Lecture 11
- Maritime Cabotage
MARITIME CABOTAGE
LECTURE STRUCTURE

Section 1   Cabotage

Section 2   Maritime Cabotage in Practice
Derived from
- French verb, caboter
- Spanish word, cabo, meaning “along the cape”

Originated many centuries ago in Europe
- Increase profits of maritime traders

Portugal was the first nation to introduce cabotage laws
- To protect their own sea trade
- Restricted trade to vessels that were locally owned and operated
Cabotage refers to the transport of goods or persons within a single country (domestic)
- By sea
- By road, rail
- By air

Legal restriction
- May limit / restrict domestic freight or passenger traffic to domestic carriers
- May prevent foreign transport operators from carrying domestic cargo between two locations within a country
CABOTAGE
RIGHTS TO SERVICE DOMESTIC TRADE

Under Cabotage Regulations (Restrictions)
Domestic Trade is only allowed to be carried on ships owned and operated by British nationals

Owned & operated by British nationals

Owned & operated by other countries
CABOTAGE
RESTRICTING FOREIGN OPERATORS

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- Also has implications for international trade
What port pairs would be found for a service operating for a service operated by a shipping line from Country C operating between Country C, B and A?
Shipping line from Country C now wants to include a service to include P2 in Country A.

Country A restricts domestic trade to ships owned and operated by nationals.

Which port pairs could a shipping line owned and operated by nationals of Country C carry?
What cargo may the ship load at P3?
- Destination P4?
- Destination P1?
- Destination P2?
CABOTAGE
SHIP ARRIVES AT P4

- It discharges cargo for P4
- What cargo may the ship load at P4?
  - Destination P4?
  - Destination P1?
  - Destination P2?
CABOTAGE
SHIP ARRIVES AT P1

- It discharges cargo for P1
- What cargo may the ship load at P1?
  - Destination P2?
  - Destination P3?
  - Destination P4?
CABOTAGE
SHIP ARRIVES AT P2

- It discharges cargo for P2
- What cargo may the ship load at P1?
  - Destination P3?
  - Destination P4?
  - Destination P1?
Shipping line from Country C now wants to include a service to include P2 in Country A. Country A restricts domestic trade to ships owned and operated by nationals. Which port pairs could a shipping line owned and operated by nationals of Country C carry?

<table>
<thead>
<tr>
<th>Port of Loading</th>
<th>Port of Discharge</th>
</tr>
</thead>
<tbody>
<tr>
<td>P1</td>
<td>P2</td>
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<td></td>
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<td>P2</td>
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<tr>
<td></td>
<td>P3</td>
</tr>
</tbody>
</table>

CABOTAGE

SUMMARY – COUNTRY C SHIP

- Shipping line from Country C now wants to include a service to include P2 in Country A.
- Country A restricts domestic trade to ships owned and operated by nationals.
- Which port pairs could a shipping line owned and operated by nationals of Country C carry?

A shipping line from Country C wishes to include a service involving P2 in Country A. However, Country A restricts domestic trade to ships owned and operated by nationals. The shipping line needs to determine which port pairs it can carry, considering the restrictions.
Which ship can carry load cargo at P1 for discharge at P2?
Which ship can carry load cargo at P1 for discharge at P2?

Port of Loading P1 – Port of Discharge P2?
– Port of Discharge P3?
– Port of Discharge P4?

Port of Loading P2 – Port of Discharge P3?
– Port of Discharge P4?
– Port of Discharge P1?

Port of Loading P3 – Port of Discharge P4?
– Port of Discharge P1?
– Port of Discharge P2?

Port of Loading P4 – Port of Discharge P1?
– Port of Discharge P2?
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Which ship can carry load cargo at P1 for discharge at P2?

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- Port of Discharge P3?
Cabotage refers to the transport of goods or persons within a single country (domestic)
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Legal restriction
- May limit / restrict domestic freight or passenger traffic to domestic carriers
- May prevent foreign transport operators from carrying domestic cargo between two locations within a country

Also has implications for international trade
Shipping seen as a means of Power and Wealth and Dominance

Britain sought to expand and maintain its Empire by
- Increasing its merchant fleet
  - Number of ships
  - Number of seafarers
- Preventing other countries developing larger merchant fleets

Restricted domestic trade between ports within Britain to British and colonial ships

Regulated shipping of goods between Britain and its colonies
- Britain viewed its Empire as a single trading bloc
- Restricted carriage of goods to British and colonial ships - cargo protection

This policy ensured investment in marine capacity (ships and crew)
CABOTAGE
FORMS OF CABOTAGE

- Where the vessel is constructed
- The nationality of all or some of the crew
- The flag of the vessel
  - The state (country) where the vessel is registered or licensed
  - Has the authority and responsibility to enforce regulations over vessels
- The owners / operating company of the vessel
CABOTAGE
JUSTIFICATIONS FOR CABOTAGE

