5
Mid East &Europe	4.2	0.5	3.6	3.9	3.3
Western Hemisphere	3.2	4.7	0.8	3.0	3.0
Countries in Transition	-8.5	-8.8	-1.3	0.4	4.0
World Merchandise Trade Vol.	3.9	9.5	9.1	6.4	7.1

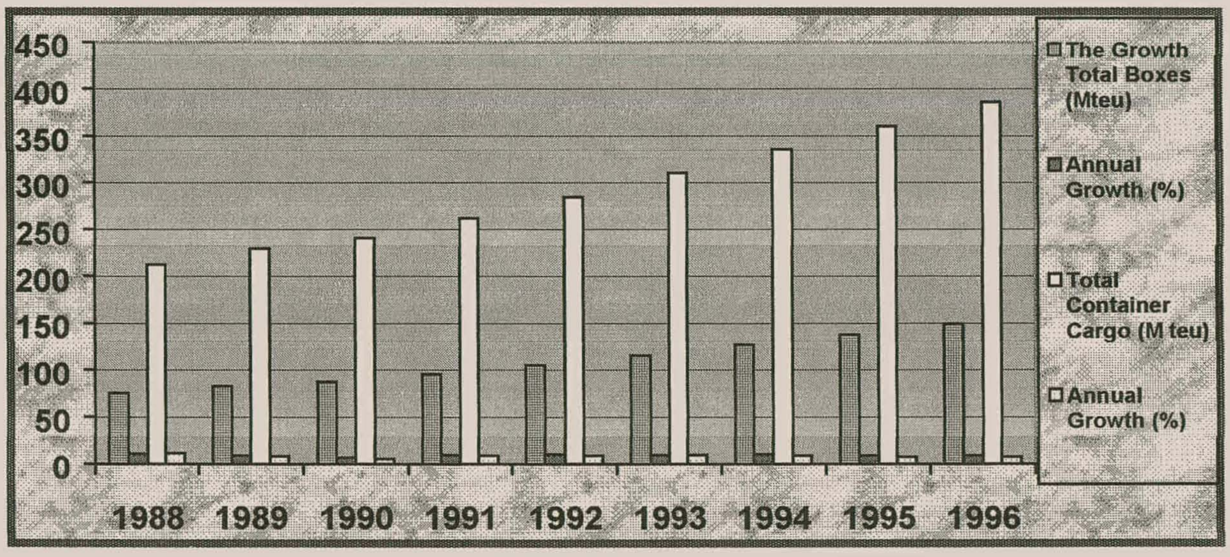
Source: IMF Oct.1996

4.1.2 Merchandise and the General Cargo Volumes

The general cargo volumes maintained a constant average rate of 2.7% over a period of a decade during the 1980s. In the early 1990s, general cargo volume growth hovered between the 4 to 5% band per annum in response to the world economic depression. The merchandise trade (essentially container trade) has grown much faster than both the total general cargo market and world industrial output as can be seen in Figures 4.1 and Table 4.2. The phenomenon of globalisation of world production (essentially decentralised production and trade liberalisation) will intensify the effect of container trade. Comparatively between 1950 and 1995 the world output rose by 4% per annum, while merchandise trade increased at about 6% per annum. This implies that output multiplied six times while trade increased by almost fourteen fold.

4.1.3 Merchandise Cargo and Container Boxes

Figure 4.3: Growth of World Container Trade to 1996



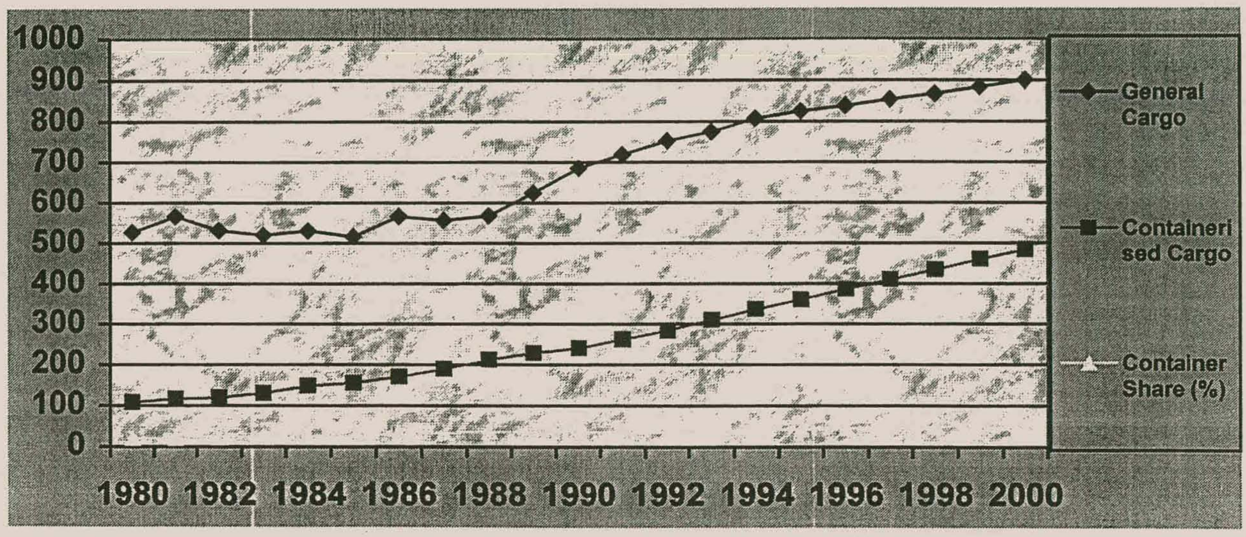
Source: Container Internatinal Yearbook

Figure 4.3 shows container boxes growth, measured by number of port handling moments, loaded and empty, including transhipment. The growth rate of containerised cargo has been slightly lower than that of port handling activity. This could have been affected by certain incidence of transhipment and empty containers but generally the average rate of container cargo showed a modest figure of 8.2% per annum up to 1996.

4.2 Container Penetration

The share of the general cargo market moving in containers has more than doubled since 1980. In 1995 estimates showed around 44% of the general cargo carried in containers and Drewry forecast that with that trend the rate would be above 53% by the turn of the century as can be seen in Figure 4.4. However experts in containership believe that penetration into other cargo market will reach a ceiling range of between 65-70%, which represents the upper limit. They also suggest that containerisation is unlikely beyond this limit on the grounds of either cargo size or of economics. Contrary to that view containerisation is in excess of 90% in developed economies especially between the principal OECD economies. At the same time containerisation in developing countries is at much lower degree.

Figure 4.4 Containerisation and General Cargo (million tonnes) to 2000



Source: Drewry Shipping Consultants Ltd

A further penetration of the general cargo trades by containers will be a significant ingredient in the expansion of container trades. There are a number of cargo owners enjoying the adventure and benefits of efficiency and sophistication provided by container shipping. A large proportion of reefer cargoes have recently found their easy conformity with refrigerated containers. This provides reefer shippers flexible times, organisation and planning systems despite the fact that container space is relatively smaller than reefer carriers.

Reduction of the aged general cargoship fleet will force more neo/break bulk cargoes into containers. However the greatest potential for further unitisation of general cargo is in Africa, some South East Asian countries, China, South America and the Indian sub-continent, where routes are still served by non-unitised vessels. These areas all share a requirement for major investment in container port facilities, although volumes may retard the unitisation process. This is however a deciding factor in driving foreign direct investment to such countries in order to develop a sophisticated port infrastructure.

A recent phenomenon behind container market growth is the increasing transhipment as a result of a comprehensive feeder network created by global or mega carriers. This is significant of most carriers' global route portfolios, particularly in Asia, European and Caribbean regions. While several most rapidly developing container markets have limited port facilities and are inconvenient relative to main vessel routings, South Africa has managed to see itself in the global routings. Durban port, for instance, is largely dependant on hub connections into both regional and global network.

4.3 Southern African Containership Trade

4.3.1 Imports and Exports

Following the re-admission of South African economy to the international market, the sub-African region has seen a rise in trade volumes. This has also enhanced the chances of regional integration, as there is increased intra-regional trade. Kenya for instance, has developed an active trading partner to South Africa, with exports to

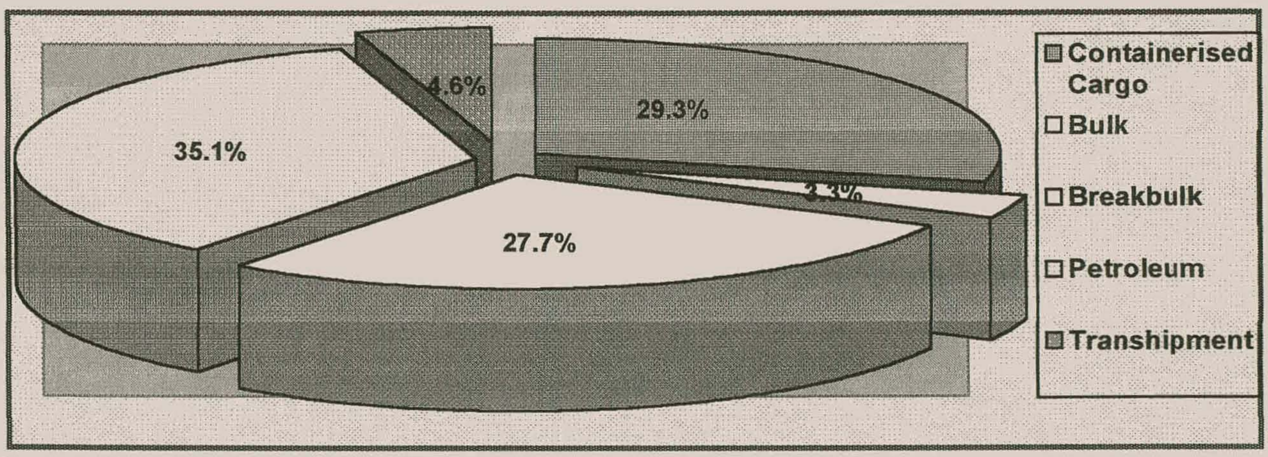
Kenya increasing over 400% since 1994. Tanzania has also proved an attractive new market for South Africa.

