

CONSEIL DE L'ATLANTIQUE NORD  
NORTH ATLANTIC COUNCIL

EXEMPLAIRE N°  
COPY

177

N A T O   C O N F I D E N T I A L

ORIGINAL: ENGLISH  
15th December, 1977

WORKING PAPER  
AC/127-WP/545

ECONOMIC COMMITTEE

COMPETITION FACING WESTERN SHIPPING COMPANIES  
FROM THE USSR

Note by the Chairman

Members will find attached a contribution by the British Delegation to the meeting with experts on 15th-16th December, 1977 concerning the Soviet Merchant and Fishing Fleets.

2. Entitled "Competition Facing Western Shipping Companies from the USSR", the paper presents statistics on the size and composition of the Soviet merchant fleet, assesses its competitive position with respect to Western shipping companies, and forecasts trends in its development to 1980.

(Signed) J. BILLY

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This document includes: 4 Annexes

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COMPETITION FACING WESTERN SHIPPING COMPANIES  
FROM THE USSR

Note by the United Kingdom Delegation

INTRODUCTION

1. This paper contains the latest available statistics on the size and composition of the Soviet merchant fleet, examines developments in Soviet shipping operations, and assesses the fleet's current competitive position vis-à-vis Western companies. The final section looks forward to the Soviet merchant fleet and its operations by 1980.

Size and composition of the Soviet merchant fleet

2. The expansion of the Soviet merchant fleet in recent years appears to have taken place in order to enable it to improve its performance in a number of rôles. The most evident of these are:

- (a) the carriage of the majority of Soviet imports and exports;
- (b) the improvement of the Soviet Union's hard currency situation both by earning foreign currency on the cross-trades(1) and by reducing the need to import foreign shipping services;
- (c) the auxiliary support of the Soviet navy on a global scale; and
- (d) the support and furtherance of Soviet political objectives.

In the pursuit of these objectives the Soviet merchant fleet has become the sixth largest in the world, containing some 3% of the world's total tonnage. Table 1 shows the present composition of the fleet. For comparison the United Kingdom fleet of approximately 50.6 million dwt at 1st January, 1977 is the world's third largest (after those of Liberia and Japan) and represents 8.1% of total world tonnage.

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(1) Cross-trading is the practice of acting as a third-party carrier of trade

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TABLE 1. COMPOSITION OF SOVIET MERCHANT FLEET AT  
1ST JANUARY, 1977

<u>Types</u>	<u>No. of vessels</u>	<u>Tonnage (<sup>1</sup>000 dwt)</u>	<u>% of total tonnage</u>
1. Liner Types			
(a) General Purpose	900	6,299	38.3
(b) Roll-on/Roll-off (Ro-Ro)	24	167	1.0
(c) Full Container	<u>21</u>	<u>128</u>	<u>0.8</u>
(Sub-Total)	(945)	(6,594)	(40.1)
2. Bulk Carriers (including ore-bulk-oil)	129	1,954	11.9
3. Timber Carriers	384	1,917	11.6
4. Tankers	299	5,780	35.0
5. Others	<u>110</u>	<u>289</u>	<u>1.4</u>
TOTAL	1,867	16,484	100.0

3. The liner fleet, i.e. general cargo, roll-on/roll-off (Ro-Ro) and container ships, accounts for over 40% of total tonnage and remains the largest single component. Although there was a significant increase (143,000 tons) in tonnage of modern container and Ro-Ro types during 1976, these still make up a tiny proportion of the liner fleet. Tankers (mainly crude carriers) account for 35% of total tonnage and make up the second largest element of the fleet. Two tankers exceeding 100,000 dwt were added to the fleet in 1976, one of which was built in the United Kingdom. The average size of tankers in the Soviet fleet is now 19,300 dwt compared with the world average of 60,000 dwt. Twelve bulk carriers totalling nearly 300,000 dwt, including ore-bulk-oil ships (OBOs), were added to the fleet in 1976. These types now account for 12% of total Soviet merchant tonnage.

Organization of Soviet merchant fleet

4. The Soviet merchant fleet is controlled from Moscow by the Ministry of Merchant Marine (MORFLOT). Three subordinate organizations (SEVZAPFLOT for the Baltic and Northern regions; YUZHFLLOT for the Southern region, and DALFLLOT for the Far East) are responsible for the overall management of and investment decisions for the regional fleets. A semi-autonomous agency

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controls overseas agencies representing Soviet liner companies and is responsible for commercial decisions affecting rate levels. Day to day operational control is vested in 16 shipping companies, each based on a particular region. The organization of the Soviet merchant fleet is shown in diagrammatic form in Annex A.