- Supports national economy
  - Creates strong transport industry
  - Generates maritime trade revenues
  - Promotes growth of domestic transport companies
  - Promotes growth of international shipping companies

- Promotes a national shipping sector
  - Ensures availability of vessels to service national trades
  - Supports / protects shipping industry
    - Manufacturing (ship building and associated industries)
    - Crewing

- Employment
  - Provides local employment
  - Improved working conditions based on local national standards
    - Pensions, welfare provision, working house

- Security
  - Ensures merchant fleet is available in time of war
  - Reduces security risks of foreign vessels operating in national waters / ports
CABOTAGE
ARGUMENTS AGAINST CABOTAGE

- Protects domestic industry from external competition
  - Promotes inefficiency
  - Does not promote change and innovation
- Prevents competition
  - Increases cost of domestic transport to users
- Perverts normal flow of traffic
- Protectionist – goes against global trend to liberalise trade
  - Restrict free trade
## CABOTAGE EXAMPLES - REGULATORY CHANGES

<table>
<thead>
<tr>
<th>Country</th>
<th>Regulatory Change</th>
<th>Rational</th>
</tr>
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<tbody>
<tr>
<td>Brazil (2002)</td>
<td>Require foreign carriers engaged in cabotage trades to have one domestic flagged vessel in fleet</td>
<td>Resurgence of Brazilian merchant marine and shipbuilding sector</td>
</tr>
<tr>
<td>New Zealand (1994)</td>
<td>Relaxation of cabotage</td>
<td>Increased frequency of intra-port service and reduction of freight rates</td>
</tr>
<tr>
<td>Australia (2000)</td>
<td>Permit system for foreign vessels to engage in cabotage trade</td>
<td>50% increase in coastal tonnage moved in year following changes</td>
</tr>
<tr>
<td>Malaysia (2001)</td>
<td>Relaxation of cabotage regulations and economic incentives</td>
<td>New entrants into Malaysian coastal trades spurring economic growth in remote regions and competition to Singapore.</td>
</tr>
</tbody>
</table>

Supply Chain Solutions International & University of Manitoba Transport Institute, (2005), A Review of Regulations Governing Use of International Marine Containers in Canadian Domestic Cargo Carriage Part I – Project Summary Report
Section 1  Cabotage

Section 2  Maritime Cabotage in Practice
Evergreen – Taiwanese shipping line
Service between west coast of America and Japan
- Ports of Oakland and Los Angeles in the US
- Ports of Toyko, Kobe, Nagoya and Shimizu in Japan

From which port(s) is Evergreen restricted (prevented) from loading cargo?
Evergreen is restricted from loading cargo at Los Angeles and taking to Oakland under US cabotage restrictions.
USA - Evergreen is restricted from loading cargo at Los Angeles and taking to Oakland under US cabotage restrictions.

Japan - Evergreen may only load cargo destined for the US and not transfer cargo between Japanese ports. May unload cargo originating from the US at any of the ports of call.
MARITIME CABOTAGE IN PRACTICE
INDIA – MARITIME TRADE
MARITIME CABOTAGE IN PRACTICE
INDIA – SHIPPING POLICY

- 5,560 km coastline
- 11 major ports plus intermediate and minor ports

Indian shipping policy sets out to
- Reduce dependence of foreign trade on foreign shipping services
- Safeguard imports of essential supplies
- Ensure provision of shipping services for national trade
- Reserve 100% coastal trade for national flag vessels
- Improve balance of payments position
- Develop merchant fleet (defence)
Services via India
- Unloaded cargo subject to Indian domestic cabotage restrictions
  - Shipment on domestic vessels
  - High cost, limited services
- Onward movement by rail

Services via Sri Lanka
- Unloaded cargo for India not subject to cabotage restrictions
- Access to international shipping companies with services to India
- Cheaper and better service
MARITIME CABOTAGE IN PRACTICE
INDIA – IMPACT OF CABOTAGE

- Cabotage laws relaxed between 1992 and 1997 to attract mainline container vessel
- Consequences of re-introduction of cabotage restrictions
  - Indian ports promoted as gateway ports but now hindered by cabotage
  - Lack of Indian vessels to act as feeder ships - restricts operations
  - Prevents shipping lines using Indian ports as hubs
  - Container transhipment via Colombo in Sri Lanka, Singapore or Port Klang
  - Expensive port developments idle due to lack of traffic
The Indian central government revised the Merchant Shipping Act in January 2005 by relaxing cabotage laws allowing foreign vessels to move containers between Jawaharlal Nehru, Mumbai and other Indian ports. Foreign companies can purchase Indian shipping companies to engage in trade. Foreign companies can charter Indian flagged vessels to undertake coastal trade. The development of coastal shipping in India has been measured.