Table 4.3: SA CARGO HANDLED- Total Tonnage 1995-1997

	1995	1996	1997
Containerised	3,721,493	2,967,998	3,227,104
Bulk	209,449	457,985	416,331
Breakbulk	3,250,665	2,822,086	3,391,449
Petroleum	3,876,081	2,828,056	5,593,980
Transhipment	587,804	533,949	435,226
Total	11,644,491	9,610,074	13,064,090

Source: Portnet Statistics

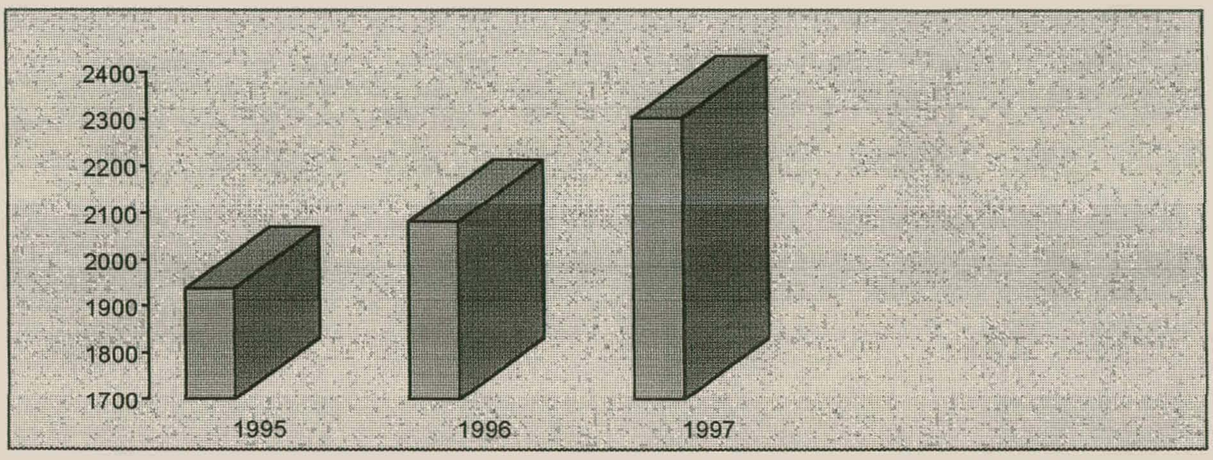
Figure 4.5: SA Average Cargo Handled-Total Tonnage Between (1995-1997)



Source: Portnet Data

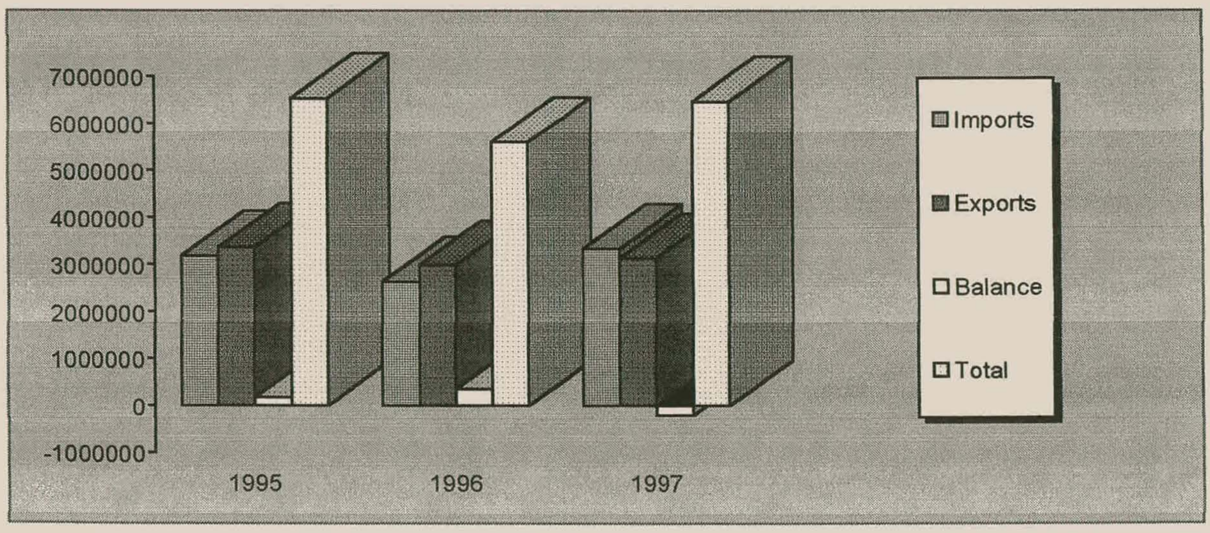
Statistics shows an upturn in South Africa volumes in container trade in 1997. This is attributable to import flows, as a result of the firm Rand exchange rate against major currencies. High container volumes have also contributed to the development of Durban as a regional hub/relay port. High import volumes is also partly a result of the sub-Sahara region being heavily dependent upon comparatively few export products, which are predominantly dry-bulk and break cargo. It is however export growth which both South Africa and the continent as a whole requires.

Figure 4.6: Number of Vessel Arrivals (Ocean Going) 1995-997



Source: Portnet Data

Figure 4.7: SA Tonnage of Imports & Exports (1995-1997)



Source: Portnet Data

4.3.2 Southern Africa and Trade Liberalisation

For the past two decades there has been significant development towards liberalisation of markets and reduction of protectionist policies in many regions of the world. This has been exerted by the IMF, the World Trade Organisation (WTO) and the World Bank to help open up markets especially in the developing economies. The Uruguay Round of the General Agreement on Tariffs and Trade (GATT), which preceded the WTO, has taken trade liberalisation many steps ahead. As a result the World Banks estimates based on weighted basis showed tariffs on industrial goods falling from 6.3% to 3.7% by 1996. Regulations, which govern many export merchandise including textiles and clothing will be eliminated over a period of ten years since the early 1990s. Tariffs on information technology have also been reduced. Accordingly Industrialised countries will abolish many tariff structures by the year 2000, although some developing countries have been granted exemption to 2005.

This package will apply to all commodities and merchandise across the board, including financial services, maritime transport and telecom services. However according to the World Bank study of 1996 protectionist policies in the sub-Sahara were costing up to US$11 billion per annum in lost exports earnings. The region's global share of exports declined from 3.1% in 1955 to 1.2% in 1990 as a result of inappropriate domestic policies. High import tariffs feed through into exports costs by raising the cost of essential imports such as agricultural inputs and machinery.

By 1996 the sub-Sahara import tariffs averaged 26.8%, more than three times higher than the Asian tigers (before the crisis), and more than four times the OECD average of 6.1%. During the Uruguay Round the OECD nations reduced their tariffs by over 40%, many Asian countries made concessions, and Africa's barriers remained unchanged, thus increased the spread between Africa's tariffs and other nations.

South Africa in particular, through its strategy of moving from the import-substitution to an open economy approach, has decommissioned many tariff structures, in some cases reduced them to below GATT-binding levels and liberalised trade in line with the model of market forces. The strategy resulted in a dramatic development, putting significant competitive pressure on South African industry by forcing then to meet international standards. There has been an improvement in the current account as a result of strong performance in merchandise exports, which grew by 12% in volume and 21.5% in value by 1997. Beside merchandise, improved performance has also been broadly based by large increases in mining and manufactured goods.

However many countries in Africa have responded well to the calls of globalisation- the movement of the industry from traditional high cost production areas to regions with a much lower wage base. This move has already taken big strides to Southeast Asia, China, India and Central America, thus pouring FDI into these areas in order to undertake low-tech manufacturing that can be a fraction of the costs in industrialised nations. African countries have the prospects for establishment of new manufacturing base, which is export oriented and this will result in dramatic effects on the volumes of containerised cargo.

SECTION FIVE

5. CONTAINERSHIP SUPPLY AND MARKETS

5. 1 World Container Supply

Since its inception in the 1960s the container sector has been the fastest growing category of the world fleet. From the economic slump of the early 1990s to 1996 capacity growth was an average of 7% per annum. Of the container fleet the cellular type were growing fastest at around 15% as can seen in the Table 5.1 and Figure.5.1

Table 5.1: Development of the World Containership Fleet

	Cellular Fleet ('000 teu)	*Non-Cellular Fleet ('000 teu)*	*Total Fleet ('000 TEU)*	*Cellular Share (%)*
1986	1,330	1,241	2,571	51.7
1987	1,416	1,307	2,723	52.0
1988	1,516	1,353	2,869	52.8
1989	1,624	1,397	3,021	53.8
1990	1,755	1,413	3,168	55.4
1991	1,913	1,460	3,373	56.7
1992	2,098	1,512	3,610	58.1
1993	2,217	1,526	3,743	59.2
1994	2,532	1,570	4,102	61.7
1995	2,761	1,647	4,408	62.6
1996	3,179	1,655	4,834	65.8

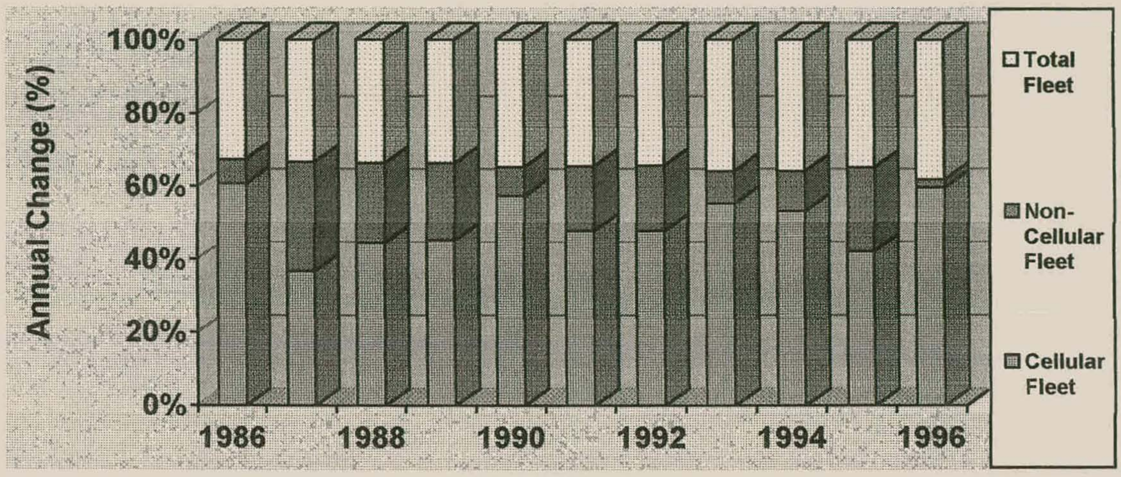
Source: Containerisation International Yearbook

According to Drewry Consultants (March 1997) the cellular share of total capacity reached a historical high point of about 68% by beginning of 1997. On a comparative basis the cellular are less active in fleet size category up to 1,000 teus, where semi-containership and ro-ro provide the largest vessel slots. Above the level of 1,000 teu cellular vessels provide a significant share of total slot capacity, and are most dominant in the category above 2,000 teus.

5.1.1 Post Panamax Vessels

The most stimulating fact of the containerisation is the vessel upsizing in capacity. Upsizing has achieved economies of scale and thus triggered increased rate of transhipment. Since the first quarter of the 1990s shipowners rushed to press orders of large tonnage and some were in excess of 7,000 teus in capacity. Although this was believed to be the summit of containerisation, the much published 8,000 and 10,000 teus and the planned 15,000 teus may be built.