5. All shipping companies operating internationally are dependent on their shipping agents. Unless these latter are able to gather enough business for the companies, the ships will be operated at less than optimum efficiency. The efficient functioning of Soviet shipping lines is to some extent inhibited by the USSR's lack of experience and professional expertise in international shipping. Soviet overseas representation is mainly by shipping agents who serve the USSR commercially along with many other shipping companies. Even with the large, wholly or partially-owned Soviet companies (e.g. Moram in North America or the Anglo-Soviet Shipping Company in London) the USSR has to rely very much on foreign personnel for their operation. Centralised control by the two major Soviet domestic shipping agents SOVFRACHT - concerned with chartering, leasing, reservation of cargo - and the general agents SOVINFLLOT acts as a deterrent to efficient functioning.

Fleet operating areas

6. Table 2 shows the distribution of the Soviet merchant fleet by operating areas at 1st January, 1977. Well over half the ocean-going tonnage is based on the Black Sea where tanker tonnage accounts for nearly half the total with liner tonnage a close second. The Baltic is the second most important fleet area with the bulk of the USSR's Ro-Ro capacity; the Pacific has the bulk of full container capacity. Timber carriers are important elements in the Northern and Pacific based fleets.

TABLE 2. DISTRIBUTION OF SOVIET MERCHANT FLEET BY OPERATING AREAS AT 1ST JANUARY, 1977 (THOUSAND DWT)

	<u>Northern</u>	<u>Baltic</u>	<u>Black</u>	<u>Pacific</u>
General Purpose	275	1,896	3,328	1,029
Full container	-	28	15	84
Ro-Ro	-	131	27	10
Timber Carriers	688	330	65	833
Bulk Carriers	240	50	1,368	295
Tankers	8	684	4,574	513
TOTAL	1,211	3,119	9,377	2,764
(number of vessels)	(223)	(504)	(646)	(494)

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Fleet utilisation

7. Table 3 sets out published USSR figures of tonnages carried by the merchant fleet. Cross-trading increased from 7.5 million tonnes (7 million tonnes of which was in bulk commodities and 0.5 million tonnes in general cargo - liner type goods) in 1965 to 30 million tonnes (bulk 25, liner 5) in 1976.

TABLE 3. CARGOES CARRIED BY SOVIET MERCHANT FLEET  
1965-1976 (MILLION TONNES)

	<u>1965</u>	<u>1976</u>
Coastal cargoes	62.5	80
Cross-trade cargoes	7.5	30
(of which liner)	(0.5)	(5)
Soviet seaborne trade cargoes	49	103
TOTAL	119	214

THE NATURE OF SOVIET COMPETITION

8. Out of a total number of 72 Soviet lines operating, probably 30-40 are involved primarily in bilateral Soviet trading and of these 16 are operated jointly with shipping lines flying the flag of the bilateral partners(1). The USSR attaches importance to reaching formal shipping agreements with other countries, some of which include articles governing the percentage of cargo carried in national ships; for example the recent 1976 bilateral agreement with India (replacing that of 1956) divides the carriage of trade equally, to the exclusion of third flag countries. This is an example where the initiative on cargo sharing may well have come from the bilateral partner and been granted by the USSR in return for the signing of an agreement.

9. The remaining Soviet lines are involved in whole or in part in cross-trading and it is here that the main competition with Western shipping interests arises. Cross-trading by the USSR grew initially as a result of developing Soviet trade patterns and the increasing flow of economic and military aid cargoes to the less developed countries. Soviet aid is carried almost exclusively in Soviet ships and to avoid empty return journeys and earn hard currency, third party cargoes have been picked up. Trade and aid agreements with Cuba led to the initial development of this type of operation in the

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(1) The countries involved are Poland (3 lines), UK (2 lines), France (2), East Germany, West Germany, Netherlands, Belgium, Bulgaria, Egypt, India, Algeria and Japan

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Caribbean (in direct competition with Western cross-trading operations), but such activity is now common in the Mediterranean and South East Asia. The largest advances in cross-trading in recent years have been in the carriage of cargoes for industrialised countries, partly as a result of the increased shipping the USSR has available as its trading activities increase.

10. The extent of the Soviet problem in achieving capacity usage of its merchant fleet is brought out by Figure 1. In volume terms Soviet exports greatly exceed imports so that if ships were used only for the carriage of the USSR's own bilateral trade they would have to undertake a large number of unladen or partly laden return voyages. Consequently the picking up of third party cargoes makes good business sense, particularly if payment is made in convertible currency. Hard currency earnings acquired on these voyages represent a bonus to a country which has long been short of foreign exchange(1). In order to attract these third party cargoes the Soviet shipping companies frequently offer rates below those charged by Western shipowners.

11. It is sometimes suggested that Soviet shipping companies are able to undercut Western competition because their operating costs are lower, but there are no figures available on which comparisons can be made. Soviet shipping companies are supposed to operate with a surplus of revenue over costs (the so-called "profit motive") but the autonomy of each shipping company is limited to operational decisions and does not extend to controlling all of its costs and revenues, the majority of which are determined by central planning authorities and only some of which are determined by commercial factors.