- Ship owners are reluctant to acquire dedicated coastal vessels
  - Complex customs procedures
  - Time-consuming port clearances
  - High manning scales compared with overseas shipping
  - Poor port infrastructure

### MARITIME CABOTAGE IN PRACTICE

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<td>India (2001)</td>
<td>Ease restrictions for APL India Ltd to engage in domestic inland service to ICDs and undertake feeder services</td>
<td>APL streamlined operations and reduced costs by 10% while increased own system capacity by 22%</td>
</tr>
<tr>
<td>India (2005)</td>
<td>(2005) Relaxation of cabotage under Merchant Shipping Act</td>
<td>To allow foreign carriers to engage in intra-port container movements, induce feeder competition</td>
</tr>
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MARITIME CABOTAGE IN PRACTICE
JAPAN - MARITIME TRADE PROTECTION

- One of the most regulated maritime environments
- Domestic maritime trade may only be carried on Japanese-flag vessels
- Crew must be Japanese
  - High cost workforce compared to other nationalities
Domestic maritime cargo volume has not increased
- Volume of domestic maritime cargo stable since 1970
- 2006 - shipping sector accounted for 36% of domestic ton km

Lack of investment
- Age of ships increased
- New ships
  - Small ships (2008 - 80% of ships below 500 grt in size)
  - Do not benefit from economies of scale
- Number of operators reduced
  - Barrier to entry to new companies
  - Barrier to foreign companies
Fierce competition on routes between larger ports
Routes to remote islands require substantial government subsidies to maintain services
Domestic freight rates high
Shipping lines forced to tranship in foreign ports
  - Outside cabotage rules
  - Cheaper

Japan Sea coast shippers tend to use transhipment at Busan for trades with US and Europe (Shinohara (2009))
Encourage new low cost entrants
- Korean and Chinese shipping lines
- Reduce freight rates
- Encourage domestic and international maritime trade
31 laws for transport of cargo / passengers between 2 points in USA and its territories
- Includes dredging, towing, salvage and fishing

1789 Cabotage statute
- Tonnage duties on entry of vessel transporting cargo in coastwise trade unless built & owned by USA citizens

1817 law
- Reserved cargo between USA ports to USA flag vessels on penalty of forfeiture of cargo
- Tonnage duties on USA vessels not having set % of US crew

Chapters 24 and 27 of the US Merchant Marine Act of 1920 (The Jones Act)
- Cargo between 2 USA ports vessels must be
  - Owned by USA citizens
  - Built in USA (hull and superstructure and majority of outfitting)
  - Registered in the USA
  - 75% crewed by US citizens/residents
  - Foreign owners if revenue mainly from financing (Parker, 2006)
- Includes trade with Hawaii and Puerto Rico
$14.0 billion in annual economic output
84,000 jobs in U.S. shipyards
70,000 jobs working on or with Jones Act vessels
Operation of over 39,000 vessels of all sizes representing an investment of $30 billion
Provide ship capacity to support national security needs
Avoids dependence on ships controlled by foreign nations
Primary maritime market for U.S. shipyards and operators
Prevents competition from low cost foreign operators
  - Wage, labour and environmental regulations
U.S. maritime position in international trades has declined significantly in the last three decades
One of the most restrictive operating environments
Depresses shipping market
  - Favours use of rail / road
Domestic shipping fleet in decline
  - 291 ships at the end of 1996 (HIS Global Insight, 2009)
  - 100 ships by the end of 2007
Domestic services suffer from high cost of
  - Domestic built ships
  - Stevedoring
  - Crew
Estimated net cost of Jones Act = US$4.4bn (1990)
  (Hufbauer and Elliott, 1993)
## MARITIME CABOTAGE IN PRACTICE
### USA – SHIP COST COMPARISON

<table>
<thead>
<tr>
<th></th>
<th>US Flagged Vessel</th>
<th>Foreign Flagged Vessel</th>
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<tbody>
<tr>
<td>Cost of building a new vessel</td>
<td>US$49 million</td>
<td>US$33.8 million</td>
</tr>
<tr>
<td>Operating costs – tanker (2006)</td>
<td>US$27,900 per day</td>
<td>US$16,600 per day</td>
</tr>
<tr>
<td>Crew costs – tanker (2006)</td>
<td>US$11,000 per day</td>
<td>US$2,300 per day</td>
</tr>
</tbody>
</table>

Source: Post Hearing Brief of the Maritime Cabotage Task Force on “Economic Effects of Significant U.S. Import Restraints”

- Costs are estimated for 40-50,000 DWT tankers that are less than 10 years old.
- Costs are estimated for a containership with a volume of 4,000 twenty-foot equivalent units (TEUs) that are less than 10 years old.
- Other expenses include food, supplies, and other vessel expenses.