Figure 5.1: World Containership Fleet Development, Annual Change (%)



Source: Containerisation International Yearbook

The giant vessels have economic and operational constraints. Firstly they will have a knock effect on bunker prices because of higher fuel consumption. Secondly their inability to pass through the Panama Canal provides an operational inflexibility. In addition larger vessels are more susceptible to adverse wave reaction and their deeper draught presents them with difficulties in approaching terminals because not many approach channels offer more than 15 metres water depth. These vessels therefore present more costs and provide limited operational flexibility. For the same reasons there will be a global slowing down in orders for larger vessels.

Apart from that their potential to impact upon the North-South markets at a wider scale may be limited. Beside South Africa and Australia, there are few ports, which are either able to handle vessels of more than 2,500 teu or gearless vessels with complete confidence. Therefore there is a fairly impenetrable barrier in the short-term to potential deployment of 3,000 teu vessels into several important North-South markets. Ports privatisation and liberalisation undertaken in many countries that may eliminate the infrastructural barriers to large vessels to be commended.

Container fleet is comparatively young- less than 15 years for the cellular vessels, 7 years for 3,000 teu+ panamax vessels and less than 4,5 years for post panamax types. Because of the youthful age average of the container fleet scrapping has played a minimal role up to date. A small percentage of the aged tonnage have become uncompetitive, high rate of fuel consumption, high maintenance cost and suffer from size constraints due to high volume requirement. But well maintained vessels of over 20 years of age are still attractive to the sales and purchase market despite their operational disadvantages.

The development of new regional markets has continually offered new deployment opportunities for the older tonnage, as they have become too small for their original trades. This development has allowed fleet growth and upsizing of vessel capacity. And the older tonnage that might have been considered for scrapping have instead found new trading areas. In addition the delivery of massive new tonnage to the West-East markets together with the Asian crisis will stimulate transfer of extra tonnage to the North-South trades. Already some large carriers such as Maersk, Evergreen, the Mediterrenean Shipping Company (MSC), etc have moved a vast tonnage into South Africa-Europe, East and West Africa-Europe, West-South Africa-East trades.

5.2 The Order Book

By 1996 the container order book had about 1million teu, which was about 31% of the cellular fleet. These fleet are currently feeding into the market and may cause hick-ups as they could not be immediately absorbed due to the Asian crisis. The beginning of a new cycle after the crisis, helped by the container penetration of the general cargo, will help traffic volumes and capacity.

However the majority of this additional capacity is cellular, which is intrinsically more productive than other types of container carrying vessels. About 45% of cellular slots entering the market are in the 3,500 teu vessel category, reflecting an influx of new capacity on most competitive container routes of the West-East trades, which are most affected by the Asian crisis.

Table 5.2: Delivery Schedule, Cellular Containership Orderbook (TEU)

TEU Range	1997	1998	1999	Total
<999	52	23	2	77
1,000-1,999	129	105	18	252
2,000-2,999	130	111	6	247
3,000-4,499	111	92	---	203
4,500+	161	145	5	311
Total	**583**	**476**	**31**	**1,90**

Source: Drewry Shipping Consultants LTD, 1997

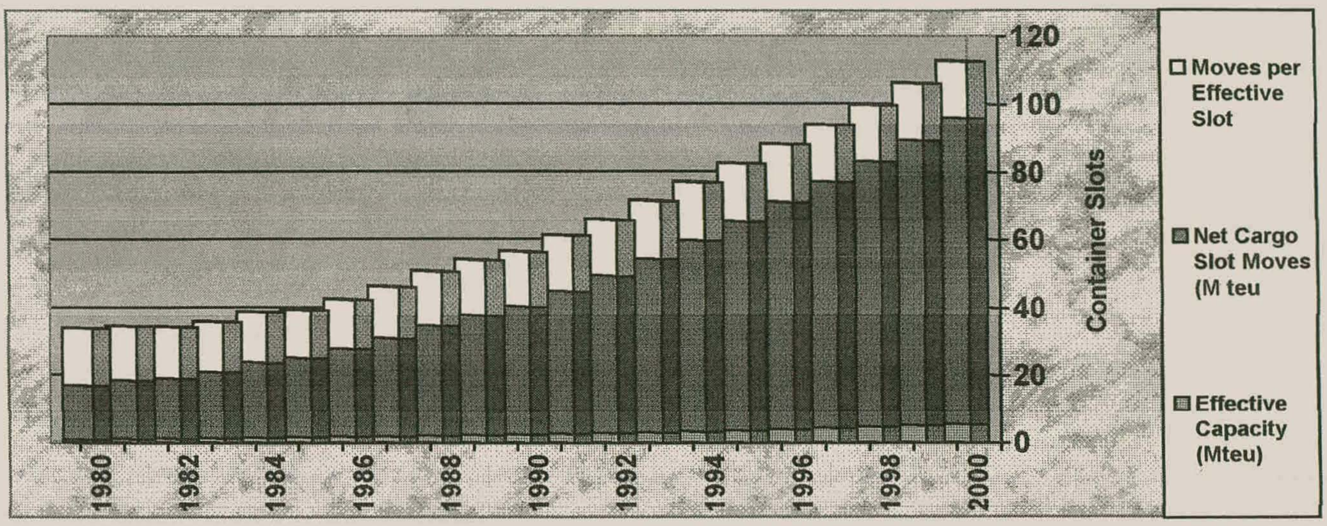
The significant growth of employment in the North-South trades and the sail pace improvements in port facilities are promoting greater investment in the 2-3,000 teu category. But in some places, most of these markets continue to demand geared tonnage, and thus limiting the upsizing trend. However as the demand for larger tonnage in the North-South markets grows in the near future, operators will be required to deploy geared vessels.

The long-term market outlook may not favour the small size range, as there is a significant reduction in market share for that range of vessel sizes. This is caused by carriers requirement for upsized vessels, which can achieve scale economies in times of high volumes. The short-term outlook for 1998 delivery will decelerate the growth of slot, as cellular capacity continues to increase much faster than total fleet slot. According to Drewry Consultants the cellular total space will account for 72% of the fleet by end of the century compared to 55% a decade earlier. The short-term implication will have adverse effects on the supply/demand balance. Scrapping of tonnage at a conservative rate may not help achieve the equilibrium unless the market forces small and cash flow strapped players.

5.3 Supply/Demand Balance

The Asian crisis has thrown the container trade into disarray, as it had moved towards maturity before the second half of 1997. Fleet development and cargo volumes had kept pace with each other, closing the gap between supply and cargo demand. The first large containerised vessels were absorbed swiftly with cargo volumes commanding high premiums.

Figure 5.2: Container Market Supply/Demand Balance to 2000



Source: Drewry Shipping Consultants Ltd, 1997

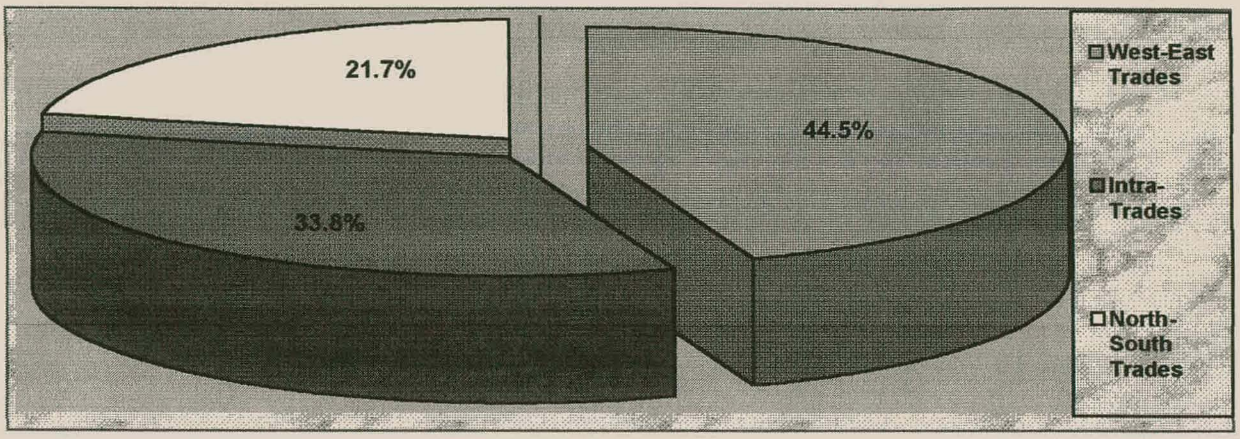
The menace of the Asian crisis met with the large-scale vessel deliveries resulted in over capacity and consequential lower commodity prices. The intra-Asia trade has been hit the most by reduced regional purchasing power. High cargo volumes are mostly westbound and larger numbers of empties eastbound. The introduction of the post panamax vessels have resulted in reduced feeder network as they could cover more ports at the same time phasing out regional and small niche tonnage.

5.4 Container Markets

5.4.1 Container Trade Routes

Before the Asian crisis the global market was reaching towards maturity, with demand/supply balance less erratic as shown by traffic volumes in Figure 5.3. Volatility was generally observed at individual route level and usually as a product of specific vessel sizes/types in the charter market. This is so because each route and each vessel type has its own supply/demand dynamics, and usually doesn't move hand in hand with the world market. The prevailing situation demands container lines to vigorously pursue new routes and markets. Competition for some few years ago was only relevant for the West-East trade routes, but today the effects of globalisation and the Asian crisis present a new level of competition even in the North-South trades.

Figure 5 3 Container Traffic Volumes, 1996



The Asian crisis followed the deployment of large containerships, which had already introduced a disproportionate tonnage on major routes including the transpacific, transatlantic and European-Far East markets. Large vessels were not replacements but additional capacity and therefore took away a substantial cargo demand from the smaller container vessels. In this case relief will only accrue to these trade routes when existing tonnage is displaced to other routes. But large vessels together with the international economic vagiaries have made many of the container trade routes experience a significant lower turnover.

5.4.1.1 The Transpacific Market

Table 5.3 Transpacific Trade- Forecast Supply/Demand Balance to 2000
(M TEU)

	Capacity			Cargo Demand[1]			Vessel Utilisation (%)			
	E/b Gross	E/b Net[2]	W/b Gross	W/b Net[3]	E/b	W/b	E/b Gross	E/b Net[2]	W/b Gross	W/b Net[3]
1994	5.00	4.46	4.90	3.92	4.09	3.13	81.8	91.1	63.9	79.8
1995	5.30	4.97	5.29	4.23	4.13	3.46	77.3	83.1	65.4	81.8
1996	6.16	6.16	6.10	4.88	4.30	3.74	69.8	69.8	61.3	76.6
1997	6.83	6.83	6.76	5.41	4.52	4.00	66.2	66.2	59.2	73.9
1998	7.17	7.17	7.10	5.68	4.72	4.32	65.8	65.8	60.8	76.1
1999	7.35	7.35	7.27	5.82	4.90	4.66	66.7	66.7	64.1	80.1
2000	7.53	7.53	7.45	5.96	5.07	5.04	67.3	67.3	67.7	84.6

Source: Drewry Shipping Consultants Ltd

The transpacific route, the world's largest market has been affected by the collapse of some Asian currencies, which has exacerbated the already permanent feature of trade imbalance to a large degree. Exports to North America from the Far East and Southeast Asia have gone up by 19.0% during the third quarter of 1998, while exports plunged by the same amount. A soaring demand for Asian products means a high demand for containers in the Asian region. Similarly the drop in the Asian imports from the West implies that few containers are returning to Asia, therefore deteriorating the eastbound vessel utilisation. This has created both logistical and equipment shortages and carriers are forced to incur larger costs to reposition empty containers.