12. Soviet shipbuilding costs in terms of resources to the Soviet Union are higher than those in the West and imported ships have to be bought at world prices. However, since the price which individual shipping companies have to pay is determined by the central planning authority a cost comparison is practically impossible. Nevertheless it appears that some quantifiable advantage is obtained from the practice of amortising capital costs over 25 years instead of the 15, or less, usual in the West.

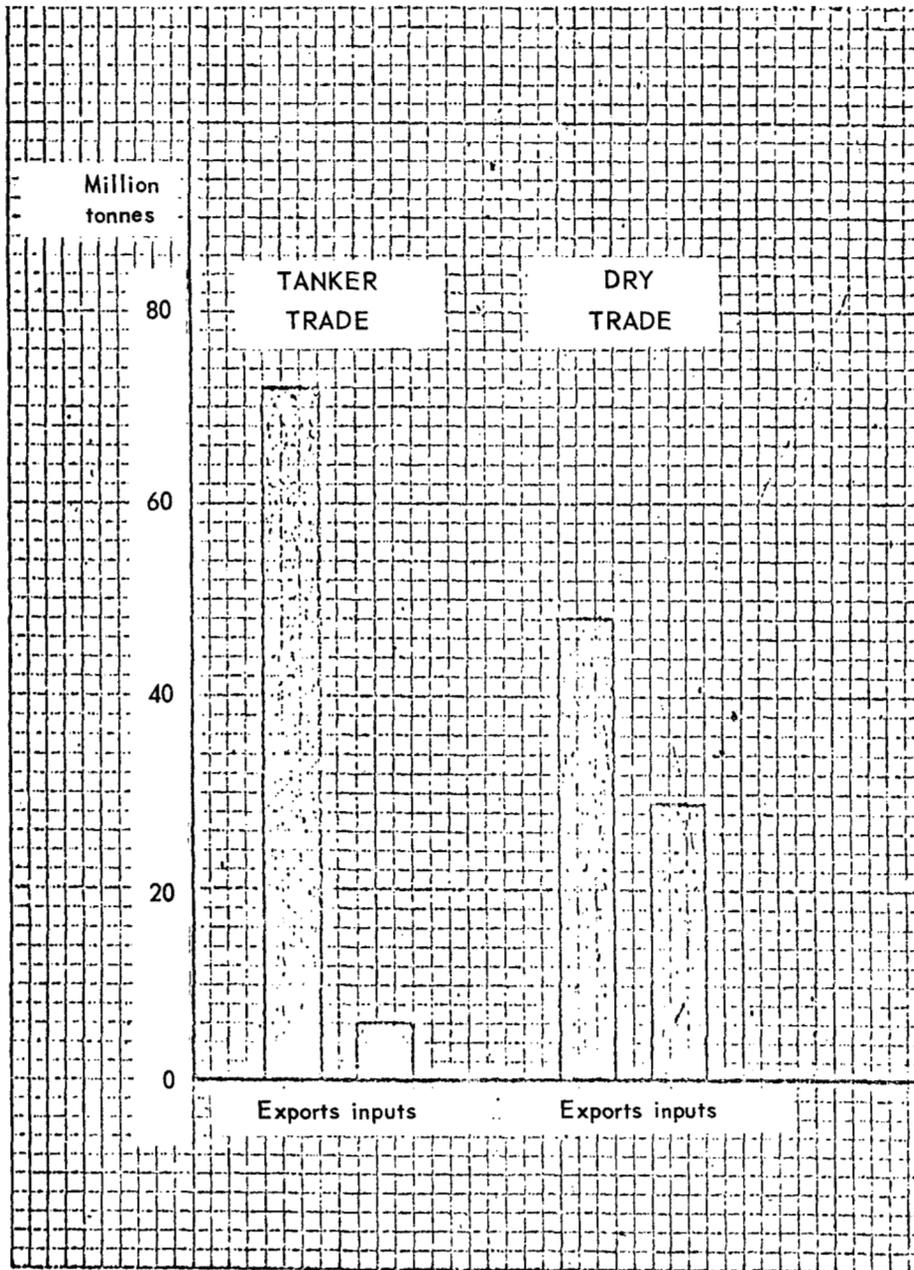
13. Soviet shipowners when operating on the cross-trades have to bear costs for ship handling, such as port costs and agency commissions, on a comparable basis with their Western counterparts. This is not, however, true to the same extent

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(1) In 1976 the fleet is estimated to have brought in over \$500 million net at a time when the USSR had a convertible currency visible trade deficit of around \$5 billion.



FIGURE 1 : SOVIET SEABORNE FOREIGN TRADE 1975



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for fuel oil costs because in the period following the oil price increases of late 1973 Soviet ships have had the benefit of lower fuel costs. Maximum advantage is obtained from this both in Eastern bloc countries and also by a number of bilateral agreements with non-bloc countries covering bunkering in each others ports.