If lower eastbound growth persists, carriers will be forced to adjust supply more closely to demand. Some service savings could be withdrawn as a reaction to the mismatch between deliveries and the rate of trade expansion. This would require some lines or groups to unilaterally accept an inevitable loss of market share and service levels.

5.4.1.2 The Transatlantic Market

Table 5.4: Transatlantic Trade-Forecast Supply/Demand Balance to 2000
(M TEU)

	Capacity			Cargo Demand[1]		Vessel Utiisation (%)		
	E/b	W/b Gross	W/b Net[2]	E/b	W/b	E/b	W/b Gross	W/b Net[2]
1994	1.82	1.84	1.77	1.21	1.43	66.5	77.7	80.8
1995	1.92.	2.05	2.05	1.37	1.42	69.9	69.3	69.3
1996	2.05	2.15	2.15	1.48	1.49	72.2	69.3	69.3
1997	2.10	2.17	2.17	1.57	1.55	74.8	71.4	71.4
1998	2.15	2.20	2.20	1.61	1.61	74.9	73.2	73.2
1999	2.26	2.31	2.31	1.65	1.67	73.0	72.3	72.3
2000	2.37	2.43	2.43	1.69	1.71	71.3	70.4	70.4

Source; Drewry Shipping Consultants

In a complete contrast, the transatlantic trade route has seen slot growth to about 7.3% in 1996, from the average rate of 1.4% per annum since 1992. This was when the global cellular containership fleet rose by 65%. The route looks immune to the forces of external or global pressures through carrier discipline and cohesion. In view of the dramatic cargo growth the transatlantic has become a stable and improving trade which has been characterised by responsive tonnage and pragmatism.

5.4.1.3 The Europe-Far East Market

The route enjoyed a brief period of very high space utilisation in the early 1990s. Since then watershed operators on the route found that it was very difficult to match capacity growth with trade growth in an expanding market. Consequently, westbound utilisation rates tumbled, and have only been compensated for by an improvement in the eastbound trade. An annual westbound trade growth of 6% is overwhelmed by capacity growth of 11% per annum. According to Drewry Shipping forecast an average utilisation is to decline below 70% on the headhaul westbound leg, which cannot be viewed as a sustainable position for operators.

Table 5.5: N. Europe-Far East- Forecast Supply/Demand Balance to 2000

(M TEU)

	Capacity			Cargo Demand[1]		Vessel Utilisation (%)		
	E/b Gross	E/b Net[2]	W/b	E/b	W/b	E/b Gross	E/b Net[2]	W/b
1994	2.40	1.92	2.57	1.46	1.87	60.8	76.0	72.8
1995	2.68	2.15	2.85	1.54	2.15	57.5	71.6	75.4
1996	3.02	2.42	3.21	1.66	2.28	55.0	68.6	71.0
1997	3.27	2.62	3.49	1.80	2.42	55.0	68.7	69.3
1998	3.60	2.88	3.84	1.94	2.56	53.9	67.4	66.7
1999	3.75	3.00	4.00	2.10	2.71	56.0	70.0	67.8
2000	3.90	3.12	4.16	2.26	2.88	57.9	72.4	69.2

Source; Drewry Shipping Consultants Ltd.

This implies that carriers will need to look for some form of westbound capacity management, although it is difficult to foresee how such arrangements can ever again be acceptable to the European Union. However it could be important to note that while the transpacific and Europe-Far East markets face a period of turbulence in which rising volumes are outpaced by capacity growth, the North Atlantic trade expect to continue along its comparatively stable course. The supply/demand improvement has much to do with a regulated commercial environment.

With West-East trades under such considerable pressure, and with vacant space mounting on the routes to and from Asia, the urge to supplement main trade lifting with ancillary and wayport trades will intensify. Thus Europe-Far East trade ships will increasingly target such wayport areas as the Mediterranean, Red Sea, Arabian Gulf, and India while transhipment focus will include Africa, Australia and New Zealand. In 1996 it was evident with Maersk alone connecting North-South services which are clearly intended to siphon traffic onto their axial trade vessels- especially the cargo hungry 6,000 teu+ ships. Maesrk's new wayport routes include New Zealand-Singapore; Dubai-East Africa; and Algeciras-South Africa. To a certain extent each of these wayport routes can be seen as trade in its own right and the capability is significant.

The above picture foreshadows even greater competition for direct North-South trades from transhipment services along the axial routes. The Europe-Far East trade being particularly threatening the predominantly North-South carriers because of the wide spread of other markets it can impact. However some experts argue that North-South trades are relatively well protected against transhipment incursion by geographic boundaries, for example the South Africa-Far East or Europe-ECSA. But other routes are more exposed to triangulation, for example, the Far East-West or East Africa, and Europe and the Far East-WCSA.

5.5 Globalisation and Mega-Carriers

Global carriers are the result of consolidation phases of container operators into alliances, mergers and joint ventures, which have developed beyond traditional markets into new regions and new routes. The aim is to provide global service network and have extended the picture of mega-carrier domination on the EAST-WEST routes. Their penetration of the NOTH-SOUTH markets has been a major feature of the 1990s. These markets have provided carriers with a chance to develop additional cargo that can be fed into their traditional WEST-EAST services as mentioned above, in order to fill the escalating number of mainline slots. Global carrier networks and pipelines have however been precluded by geographical, operational and commercial factors. Over 21 mega carriers have expanded into North-South markets, with Maesrk's global network being the most developed and integrated route system.

Key factors in global carrier have included:

1. The limited (marginal) costs and synergy benefits of adding new routes to a global system,

2. The potential to offer global services to major shippers

3. The apparent softer competition and higher freight rates of many of the North-South trades,

4. Increasing capacity liability on the EAST-WEST axis, at a time when capacity management programmes were limiting main trade lifting and cargo growth was also slowing.

The success of the global carriers in Latin America and Africa has been helped much by the maritime deregulation in the 1990s. In addition to that the strategic impetus to expand into new markets was however most pressing. Privatisation, currency liberalisation (floating) and lower tariffs also made the North-South trades attractive to new carriers. For example, South Africa's boosted free trading environment, a more developed and sophisticated market infrastructure accord the global carrier requirements. South Africa's wayport location between the Far East and ECSA has been a major contributory factor in the intensification of competition, and this has served to accelerate its development as an important regional hub.

In West and East African markets, there is a sharp contrast, which have seen a reduction in activity from the global carriers. Bureaucratic and regulatory controls, low volumes, poverty, inadequate infrastructure are the main causes of this as well as, logistical problems, markets with little demand for value added service and high volumes of non-containerised cargo. This has presented limited involvement of the global carriers integration into the North-South trades. In a way this will deny the areas competition, innovative and technological services although there is great potential. Despite the fact that the global carriers have threatened the viability of traditional carriers of the North-South trades, mega carriers create a climate of dynamism, which demands improvements to avoid loosing out in the market place.

5.6 Summary

The North-South operators should push for new strategies in order to confront the mass arrival of the global carriers and tonnage redirected from over traded routes. There is need to develop a coherent strategic defences to exploit their specific advantages that include: local expertise, an established market presence and share, purpose-built tonnage, integrated organisations, which embrace agency, transport and stevedoring. This combination of advantages is necessary for service enhancement.

The joint venture between Safmarine/CMBT in South and East Africa and with Delmas in West Africa is a positive development even though it is bogged with operational constraints arising from management differences. A more coherent strategy such as one undertaken in the study will accord the economies of scale and service cohesion.

In the North-South trades where markets lack significant cargo growth or regulatory restrictions, frustrated business practices or where port facilities are rudimentary, the global carriers or new entrants have not been successful. Where the market resembles a scaled down version of the West-East routes, for instance South Africa, it has been easier for them to make substantial shipments. Therefore the intention of this study is that the proposed joint venture should not be between locals and incoming global carriers or new entrants, because that trade off expertise with locals will be in danger when the joint venture weakens or breaks up. This would leave the global carriers or new entrants being more confident in their position, and may no longer need a local partner.

SECTION SIX

6 THE FREIGHT AND CHARTER MARKETS

6.1 Market Rates

Historically, the container trade growth was largely supportive of market rates especially during the late 1980s. The Asian region, being the strongest with massive increases in transhipment traffic, was highly supportive of rates for feeder vessels. The second half of 1990s saw market rates dropping in response to the arrival of large and tramp container operators which took most of the demand pressure off smaller sector vessels. This however meant that container charter rates were partly driven by global, regional and sectors supply/demand balances.

In his discussion papers (317/318) Dr. Hans Boehme of the Kiel Institute of Global Shipping and Transport, reviewed the effects of the Asian crisis on market rates. Boehme discovered that market rates across the board during 1997 did not respond to the ocean global trade growth of over 5 billion tonnes, which was a result of strong economic growth. Rates dropped despite sufficient demand, and the weak bunker prices and the dollar exchange rate increase, all negatively influenced the market rates. One explanation could be that where trade growth has been at its highest, new operators are attracted to the market and stimulate a rate war with existing carriers who have market share to defend. As a result unit revenues in dollar terms are seriously harmed. However Boehme forecasted further charter rates weakening as this would be inevitable because there is considerable uncertainty about the duration and effects of the crisis in East and Southeast Asia.

Therefore the crisis together with the continued stagnation of the Japanese economy will have dampening effects on the global market rates with strong regional effects, which may not be compensated by the increasing demand for tonnage in China. In addition to that the effect of the continuing strong capacity expansion of the global merchant fleet, which already caused freight rates to drop before the crisis will have worsening effects. If the Asian exports continue at a high level, supply of slots will grow strongly, competition and pressure of rates will expand to the trades, which will be affected. The considerable lower charter rates for the tramp container vessels will contribute their share to such development.

Some experts have also suggested that the degree of rate erosion vary from route to route. The West-East markets have been under a permanent rate pressure for over two decades. The world's largest market of the West-East, the transpacific, has experienced dramatic collapses (in 1978, 1984, 1987, 1996 and 1998) and long-term revenue erosion. This evidence shows that the West-East trends may be permanent and that rates are not going back to historical levels, therefore the current market could be a new rate reality. Comparatively, many North-South markets have only experienced freight rates reduction during the 1990s mainly due to the elimination of protective measures following the pressures of globalisation and deregulation. This, as a result, has exposed the North-South trades to the full force of competitive pressure.