14. Other costs which accrue to Western shipowners are not met to the same extent by Soviet owners. For example hull and cargo insurance are covered by the state as is the training of ships crews. Crew wages are lower than in the West, and in addition social security is borne by the state, but manning complements are more generous and the total wages bill is inflated by a higher proportion of small ships in the fleet. Some offset to the wages bill is, however, provided by the Soviet practice of using crews to carry out onboard repairs to the maximum possible extent.

15. On balance it seems that the net effect of all these factors is to produce some cost advantage for the Soviet shipping companies but there is no way of testing this conclusion by cost comparisons and still less of quantifying the extent of any advantage. It is also possible that the Ministry of Merchant Marine is prepared in practice to allocate subsidies to cover planned losses, for example in the cross trades, and to establish a favourable foreign currency index, both of which will have a positive effect on revenue. The extent to which Soviet shipping companies meet the "profit" objective established by the economic reforms of the 1960s and are thus supposed to operate on a proper commercial basis is therefore open to question. In the last resort, whatever the truth may be about relative costs and possible subsidies, it will always be profitable for Soviet ships to pick up cargoes, at almost whatever price, if the alternative is to return empty.

16. Soviet competition was limited initially to bulk commodities and as such had little impact in the West. Even now, in terms of tonnage, over 80% of Soviet cross-trading is in the carriage of bulk raw materials. However, in recent years Soviet rate cutting has been extended into the more lucrative liner trades. Some business has been taken from Western shipping in peripheral markets, where there is insufficient demand to attract the more efficient Western services. The USSR has also had limited successes in more competitive markets where it has provided a slower, less reliable but cheaper alternative. It seems likely that Soviet expansionist activities will now be directed to the carriage of containerised cargo. During 1976 Soviet ships carried about 6% of the available liner cargo on the Pacific

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trade route (US/Far East) and 4% of the North Atlantic trade (US/Western Europe); both trades are heavily containerised. The extent of Soviet penetration into the North Atlantic trade is much greater in certain parts of the European port range. Hamburg and Bremen are natural wayports for Soviet shipping operating out of the Baltic and the Soviet flag share of West German trade with the US is believed to be approximately 12% (Annex B lists the liner services offered by the USSR).

17. Competition from the USSR will become keener with the acquisition in 1976 of the first two classes of large Ro-Ro ships and the first class of relatively large cellular container ships. One Ro-Ro class comprises two units purchased from Finland, similar to classes in service with Western companies, with a capacity of 1,400 TEU containers(1) and a service speed of 23 knots. The second Ro-Ro class comprises two units purchased from Poland with a capacity of 750 TEU containers and a service speed of 21 knots. These are the fastest ships in the Soviet fleet and both classes have been assigned to the North Atlantic route, with visits to Cuba and United States Gulf ports. This is the first time that the USSR has been able to offer a service theoretically comparable to that offered by Western companies, but technical difficulties have caused the service to be transferred temporarily to elderly general cargo ships. One Ro-Ro ship has recently been taken off the route to deliver military equipment to Angola. All the Ro-Ro ships are used regularly to deliver equipment to Cuba.

18. The new class of cellular container ships has a 730 TEU capacity. Four units have been built and are in service in the Far East operating a frequent, almost totally cross-trading service, between Japan and the United States West coast.

ROUTES AFFECTED BY SOVIET COMPETITION

19. Under the Conference System, shipping companies who are members operate on specific routes at uniform rates. In April 1976 the USSR belonged to Conferences on only seven routes. However, following an agreement between Morflot and the Chairman of the United States Federal Maritime Commission (FMC) in July 1976 the USSR applied to join five of the seven Conferences covering the North Atlantic and to join the remaining two under conditions which would provide initially for a differential rate in its favour. This was acceptable to the

(1) The International Standards Organization defines a container in the freight sense as a metal box measuring 20 feet, 30 feet or 40 feet times 8 feet times 8 feet. All estimates of container carrying capacity are made on the basis of a Twenty Foot Equivalent Unit (TEU)

North Atlantic Conference and, in accordance with United States law, the two applications which provided for differential rates were submitted to the FMC for approval. Objections were lodged, principally by the United States Department of Justice, which would have led to a long delay in resolving the issue. The Western lines within the Conferences have therefore agreed with the USSR not to proceed with the applications to the FMC. In the light of this it remains to be seen whether the USSR will decide to implement its decision to join the other five Conferences. Meanwhile a system continues to operate whereby the Soviet lines and the Conferences give each other warning of impending tariff changes.

20. The motives for Soviet application for membership of the North Atlantic Conferences appear to have been a mixture of financial pressure and apprehension that the United States Authorities would introduce regulatory mechanisms(1). The new Ro-Ro ships in service are expensive imports and with high United States port charges the USSR is probably keen to maximise their earnings. A secondary motive may well have been that the aura of respectability which Conference membership confers could have assisted the Soviet attempt to tie in their ships serving the North Atlantic trade route with the services within a Conference on the lucrative Europe/Red Sea Gulf route. The latter route is served by "closed" Conferences which not only apportion cargo shares but have priority of discharge at congested ports. Conference membership is almost essential for a successful service.