6.1.1 Containership and Rate Pricing

Container carriers are caught between shippers' demand for more services at lower prices on one side and the vagaries of the international economy on the other. The trade imbalance in the West-East trade is a product of the fall of the Asian currencies, and has resulted in large numbers of empty containers shipped eastbound. The increase of $300 per 40 foot container on the eastbound side is an endeavour to cover the costs of container repositioning. At the same time carriers have dropped westbound rates to attract cargo and defray the costs of repositioning the empties. This has been adopted recently but may prevail longer than anticipated because the Asian economies have not yet shown signs of early recovery.

The above scenario describes an attempt to restore rates that have fallen far below levels of five years ago. But the Container industry is highly fragmented, and no individual carrier can exert much meaningful control over the pricing of its products. Attempts to exploit collective pricing power through conferences have become less convincing, both through a lack of internal carrier cohesion and through the more rigorous policing of the container shipping by regulators, who has for instance curtailed many of the anti-trust exemptions previously enjoyed by carriers. Therefore there is need to rise above conferences by formulating "discussion agreements", which include both conference and non-conference carriers. Discussion agreements may address industrial and other market-related issues such as over-capacity, but have very limited power in setting specific rates.

However co-operation among carriers is of crucial importance to maintaining rate levels although several factors work against such unity, and some of them are as follows:

- The practice of taking independent action, which allows conference carriers to cut rates with or without the permission of other members, continues to push rates downward,

- Service contracts in which carriers agree to certain rates and service in exchange for a shipper's volume commitment, have also led to non-compensatory rates,

- The deregulation of the relationship between shippers and carriers by allowing confidential rates. Confidential contracts will on the other hand hasten the end of the conference system because of its failure to police freight rates, etc.

However pricing of freight or charter rates in the container industry could be manageable to a certain extent with the use of discussion agreements despite the fact that there are several factors that militate against them as pointed out. Through agreements the market rates will stabilise even though rates will not return to their original levels.

SECTION SEVEN

7. REVENUE AND COST SAVING

The container market has reflected a significant mismatch between the freight rates (revenue) and the cost of operating the industry. The negative operating margins have been largely a result of the industry's failure to restore the freight market. Over-capacity is one of the factors caused by the super-size vessels, which arrived at the market some three years ago. This has meant huge additional vessel slots and has intensified competition, affecting the carriers' cost structure. The negative economic development of 1997/98, added to the underlying constraints will force out a large number of operators, who will switch investment to others sectors of less risk or quit shipping altogether.

The theoretical black company including many other medium size and small carriers will be most affected, while larger carriers will not realise growth as return on capital only covers operating costs. At this stage costs have become carriers' number one enemy! A joint venture co-operation can arguably be the way to follow. Richard Murphy, the senior vice president of Sea-Land stated that, "managing what we have now in terms of optimising our cost base.... we want the highest quality.... with the lowest cost base for doing it." Sea-Land is one of the container joint ventures (although international in nature) that have achieved major savings through a consolidation strategy of merging the companies' marketing, capital and operations as can be seen in Table 7.1.

7.1 Cost Reduction/Saving Strategies

It is the purpose of this study to search for strategies that will make the South African container operators and many carriers survive and stay in the market. However, consolidation has been adopted although it has its weaknesses such as the eventual creation of bigger, stronger and fewer carrier groups. One of the minor strategies of reducing and saving fixed and variable costs could be a re-structuring process of the administrative and operating systems. Restructuring is more of a reform strategy rather than allow carriers to expand the economies of scale.

Restructuring has been used in many occasions in privatisation or corporatisation of government enterprises for cost effective and efficient use of resources. Restructuring has also been used in organisational re-engineering process rejuvenation of mature industries and innovative programs to slack off redundancy and create value for all interest groups in terms of low cost, quality, fashioning products and service, etc to meet market demands. However this has a direct effect on employees losing jobs and incomes. On the other hand this adds growth to investment in technological advancement.

Through restructuring, organisations may reduce both variable and fixed costs, and move greater volumes of cargo through lower unit costs. However restructuring without consolidation may achieve nothing, but eventually face the same old factors of cost because of the general nature of the shipping industry. This alone may not be better to reduce capital investment demands and variable operating costs. This assertion implies that restructuring lies harmoniously in the armpits of consolidation.

7.1.1 Consolidation and Cost Savings

Table 7.1: Potential Benefits of Carrier Consolidation- A Hypothetical Case Study ($m)

	Current Operation	*Alliance*	*Merger/JV*
Operating Revenue	3,492	3,492	6,984
Operating Expenses	3,305	3,205	5,980
of which Labour/Fringes	859	859	1,289
Operating Income	187	287	1,004
Margin Revenue	5.4	8.4	14.4

Source: Drewry Shipping Consultants Ltd, 1997

Table 7.1 provides a hypothetical example of merger/take-over or joint venture benefits (Drewry Shipping Consultants, p64, 1997) arising from economies of scale in administration. The assessment is based on Sea-Land's operational performance of

1994 and contrasts the scale of benefits achievable from an alliance arrangement with those potentially on offer through a full merger or joint venture with similarly sized and similarly structured carrier. The case study assumes savings of $100 million per annum achieved in operating costs in the case of an alliance and the merger/joint venture assuming administration costs are at 1.5 times of the two companies separately and retains all the cargo volumes.

Drewry Shipping Consultants in 1997 proved that the merger/joint venture entity could deliver a 14.4% margin on revenue in view of the falling freight rates. Drewry also demonstrated that that potential profit could only be realised by a merger/take-over or joint venture company even though market rates would not return back to original levels. This also shows that survival can be achieved in the container industry during hard times, but only through a more consolidated approach.

Similarly the Anglo-Dutch incorporation between Safmarine and CMBT, eventually resulted in a major acquisition in 1998 and created a giant carrier in the North-South trades. The incoporation however suffered from different business ethics, cultural sensibilities and strategic visions that made a massive obstacle during the initial period. These are typical operational constraints faced by most cross-national joint venture, and are more prominent in alliances where companies maintain their marketing and administrative strategies outside the arrangement. One of the Safmarine/CMBT's weakest points was cost rationalisation, which can hardly be separated from the alliance arrangement and had questionable cost savings and hence profitability.

Despite these constraints the Safmarine/CMBT incoporation realised a big change in 1997 when it moved 500,000 TEU for the first time. During the same year the Safmarine Group through the container arrangement scooped a historical turn over of R8, 5 billion- an increase of 29%. In addition the incorporation created a dominant and competitive organisation that overcame the effects of weakening market rates in 1997. However had this incorporation been a consolidated joint investment with a single marketing unit and a single brand name the initial financial year of operation would have realised margin on revenue comparable to the Sea-Land case study. This strengthens the point that a consolidated joint venture investment could be superior, even though it needs the support of extra arrangements capable of reducing costs to minimal levels.

SECTION EIGHT

8 OPERATIONS AND FINANCING OF THE JOINT VENTURE

8.1 Integrating the Joint Venture

The South African joint venture between Safmarine and the Black operators can be incorporated in South Africa to exploit advantages of cargo and market know-how. The elevation of the South African ship registry will pressure the government to recognise the commercial advantages to the South African shipping industry.

In determining the success of the joint venture the parent companies of Safmarine/Blacks operators should employ trust as an important tool. Trusting each other is not only a major determinant but also a requisite in any form of joint venture, whether between national or international companies.

For the joint venture to operate smoothly, an explicit framework of equal participation should be devised covering all areas of legal and financial matters of the new entity. For example equal participation to imply equal number of directors from Safmarine and Black operators. The joint venture will also state in the agreement the terms of appointment of the chairman and chief executive officer of the new company, and the appointment a senior management team drawn from the executives of the two companies.

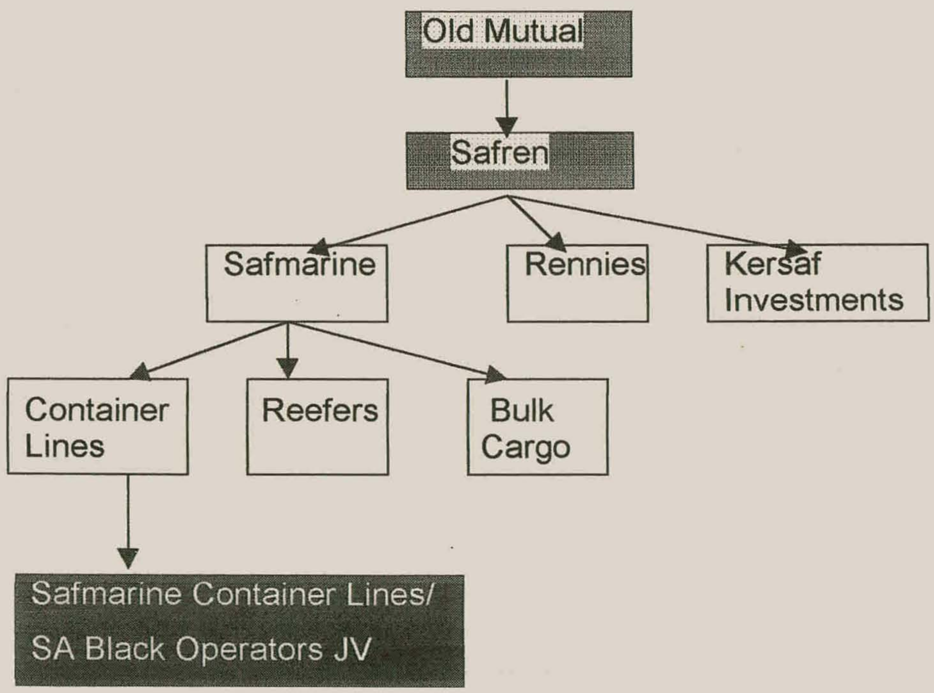
These operational parameters should be within the confines of the defined objectives of the joint venture. In addition the legal framework should clearly define the partnership in the joint venture. Some joint ventures provide separate agreements between each of the partners themselves and another set between each partner and the joint venture (C. Grammenos, page 17-9). By use of this method any conflict that will arise between partners may be solved without directly affecting the joint venture (C. Grammenos, page 17-9).

8.1.1 Safmarine Container Lines in the Joint Venture

The origin of Safmarine dates back to more than 50 years ago, which was financed by the Industrial Development Corporation (IDC). Safmarine being floated on the Johannesburg Stock Exchange (JSE) the majority of the shares were bought by Old Mutual, who then became the owner of Safmarine. Later Safmarine diversified and incorporated into Safren, a group of three major companies composed of:

- Safmarine, operating shipping vessels in major areas of bulk, reefers and container carriers
- Rennies, running forwarding, packaging, freight, terminal and logistics, and
- Kersaf Investments, operating hotels, gaming, casinos, etc.

Figure 8.1: Strategic Integration of the JV



Safren group faced with a multifaceted business decided to focus on core businesses and adopted the strategy of "unbundling". Kersaf investments were cut out of the Safren Group in order to optimise the related business units of shipping and freight. As a result Safren intensified these units and then added to them similar operations in aircraft leasing and operation (Sun Air), foreign exchange and travel services.