21. Another outcome of the agreement between Morflot and the FMC was the decision that Soviet carriers on the United States Pacific trades would enter discussions with the Conferences, taking into account the principle of dual rates which had been agreed for the North Atlantic. So far nothing has emerged from these discussions and FESCO (the Soviet Far East Shipping Company) is still operating as an outsider. FESCO's outsider activities are not only related to its container service on North American Pacific Coast trades to and from Japan. It has used Japan for some considerable time as a base for cross-trading activities using conventional ships to and from Australia, the ASEAN countries and India, and has recently (May 1977) established a triangular container service from Japan to the United States West Coast and from there to Australia before returning to Japan. The significance of the new triangular

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(1) Because Conferences serving the US are "open" the motive in this case is not the usual one of seeking to attract cargoes by acquiring loading rights within each Conference

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service is that an earlier unsuccessful FESCO container service between Japan and Australia was withdrawn and the ships placed on the lucrative United States Southbound trade route to Australia on which FESCO has access to not only the West Coast but also by rail to the East Coast. The establishment of this service is an example of the ability of the USSR to switch to routes which are likely to prove more lucrative.

22. As regards the less developed countries, Soviet policy towards Conference membership has been erratic. Soviet outsiders operate from India and Bangladesh to North Europe but since cargo is scarce there are indications that they will be seeking membership of the India-Pakistan-Bangladesh Conference. On the other hand although the BESTA Line (Baltic - North Europe, United Kingdom, East Africa) service does not appear to be as successful as initially hoped on a trade route where growth is stagnant, the USSR only appears willing to join the East African Conference on its own terms. They are demanding considerably more sailings than the Conference is prepared to allocate to them and may well have judged that there is advantage in biding their time despite the fact that rate cutting on Northbound commodity contracts reaches 30% which can leave little margin for profit.

23. Soviet lines also operate as outsiders on the route from Europe to the Far East and in particular the Far East Freight Conference (FEFC) faces competition on the services to the Malaysian peninsula and the Philippines where the Odessa Ocean line has been operating for the last 6 years. There has been no Soviet move to join the FEFC or associated Conferences. The Soviet operation in this area is not strictly compatible with Conference operations since the FEFC is highly containerised and the USSR is using older general cargo ships. There was recently a determined but unsuccessful bid by the USSR to obtain a contract for a large share of dry rubber and latex exports from Malaysia to Europe at the expense of the FEFC. The FEFC met this competition by negotiating a contract rate which will undoubtedly result in smaller profits.

#### The Trans-Siberian Land Bridge

24. The trade between Europe and the Far East is particularly large, and on these routes competition from the Trans-Siberian Land Bridge (TSL) (see Annex C) is causing concern to the West. At present it is estimated that the TSL carries 8% of total Far East trade. The transit time from door to door via the TSL is currently little faster than the fastest sea route but the USSR is attracting cargoes by offering a rate advantage of 40-50% on some goods. There is

a large imbalance between Eastbound and Westbound cargoes, and with the increasing use of the TSL for the carriage of goods from the Far East to Iran the USSR is making a major effort to improve its Eastbound carryings by rate cutting. But, overall, increase in liftings have probably done little more than keep pace with total increases in trade and although there is evidence that carriage of some electrical goods and machinery is being lost to the TSL, the overall position of Western shipping companies does not appear to have been undermined as yet.

PROSPECTS TO 1980

Size and composition of the Soviet fleet by 1980

25. During the current Five-Year Plan (1976-1980) additions to the Soviet fleet are expected to be about 5 million dwt gross, although it seems likely that this target will be exceeded. Deliveries in 1976 reached a new record level of 1.4 million dwt and included 6 bulk carriers and 2 tankers bought second-hand. The Soviet building programme is aimed at increasing the size of the tanker and bulk carrier fleets in order to reduce dependence on chartered foreign tonnage, and to modernise the liner fleet by progressive scrapping of general cargo ships and replacement by specialised tonnage. The size of the Soviet bulk tonnage has been limited in the past by lack of adequate port facilities but the situation is being improved and port developments now appear to be ahead of the current building programme.

26. The most detailed data on the expected size and composition of the Soviet merchant fleet in the early 1980s are contained in a table published by Morflot in February 1976 in an attempt to counter Western criticism of Soviet shipping activities. These figures (which only give tonnages and not numbers of ships) appear designed to play down the acquisition of the more competitive ships such as Ro-Ro (roll-on/roll-off) and LASH (lighter aboard ship), but are summarised in Table 5, together with our own estimates which are based on known building programmes and acquisitions. More detailed information on the planned acquisition of Ro-Ro ships, container, bulk and combination carriers, tankers and LASH is contained in Annex D.

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TABLE 5.   SOVIET MERCHANT FLEET IN JANUARY 1981  
(THOUSAND DWT)

	<u>Morflot data</u>	<u>Our estimate</u>
1. Liner		
(a) general purpose	6360.9	6256.6
(b) roll-on/roll-off	289.4	390.8
(c) container carriers	198.3	198.0
(d) LASH	78.4	128.4
(Sub-total)	<u>(6927.0)</u>	<u>(6973.8)</u>
2. Bulk carriers	1616.8	1878.0
3. Combination carriers	-	1230.0
4. Timber carriers	2075.1	2075.0
5. Tankers	7728.5	7400.0
(of which 50,000 dwt +)	(2319.0)	(2386.0)
6. Cargo passenger	93.3	93.0
	<u>18440.7</u>	<u>19549.8</u>

Future activities of the Soviet merchant fleet

27. The USSR is likely to have a TEU container carrying capacity of 10,000-11,000 units operating out of the Baltic by 1980. The current estimated container capacity on the North Atlantic in Western ships is at least 80,000 TEU (including container capacity in general cargo ships) so that, even assuming some continued Western expansion, the USSR could be providing up to 10% of the container capacity in the North Atlantic by 1980. It is not however certain that all the new capacity will be placed in the North Atlantic; some may be used to open a container service from the Baltic to the Far East/Australia.

28. Elsewhere there are more uncertainties. At present all container capacity operating out of the Black Sea is limited to general cargo ships, but the USSR has stated that it intends to operate a Ro-Ro service out of the Black Sea to the Far East/Australia. It would have a purpose built container capacity of 2-3,000 TEU containers, or a car-carrying capacity of 4-6,000 small cars. While car exports to the Far East may form part of Soviet plans, cross-trading is likely to play a major part in the ships' rôle. Expansion in the Pacific seems likely to be limited, with only two or three

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more 13,500 dwt cellular container ships coming into service in the next two to three years but it is the ability to switch general cargo vessels to more vulnerable routes which is more likely to cause instability in the trans-Pacific liner trades.

29. The USSR is developing barge/lighter carrying fleets at a time when, owing to port difficulties, Western companies have stopped building such units, or are even converting them into standard container ships. To date the USSR has two barge-carriers on order from Finland, for delivery in 1978-1979. Soviet ministers and high officials have repeatedly stated that LASH (lighter aboard ship) units will be built before 1980 but although there is spare capacity at the Soviet yard designated for this project, construction does not appear to have begun. The Finnish barge-carriers are to be deployed to the Black Sea, linking the Soviet Union with the Danube river systems, and the LASH units (which can be readily diverted to military use) are designed for Northern route resupply in Summer and for use in the Pacific in Winter. These latter units are therefore likely to be used exclusively for Soviet domestic use in the Summer and largely on the international market in the Winter.

30. The Soviet bulk carrier fleet will need to be expanded to cope with the larger volume of foreign trade and no doubt most of the smaller units will be used to have the hard currency on the 20-30 bulk carriers more or less permanently on charter to the USSR, but the large ore-bulk-oil ships (OBOs) present a problem. The USSR appears to have had difficulty in keeping its present fleet of three fully utilised and with port limitations (only NOVOROSSISK and VENTSPILS can handle the ships) it is questionable whether the USSR can fully utilise a fleet of 10 or 11. There is no evidence so far that the USSR intends to charter out these ships, and with the increasing dependence of the Soviet bloc on oil imports they will probably be used for cross-trading for East European countries(1) as well as for the carriage of Soviet exports. Cross-trading outside the bloc cannot be ruled out, although given the size of the world bulk carrier fleet the Soviet Union's impact will be minimal. The main impact for the West is likely to be in reducing the volume of charter business available to Western shipowners in the USSR's own trade.

#### CONCLUSIONS

31. During the past 20 years the Soviet Union has succeeded in making inroads into several Western shipping markets. Competition was confined initially to bulk

(1) Czechoslovakia and Hungary have no tankers of their own and tanker capacity in the other East European countries will soon be inadequate for their oil imports

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commodities on certain routes where the USSR provided a cheaper, but less efficient service. The USSR is now increasingly able to offer services comparable to those offered by Western shipping companies, one result of which is an apparent greater willingness to join Conferences in order to benefit from higher rates and guaranteed cargoes.

32. Western shipowners are concerned about the imbalance between the Soviet general cargo fleet and its national trade and are apprehensive about Soviet intentions as regards the employment of the surplus capacity, particularly that provided by its new container/Ro-Ro vessels. At present, however, Soviet competition is not really hurting Western companies except on the East African route where there has been a marginal increase in Soviet penetration judged by flag share but a considerable less of earnings for the Conference. As far as the United Kingdom is concerned the more lucrative trans-Atlantic and trans-Pacific routes are little affected by Soviet rate-cutting although other countries may be faring less well. For instance the Soviet flag share of the West German trade is believed to have risen to 12%.