Safmarine's intensification strategy coupled with increased competitive pressure from major carriers in the liner operation, Safmarine incorporated CMB NV, a Belgium liner company in 1997, and fully acquired CMB by mid 1998. The acquisition was renamed Safmarine Container Lines (SCL) without dropping the brand CMB for market share maintenance and growth.

As a result the Safmarine Container Lines/CMB became the largest operator in the European/African markets. Since the acquisition Safmarine own about 50 container vessels with sizes ranging from 1200-3100 TEUs capacity, and over 80,000 containers of various types. Despite holding the market share, Safmarine experienced a declined market demand since 1997. This is caused by a slump in the world economy, the Asian financial crisis, increased new-building deliveries and competition from the carriers from the west/east markets breaking into less competitive north/south markets. As a result Safmarine's liner division in 1998 had a decline in operating profit of 8% from 1997.

8.1.1.1 Demutualisation Programme

Following the demutualisation program of Old Mutual (the owner of Safmarine on the basis of majority shares) Safmarine was advertised for sale by end of 1998. Safmarine is admired and attractive to some conglomerate shipping companies. If the sale goes to a foreign carrier, South Africa will lose a valuable shipping company and the edge in trade and economic cost advantages. This will be a blow in the face of the South African maritime industry.

An alternative way of moving ahead without affecting the demutualisation programme of Old Mutual is to unbundle Safmarine into three sectors of bulk, reefers and container carriers and sell them individually. This process could carry a clause that will allow Safmarine management to forfeit their dividends for a possible management buy-out (MBO).

However MBOs are rare particularly in less developed economies such as South Africa. But it is a common process in developed economies for management to take over ownership of company in a similar situation like Safmarine. The advantages being that the market will not lose confidence in the company; there will be no changes in objectives and strategies of the company hence perpetuity in serving South Africa's comparative advantages in maritime industry. As a result MBO will provide expertise suitable for merging the two companies into a South African joint venture.

8.1.1.2 The Black Operators in the Joint Venture

The study presents the Black operators company as a theoretical and imaginary company. The operators are assumed to have acquired a strong shipping background. The company operates leased and chartered vessels of all sectors of deep-sea shipping and therefore owns neither vessels nor equipment. But they have created a medium size operation and command a share in the North/South markets. Equal participation with Safmarine Container Lines (SCL) in a joint venture will be based on valuation of assets and liabilities of the two companies and that will be merged into a joint venture entity.

8.2 The Joint Venture Market Share

The joint venture will adopt a new name, which enable the company to maintain the market share of the parent companies. They might have to weigh the option of using the brand, Safmarine against that of the Black operators or the blending of the two names to capture their original market share. This will also include the adoption or market mix of the two companies' strategy.

The joint venture will be poised to develop into a more powerful presence in the North/South markets. It will be the largest container liner operator in the Europe/African markets. The advantage of local market knowledge will give the Safmarine/Black operators an edge over their major competitors. The joint venture should also be consistent with the South African multi-modal strategy to leverage liner activities in order to promote growth and development of the land activities.

8.3 The Joint Venture Capital Participation

The joint venture will have to start with a fair initial capital from the combination of the two companies' capital participation. Joint investment raises the creditworthiness of the company for ease access to capital finance at the same time spreading the risk of investment. By combining the two companies' synergies the joint venture is poised to break-even early as a result of increased sales revenue from the combination of the companies' throughput TEUs and generate major economies of scale for the joint venture. This will certainly provide value for a further growth, strength and the much-needed profitability.

8.3.1 Financing of the Joint Venture

However, in terms of acquisitions and expansion debt financing could be a better option depending on the considerations:

- Level of collateral security (mortgage security, insurance, promissory and credit letters, and guarantees) and Safmarine's good management can also provide guarantee and safe investment,
- Condition of the joint venture (which looks very favourable in terms of company liquidity and solvency). The financial state of Safmarine (positive cash flows annually and high margins of operating profits) provide attractive company conditions to the joint venture. Obviously the creditors also examine the overall economic and political conditions as given in section three, shipping markets including the joint venture objectives and strategies,
- capital (equity participation of the joint venture) as pointed out above,
- capacity (management ability to manage and handle investment, reduction of costs, chartering, risk hedging shipping contracts and the ability to collect debts and payment of credits), and
- Character of the joint venture, which dates back to the parent companies' reputation, integrity in terms of dealing with business associates and rival competitors, loan record and creditworthiness.

The 5Cs (capital, conditions, collateral, capacity and character) provide the basis of credit analysis of all shipping loan projects. The Safmarine/Black operators joint venture will be expected to satisfy all the requirements for their acquisitions and expansion programs. The previous operations of Safmarine and the Black operators that went with a lot of success despite operational problems of low volumes of the North/South markets and the overall cyclical nature of shipping and the world economy. The two companies' previous success would certainly meet the demands of the 5Cs to warrant the joint venture debt financing.

However during the current times ship finance have diversified, creating wide choices for the owners on which financial products and how to finance acquisition, replacements and expansion and sources of finance. Owners can now tap capital finance from various sources that include financial institutions, insurance houses, capital markets on top of the traditional shipping banks.

8.3.1.1 Debt/Equity Finance

Debt financing of all financial products has been the traditional shipping capital. Shipping banks normally provide the mezzanine capital structure, which requires relative capital inputs from both the banks and owners. The advantages for debt financing are as follows:

- The joint venture management team will be pushed to work hard in order to pay back the principal amount with interest depending on the agreed method of repayment,
- Debt increases the amount of leverage; therefore management will react profitably by use of debt financing projects.

Unlike equity, which will be money already in the joint venture, management may not be disciplined in the use of equity. The tendency of contentment would quickly grip and allocate more money to salaries and dividends, which reduce the value of the joint venture. With debt, management will be aware of the consequences of debt, so use it profitably.

Equity also increases the costs of financial distress by way of losing tax shields. Therefore the joint venture could opt to increase the creditors capital input ratio at the same time decreasing the difference between the creditors and the joint venture capital inputs. The advantage being that the joint venture capital participation will then largely cover areas of essential costs, for example insurance and the balance sheet for strong cash flow. To conclude the equity issue could be the last resort when the joint venture had exhausted debt capacity in order to gain optimum operation.

While debt financing is still superior and typically traditional in ship financing, owners equity in recent times demand for capital structures, which are sophisticated and less cost. Faced with a wide array of sources, owners are now able to shop and mix financial products and also negotiate sophisticated capital contracts. The reason being that debt financing has been risky, with interest rates far above the base rate by wide margins. Sometimes lenders have even treated debt as venture capital, asking for involvement in the operations, which could include a share of the profit.

8.3.1.2 Capital Markets Finance

The most common of many of the new forms of ship financing is through capital markets. These markets are found in many centres of world and issue equity and debt stocks in a number of ways. Equity stocks are in the form of public issue including the initial public offerings (IPOs) and private placements. Debt issues are in the form of bonds. In either way shipping companies sell these issues on these markets in terms of shares and debts (shareholders and bondholders) to raise capital for expansion and replacements.

The decision to sell equity or bond should go with the objectives of the joint venture in terms of what the company prioritises to use the money, the term the joint venture needs the money, what form of currency, including the costs and tax associated with the issue. In addition to that the joint venture should consider and compare location and size of the market. For example, the Oslo Stock Exchange (OSE) focuses primarily on the local companies; London Stock Exchange (LSE) has huge expertise in the sector of shipping and easily accessed by international investors. New York Stock Exchange (NYSE) is more costly in terms of registration and annual fees; Johannesburg Stock Exchange (JSE) expertise in the shipping sector is limited and the constraints of the Rand/USD exchange rate; Singapore may be an interesting place for shipping issues.

One area where stock issues can restrain relations between the management of joint venture and the underwriters is valuation of market price of the company assets. For instance, management will offer higher prices with underwriters offering low prices. It is important for management in timing the decision of issuing the stocks because pricing or valuation of assets will normally couple with the state of the market.

Reputation and knowledge (expertise) should form the basis of choosing underwriters by the joint venture. The joint venture should match the company objectives with the skills of the underwriters. Inexperienced underwriters may understate the value of the joint venture assets because it's a South African company. Underwriters should have the ability to assist the joint venture with drafting terms of issue in terms of size; interest rates and issue prices at the same time meeting the requirements of the market.

However the main constraint posed by the capital markets after the issue, is the dilution of the joint venture control. Floating stocks on the market is like the company going public and therefore the joint venture will be required to disclose company accounts, publish quarterly and annual reports to inform share/bond holders of the state of the company for public accountability. This factor has limited many family owned shipping businesses from regarding the capital markets as ways of raising capital and thus stick to the traditional ways of shipping finance.

Regarding the above organisation of the capital structure of the joint venture, the method of partnership and financial commitments of the partners, it is important for the company to draw up documents binding the participants to the joint venture. The documents should also include vital legal aspects, methods of keeping accounts, exchange of information, and restriction of competition between partners comprising the joint venture, grounds of dissolution of the joint venture and provision for the distribution of the joint venture assets upon such dissolution, distribution of profits and many other areas of importance. This will make the joint venture operational with limited restrictions.

SECTION NINE

9. ADVANTAGES AND DISADVANTAGES OF THE SAFMARINE/BLACKS JV

9.1 Advantages of the Joint Venture

The Safmarine/Blacks joint venture has potential advantages in stabilising the company through (a) improvement of revenues; (b) achieve major cost reduction and control; (c) increased managerial and operational efficiency; (d) spreading the risk of establish an enterprise; (e) raise fresh capital; (f) acquire market power; and (g) achieve economies of scale.

The notion of comparative advantage provided by the Euro-centric scholars does not lie in harmony with the Safmarine/Blacks joint venture. They viewed all joint ventures in less developed economies as either between companies from the developed economies or companies from developing and developed economies. In the case of a joint venture between companies from developed and less developed economies, the one from the developed country will have comparative advantage in managerial, financial and technical expertise added by the availability of capital and access to financing sources and existence of developed infrastructure. The company from the less developed country will have comparative advantage in labour and resources such as cargo (C. Grammenos).

On the contrary, Safmarine is a South African company, which is the largest container operator in the Europe/African markets. Safmarine has a record of strong cash flows and high operating profits (Appendix) have established world class infrastructure and been able to finance all its acquisitions. The Black operators are a medium size company, well managed and has created wealth that has induced Safmarine to submerge their synergies into a joint venture to achieve greater performance and efficiency, competition and cost savings. The joint venture will be economically superior to what they can provide individually. Therefore the fundamental objective of the joint venture is the need to maintain South African comparative cost advantage in containerisation over their foreign competitors.

The Safmarine/Blacks joint venture will reduce major overhead costs as a result of the economies of scale to acquire market power and coverage. Reduction in cost will result in increased revenue and stability of the company and also provide much need employment in South Africa.