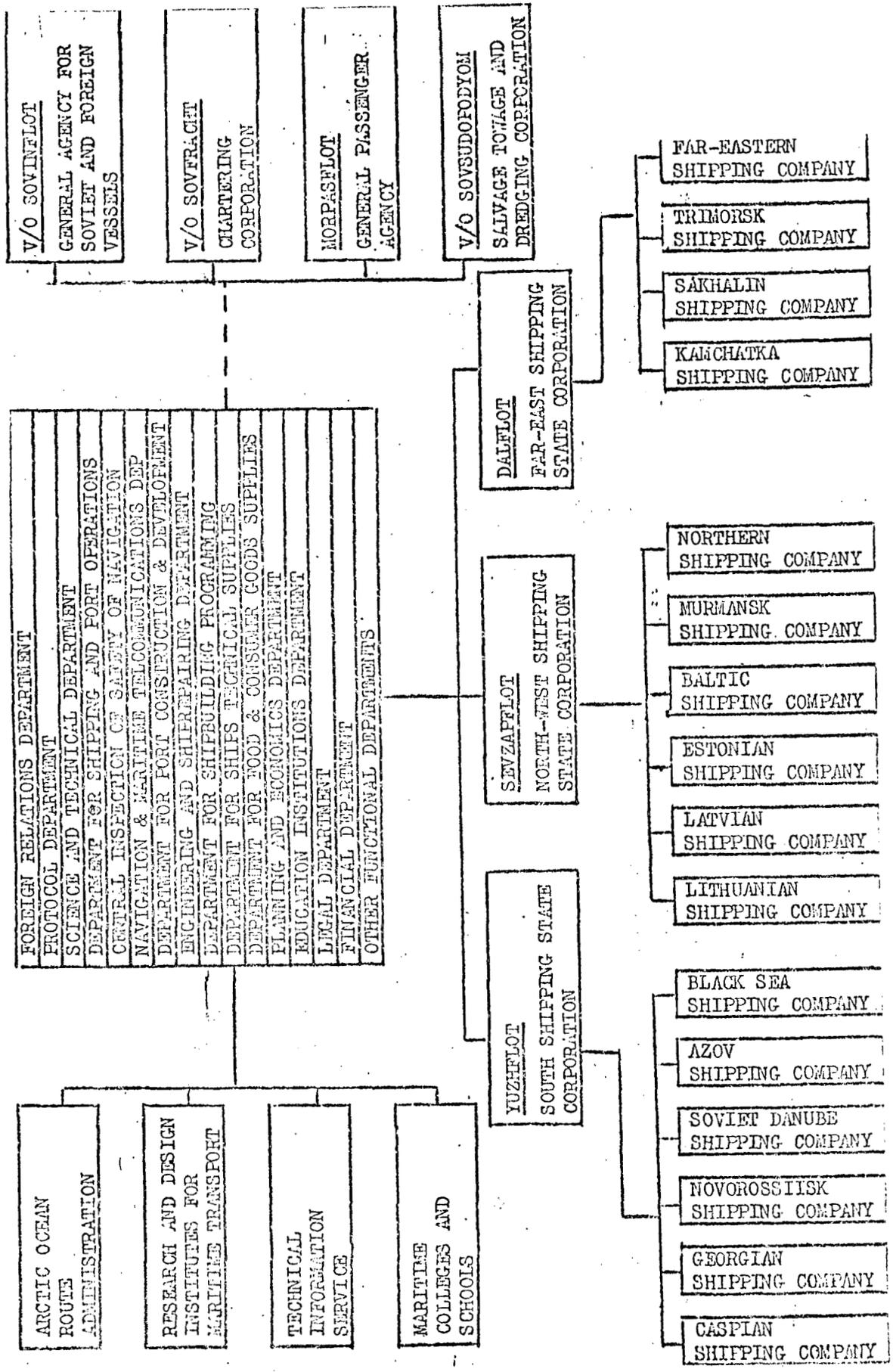
33. By 1980 the Soviet share of container capacity on the North Atlantic could have risen to nearly 10% although the services offered will probably continue to be less efficient than those of Western companies and its ships will continue to be subject to diversion for non-commercial purposes. The impact of Soviet shipping on other major containerised routes will probably be less, although the TSL, which does not at present pose a serious threat, will probably have an increasing impact in future.

34. On routes which have not yet been containerised, especially to the less developed countries, more Soviet shipping will become available as container ships replace general cargo ships. However, as virtually no ocean-going general cargo ships are due to enter service by 1981 (and the fleet may in fact decline), this activity will remain limited and probably largely non-Conference. In the field of dry bulk shipping the expansion of the Soviet bulk carrier fleet is largely for domestic purposes, and its main impact in the West will be the denial of the Soviet bulk market to Western shipping companies.