Safmarine and the Blacks operators will certainly need each other and that sort of co-operation will be reinforced by increased competitive pressure from foreign carriers. The Black operators will benefit the economies of scale provided by Safmarine and break into Safmarine's wide and established markets in Europe, Asia, America and Africa. Therefore Safmarine is regarded as the safe route to sustainable survival in the North/South markets. In addition the Blacks by participation in the joint venture will benefit lower operational costs and not see elimination like many other small/medium operators. The Blacks will also improve their access to major capital financing.

Safmarine will adopt lower cost shipping as a strategy and benefit increased volumes through the joint venture partnership to contain the competitive pressures brought by the expert foreign carriers. Safmarine will also benefit from the discovery of the previous untapped sources of equity capital and reduce its capital input requirements as a result of sharing.

Since the objectives of SCL are in line with profitable services, can charge some additional fees for the services performed over and above the scope of the joint venture. These charges will emanate from the technical support, brokerage and agent networks, etc already established by Safmarine. Therefore the joint venture will help Safmarine to maximise the utility of the existing administrative and technical network.

This means that from the joint venture the Blacks will largely benefit from the sophisticated infrastructure laid down by Safmarine in terms of shipping infrastructures such as shippers, insurance, brokerage, port terminals and cargo handling facilities, transhipments to further inland countries through transport systems, local repairs and maintenance (C. Grammenos). In addition to that the Blacks through the joint venture will develop managerial, technical and operational skills by the assistance of Safmarine Container Lines (SCL).

In terms of labour availability the South African environment provides cheaper labour than in many of the developed economies. Although labour unions in South Africa look militant agitated by the liberal democratic policies the potential for investment and growth is still there. For example, cheaper and skilled labour has provided Safmarine to operate at capacity. Such labour force will be sufficient for the joint venture to perform equally well, for example, in the manning of sophisticated vessels.

9.2 Disadvantages of the Joint Venture

The Safmarine/Blacks joint venture may exhibit a considerable degree of protectionism, which could not be in line with the policy of free market/ trade portrayed by South Africa. The creation of a consolidated organisation will pose not much difference from the structures of closed conferences and consortia that are oligapolistic in nature and frequently clash with independent operators. As a result the joint venture might be difficult to justify the comparative advantage theory, which campaign for free trade.

The joint venture might even become a useful tool to convince the government of the economic and commercial benefits of the South African maritime industry, and require government support. The nature of such support will be tantamount to subsidies, which are a fundamental mechanism of protectionism. Accordingly the South African shipping industry basically needs some form of government subsidies to exploit the economic potential of the industry. Therefore the joint venture could also be a potential tool to erode the industrial market forces already in place and as result free container tramping could be threatened. Despite that the theory of infant support is debatable.

The fundamental objective of the joint venture is to co-operate into a consolidation. Then the synergies of the two companies result in comparative cost advantage of the South African container sector over foreign carriers. The joint venture involves the carriage and movement of cargo, which may find difficulties to draw up a dividing line between co-operation and protectionism. Naturally protectionism reduces competition and also affects the quality of service and efficiency improvements.

Many of the international joint ventures suffer from the lack of communication, especially joint ventures between different nations and languages. These joint ventures incur extra costs to facilitate intermediary assistance or interpretation. In such cases research will be affected, as the joint venture may not be able to carry out joint research programmes. Advice to the joint venture will be in whole, inadequate. In addition assistance to the joint venture at the early stages is of crucial importance and if communication is problematic then the joint venture will not be operational.

However Safmarine/Blacks joint venture may be affected by communication problems to a less extent. The advantage being that the joint venture will be formation of South African companies, with similar official language background, familiar cultural background and a familiar business environment. The joint venture might only need intermediary (brokering) assistance when dealing with creditors or clients of different nations or languages.

Another important factor that the Safmarine/Blacks joint venture will suffer in the distrust between the two companies arising from "political and economical ideologies; from misconception and misunderstanding; from prejudiced philosophies..." (C. Grammenos, page 17-9). Had the joint venture been, for instance, between the South African Blacks and a company from either Europe or America, where operations will suffer from the distance between the two companies; from the Blacks; claims of the European company exploitation; from the European company; claims that the less developed SA Blacks are unreliable (C. Grammenos page 17-9). These potential obstacles could lead to a significant misunderstanding between the two companies (Safmarine/Blacks) and mar the operations of the joint venture or to eventual break-up.

The managerial gap between Safmarine and the Blacks might hinder the development of the joint venture. For instance, Safmarine is used to intensive competitive pressures and therefore the way they handle and see things in the joint venture could be different. This could result in internal competition and rivalry between the two companies, hence making processes for decision more complex. This problem could be excarcebated when Safmarine and the Blacks were rival competitors prior to the joint venture. That could create a general reluctance to co-operate in the business of the joint venture.

To conclude, in many cases disadvantages have often outweighed advantages. As such many joint ventures in the field of shipping have had mixed experiences and many of the previous studies in joint ventures have shown little successes. However the experience will leave each of the parties with something to hang onto, therefore the measure of joint ventures should not be largely based on the success or length of co-operation. Emphasis could also be placed on attainability of the objectives of the joint venture. In this case, if Safmarine and the blacks break up after delivering the objectives of their co-operation, leaving each other with a value in terms of wealth, equipment, managerial and technical skills then the joint venture would achieved the goals of their co-operation.

SECTION TEN

10 CONCLUSION

10.1 Trade and Investment Outlook

South Africa has been regarded as the gateway to African investment and economic growth and this is so because of the country's economic infrastructure that is attractive for foreign capital investment. In addition to this, among many emerging economies that include Russia, India and Brazil, South Africa has largely resisted the economic and financial shocks that emanated from the Far East and South East Asia.

By and large some of the economic fundamentals of South Africa are still intact. For example by end of 1998 the merchandise exports surged by 25%. This was largely helped by the trade marginal exchange rate of the Rand during the latter part of 1998. As a result South Africa's international competitiveness could lead to an export-led economic recovery before the end of 2000. However the advantage of currency depreciation could be a short-term opportunity hence South Africa should use it intelligently by putting the country clearly on the track to economic growth.

Table 10.1: South African Balance of Payments (R & $ million)

	1997	%Δ	1998	%□	1999	%□
Merchandise Exports (R)	114142	12.5	132809	16.5	155212	16.9
Merchandise Imports (R)	130844	11.1	149119	14.0	172033	15.4
Trade Account (R)	9116		9947		11377	
($)	1979		1809		1827	
Net Service Payment (R)	-17929		-19757		-19927	
Net Transfers ($)	-3891		-3593		-3199	
Current Account (R)	-8813		-9810		-8550	
($)	-1913		-1784		-1373	
Current Account (R)	20246		-834		16100	
($)	4394		-152		2585	

Source: Economic Monitor Index (South Africa)

Another fundamental is the merchandise imports, which are relatively decreasing as a result of increased import prices. However the situation could be rescued by the continued lifting of tariff protection and create competitive consumer prices. Inflation, which is at its lowest level (see earlier discussion) has a double score, one in slower rate of production price index (2% in 1998) and the second one is the general prices of goods that also include imported goods and commodities, which declined by 1.6% since 1997. This has partly resulted from the low inflation rates of South Africa's trading partners as can be seen in Tables 3.2 and 3.4. Despite the constraints of the depreciation of the Rand, low inflation will necessitate for high consumption and growth of imports.

10.2 Investment Outlook

The shift of policy from economic growth and redistribution (GEAR) to social reform will undermine domestic and international business confidence. The shift is not timely enough to sustain business and may not be compatible with the economic adjustment policy of the World Bank and the International Monetary Fund (IMF) This will decelerate economic growth, trigger public financial shortages and eventually dry up savings.

The fixed investment by public institutions (Figure 3.3) will only increase marginally as money will be going to finance current expenditures. Gross domestic savings will therefore deplete to lowest level of the GDP. However the government could emphasise on financing investment in order to achieve a higher sustainable economic growth.

Table 10.2: Income and Expenditure of General Government

	1996	**1998**	**1999F**
Direct Tax (% of GDP)	15.6	16.8	16.1
Indirect Tax (% of GDP)	12.1	12.1	12.1
Deficit Before Borrow (% of GDP)	5.5	5.6	5.0
Saving (% of GDP)	-3.7	-3.7	-3.1
Consumption Expenditure (% Δ)	7.1	3.3	-1.9
Fixed Investment (% □)	4.0	2.1	2.6

Source: Economic Monitor Index (South Africa)

Private and foreign capital investment flows will be much attracted by the privatisation of parastatals or public assets. This is one area where South Africa will continue to receive continued inflow of foreign capital in particular. Many other sectors of the economy such as agriculture and mining have had problems of output probably caused by adverse weather conditions for agriculture and increased cost of production and lower commodity prices in the case of the mining industry.

However the manufacturing output has been growing during the past three years (see appendix). The growth and marketing of such products can be affected if South Africa loses its comparative cost advantage of moving products to overseas markets as result of losing its lucrative container industry to foreigners. These products will suffer competitive prices from the high quality and lower priced products of the developed economies.

10.3 South African Social and Economic Outlook

Despite the above major economic fundamentals three prominent factors, (a) high level of crimes; (b) lack of economic growth and; (c) high level unemployment have bedevilled South Africa. The declining gross domestic product (Table 3.6 (b)) is a symptom of lack of economic activities (investment, savings, etc) that could be a result of inadequate economic and fiscal policies. As such business will need to be influenced to generate profits that will in turn stimulate investment and job creation and hence perpetual wealth.

High level crimes will work against business and investment. Certain businesses will close down operations and investment diverted to other potential regions. South Africa will need to adopt sound socio-economic policies that will enhance the country's stance on performance and prosperity in order to retain business confidence.

However South Africa hangs on a vibrant liberal democracy that has instilled an atmosphere of political stability unlike in most of the parts of Africa, East Europe, Asia and Latin America. Political stability is compatible with investment. In addition to this, the country's liberal constitution makes the legal aspect of business operational and this resembles the western business environments.

10.4 The Shipping Policy of South Africa and Prospects

The proposal of a container joint venture between Safmarine and Blacks could be regarded as a strategy that will add value to the South African shipping industry in terms of economic advantages and contribute towards fiscal gains. Beside the advantages mounting to the container company through economies of scale, a competitive South African carrier will help save foreign currency payments, stop the deteriorating net service payments account (Table 10.1) and in turn will improve the trade account as exports are bound to continue growing.

This will call the government to consider shipping as one of its strategic policies, continue with its policies of market forces at the same time creating opportunities that strengthen the maritime industry in South Africa. For instance, the OECD countries have introduced a policy of re-regulatory of market forces. This entails adoption liberal policies that bring advantages to the local industries and also accommodates foreign investment and trade.

Therefore shipping in South Africa will help create employment and investment opportunities, and this will be at a limited scale if the government continues with the wait and see policy without exercising its support, unlike most governments in the developed economies.

10.5 World Economic Outlook

Investment will need to be returned to the emerging economies in order to balance out trade between developed and less developed nations. A totally different approach regarding financial markets, and economic development should be adopted, especially by the International Monetary Fund (IMF) and the World Bank. Devaluation of currencies, a brainchild of the IMF will hit hard the potential economies and reduce domestic consumption to very lower levels. Merchandise trade will suffer from local substitutions because of excessive exchange rates.

There is a great need to introduce new forms of economic development programmes that will not result in starving the majority of the nations and enrich few economies. Most of the economies, which have suffered because of the IMF-lead programs, fall in the Southern Hemisphere, where the majority of potential economies are found. The repercussions will surface with depressed economic activities that will affect all service industries with huge negative effects on shipping, especially in the less developed North/South markets.

In Asia, a quick recovery of Japan will be crucial to the whole region. Japanese investment in the region (in less production cost economies) had lead to export growth and increased shipping volumes and activities in the Trans/pacific rim. With the advent of the Asian financial crisis, which compressed output and depressed demand thereby resulted in adverse container trade imbalances. Therefore the recovery of Japan will not only give life to the Asian region but to many economic sectors of the world.

10.6 Prospects for the Joint Venture

The purchase of Safmarine (SCL) by Maersk Lines draws many conclusions with short and long term effects. In the short-term, competition on the Southern African/European trade will ease. Maersk will consider redeployment of some of their vessels to other trade routes. The push behind the move will be partly caused by the anticipated recovery of the Asian economies.

Secondly Maersk will not risk dropping the brand name of Safmarine Container Lines. This will assist Maersk to retain Safmarine's market share and probably command the largest market share in the North/South trade. As a result freight rates will shortly move up to cover costs.

In the long-term, SCL will be merged with Maersk as a cost saving strategy. Maersk would also want to create a single vision, a consolidated marketing and administrative strategy. This will result in loss of employment and incomes as the two become "one".

Rates restoration will be short-lived. The success of Maersk will attract major carriers into the European/Southern African trade. This will be triggered by economic recovery of some African economies. Any deployment of excess vessels that failing to match the West/East trade (Transatlantic and Transpacific), will decrease freight rates. This will adversely affect small and medium operators such as the "Black aspirants". Lack of adequate financial back up will quicken their eventual shut demise.

However the loss of SCL could jeopardise the "Black operators". The proposed South African joint venture will be lost without South African lines coming together into a consolidation. Maersk is a foreign carrier and a family business venture. Their successful purchase of SCL has edged them into the North/South trade by capturing a lucrative market, particularly in South Africa. Therefore a joint venture will not be an issue to Maersk. Consolidation with the Black operators might be at a conference level, which is far away from a joint venture.

The joint venture had multifacet benefits accruing not only to the Black operators, but also to the public of South Africa. For the Black operators it would have encouraged them to grow and enjoy economies of scale, expand through ease access to financial requirement at interbank market. However all these benefits are now blocked and salvation may only come from the government. One way that could be used to breath life to small and medium operators is to fine-tune the mandate that regulates the Industrial Development Co-operation (IDC) to extend its current funding of manufacturing related industries to service industries. For example Safmarine's possible birth was engineered by the IDC over fifty years ago before the IDC was re-regislated to fund manufacturing projects only.

Without this support operators such as the Black operators and many other small and medium size carriers may not expand, fail to access financial requirements at international and local markets and may be forced to leave shipping. The joint venture with SCL could have benefitted the Black operators with many benefits including finance for investment, providing a relative number of choices and mix to meet investment requirements. Nevertheless the joint venture could have been one of the strategies employed to pursue for government support for the South African shipping industry.

The purchase of SCL will deny the economy from achieving positive trade balances and affect the public current accounts. Foreign currency will continue falling and increase the rate of outflows. Dividends and profits, which SCL used to retain in

South Africa, will then be paid overseas. At a larger scale trade will be in FOB terms with payments settled overseas. A large proportion of the shipping business will continue in foreign hands. This result will negatively affect the balance of payments.

Therefore the purchase of SCL is not only a loss of prospective growth, opportunities and objectives of a South African container joint venture, but it can be regarded as public loss as well. The sense of national pride in shipping has been shaken. Safmarine's successful story is a treasure in the history of the maritime industry of South Africa.

South African trade may not be the same again. The objective of SCL served and promoted the basic principles of South African trade with other countries. The loss of SCL could undermine the export competitive advantage of some South African commodities and goods at international markets, especially now when the economy is export geared.

Although the loss of SCL to a foreign carrier has strangled the joint venture possibilities, the objectives of this should remain the same. The end of SCL should not be the end of road. Other options such as a joint investment between small and medium size carriers could be adopted. This can be done in conjunction with a vigorous pursuance of government support. The overall objective will be to achieve low cost carrier operation, growth, increased market share and accessing financial investment and requirements.

SECTION ELEVEN

11. BIBLIOGRAPHY

1. Grammenos C.Th. and Xilas E.M. (1996) "Shipping Investment and Finance" Staff Hand-book (Unpublished)

2. Canada News Wire, (Internet Sept. 1998) "Timm and CP Ships form Container Shipping Joint Venture, New Company to include Lykes Lines, Ivaran and Timm".

3. International Joint Venture Workshop, (Internet March 1998) Papers on International Joint Venture, PLI Conference Centre, New York City.

4. Lee, T.W. (Dec 1995),"Factors Concerning the Success and Failure of Shipping Joint Ventures and Joint Operations", The International Association of Maritime Economists (IAME) Conference on Critical Issues in Maritime Economics, Massachusetts Institute of Technology.

5. Roe, MS (Dec 1995), "Joint Ventures and East European Shipping-Contribution to Development and Change", The International Association of Maritime Economists (IAME) Conference on Critical Issues in Maritime Economics, Massachusetts Institute of Technology.

6. Captain Joint, J.F. (Dec 1995), "The Development and Global Alliances in the North Atlantic Container Trade", The International Association of Maritime Economists (IAME) Conference on Critical Issues in Maritime Economics, Massachusetts Institute of Technology.

7. Fairplay , (July 1997), "Brokers met Bankers, Insurance could offer cheap Ship Loans" Ship Finance, (23-25).

8. Fairplay, (July 1997), "South Africa Crime, the Growth Industry", (24)

9. Fairplay , (December 1997), "London Retains its role", Ship Finance (25)

10. Fairplay, (December 1997), "Pergasus turns to Bonds, Capital Markets offer new finance", Ship Finance (42)

11. Fairplay, (November 1997), "Banks makes up for Cost Time", Ship Finance (39)

12. Gaunt, Ian (October 1997), "Liquidity Threatens Market:: New Entrants face a Squeeze", Fairplay on Ship Finance (35).

13. Press and News Release, (Internet August 1998), "Acomarit Acquires 100% of Greek Joint Venture, Ship News and Comment.

14 Annual Report (1998), Safren Group (Safmarine and Rennies)

15. Annual Report (1997), Safren Group (Safmarine and Rennies)

16. Alex White & Co. Pvt.Ltd. (1998), "Ports of South Africa," Harbour Reference Guide, Florida, USA.

17. Republic of South Africa (1998), Economic Monitor Index (EMI).

18. Drewry Shipping Consultants Ltd. (1997), Liner Industry Review, London.

19. Gooley, Toby B. (1998) "Ocean Shipping: Feeling the pinch", Logistics Management and Distribution, Annual Report (48-51).

20. Richardson, Paul (1996), "Bigger Vessels not necessarily economical", Freight and Trading Weekly, Travel & Trade Publication.

21. Freight and Trade Weekly (June 1997), "African Exports to South Africa more than double", Travel & Trade Publication.

22. Freight and Trade Weekly (Aug.1998), "Weak Rand does Little to Boost Exports", Travel & Trade Publication.

23. Freight and Trade Weekly (Dec. 1996), "Evergreen Reveals Massive Expansion Program", Travel & Trade Publication.

24. Freight and Travel Weekly (Sept.1997), "Upward shift in Volume", Travel & Trade Publication.

25. Freight and Trade Weekly (Aug. 1997), "Evergreen Adds Capacity", Travel & Trade Publication.

26. Freight and Trade Weekly (June 1997), "Maersk Confirms February Launch for Europe Services", Travel & Trade Publication.

27. Export and Import Flows Report, ISO Standard Cargo.

28. Portnet (1998), TEUs Handled Statistical Report.

29. Annual Report (1996/97), Department of Trade and Industry, Republic of South Africa.

30. Annual Report (1995), Department of Trade and Industry, Republic of South Africa.

31. International Monetary Fund (IFM) (May 1998), "World Economic and Financial Outlook", A Survey by IMF Staff, Washington, DC.

32. IMF (Sept. 1998), "Finance and Development: Economic Policy and Equity", Washington, DC.

34. Macdonald, Crag (Sept/Oct. 1998), "What Euro Dividends", Financial Executive For Today's Strategic Business Leaders, Part 1 in a Series of Articles on Euro.

35. Bank of England (Aug.1998), Quarterly Bulletin, Volume 38, No.3.

36. Republic of South Africa, Department of Finance (1998) Budget Review.

37. Nedlac Annual Report (1996/97) "Social and Economic Development in South Africa".

38. The Economist Intelligence Unit (EIU) (1998), "Global Economics: World Forecast of Political and Economic Trends in over 180 Countries, London UK.

39. Republic of South Africa (1997), Statistics in Brief.

40. Carden, P.M.A. (1984) "Maritime Joint Ventures- Liner and Trough Transport Operations", International Chamber and Lloyd's of London Press Conference on Maritime Joint Ventures, London, UK.

41. Cooke, G.C.M. (1996) "Financing Maritime Joint Ventures", Conference Paper presented at International Piraeus Meeting.

42. D'Orsay, P.P. (1984), "The Risk Element in the Joint Ventures", International Chamber of Commerce and Lloyd's of London, UK.

43. Report of the Committee of Inquiry into National Maritime Policy for the Republic of South Africa, 1993.

44. Freight and Trade Weekly (April 1997), "Delmas/SCL in West Africa Venture" Travel & Trade Publication.

45. Freight and Trade Weekly (March 1998), "British Consumers turn their back on SA Wine", Travel & Trade Publication.

46. Freight and Trade Weekly (Jan.1998), "Wine Export Growth motivates change in Marketing Strategy", Travel & Trade Publication.

47. Freight and Trade Weekly (Aug.1998), "DTI further relaxes Import Control", Travel & Trade Publication.

48. Boehme, Hans (1998), "Global Shipping in the Whirl of the Asian Crisis", International Transport Journal 37/98 (pp45-46).

49. Calamitsis, Evangelos A; Deppler, Michael C; Odling-Smee, John;Chabrier, Paul; & Loser, Claudio M (1998), " How has the Asian Crisis Affected other Regions?", Finance and Development, Economic Policy and Equity, IMF Publication (pp14-17).