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ANNEX A to  
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ORGANISATIONAL STRUCTURE OF MANAGEMENT OF THE USSR MERCHANT MARINE  
MINISTRY OF MERCHANT MARINE



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Shipping Company	Route	USSR trade	Cross trade	Within conference	Outside conference	Container service	Ro-Ro service	Foreign participation
FESCO	Japan	*	*			*		*
	Hong Kong-Japan		*		*	*		
	Soviet Far East-							
	Japan-SE Asia-		*		*			
	India							
	Soviet Far East-							
	Japan-SE Asia-							
	Australia		*			*	*	
	Philippines			*			*	
	W.coast USA-			*		*	*	
Australia								
<u>Trans-atlantic routes</u>								
	Baltic							
	Western Europe-							
	Central America-							
	West Indies-United States (Gulf)		*		*	*	*	
	Southern Baltic-							
	Western Europe-							
	South America (Baltamerica)		*	*				*
	Cuba	*						
	Western Europe-							
United States (Baltatlant)			*		*	*	*	
Western Europe-								
Venezuela-South America (Baltpacific)			*		*			
Baltic/ Murmansk	Northern USSR-							*
	Finland-Poland-							
	West Germany-Canada-United States (Lakes)		*					

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Shipping Company	Route	USSR trade	Cross trade	Within conference	Outside conference	Container service	Ro-Ro Service	Foreign participation	
Black Sea	East Africa-Red Sea	*				*			
	Western Europe-South-East Asia (Odessa-Ocean)		*		*	*			
	Gulf	*					*		
	Syria	*					*		
	North Vietnam							*	
	India-Sri Lanka-Pakistan-Bangladesh	*						*	
<u>Miscellaneous</u>									
Estonian	Baltic-Western Europe-West Africa (Uniafrica)		*	*				*	
	Baltic-Zaire-Angola	*	*		*				
<u>Local routes</u>									
Baltic	West Germany-United Kingdom (London)	*				*			
	West Germany-Netherlands Belgium	*				*			
	United Kingdom (Hull)-Belgium-Finland	*				*	*		
	United Kingdom (London)-Finland-Netherlands-Belgium (Balt-scan)	*				*		*	
	Sweden-Italy-Egypt-Western Europe (Scan-Med-Cont)		*			*			
	East and West Germany	*					*		
	Hull and W.coast Sweden	*					*		
	Baltic/Latvian	Western Europe-Portugal-Spain (Portobaltika)	*	*					
	Estonian Steamship	Sweden	*						
		Denmark-Norway-Eastern Mediterranean (Scanlevant)	*	*		*		*	
Finland-Norway-Netherlands-Belgium		*					*		
West Germany		*						*	

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Shipping Company	Route	USSR trade	Cross trade	Within conference	Outside conference	Container service	Ro-Ro service	Foreign participation
Lithuanian	West Germany	*				*		
Latvian	United Kingdom (Hull and Ireland)	*				*		*
	United Kingdom (Liverpool)	*				*	*	*
	France	*				*	*	*
	Netherlands	*				*		*
	Belgium	*				*	*	*
	London-W. Europe-Morocco		*		*			
	London-W. Europe-Morocco (Ricon Line)	*	*		*			
	West Germany-Hull	*				*		*
	East Germany	*				*		*
Danube	Lebanon-Syria-Cyprus	*						
	Turkey	*						
	North Africa	*						
	Greece	*						
Black Sea	Egypt	*				*	*	*
	Italy-Southern France	*					*	*
	Bulgaria	*				*	*	*
Azov	Turkey-Greece	*				*		
	Italy	*						
	North Africa	*						
	Algeria	*						*
	Greece	*						
Caspian	Iran-Baltic-Black (CVB Line)	*	*		*			

TRANS-SIBERIAN LANDBRIDGE (TSL)

Facilities

1. The TSL draws traffic by road and rail from Central Europe by sea from North Europe and the United Kingdom. This traffic travels from various railheads in Western USSR to the Eastern seaboard via the Trans-Siberian Railway (TSR), which is the only through overland connection. This route is double tracked and although electrification is still not complete, the line provides an efficient and reliable through route for both passengers and freight with a capacity of some 100 trains per day. The major development in rail transport for the area is the building of the Baykal-Amur-Magistral (BAM) railway. This new line now under construction, which runs almost parallel to the TSR, will double the overall railway capacity to the Pacific coast of the USSR. It will be 3,400 km long of which some hundreds of kilometres have now been laid. However, as this route crosses terrain which is most difficult from a construction point of view, completion is not now scheduled until 1983. It is more than possible that even this date may be extended.

2. Although there is still no through trans-continental road from Brest to Vladivostok, a two-lane hard surface road now extends as far East as Cholyabinsk. Reports indicate that construction is planned or in progress on several sections of the Trans-Siberian Highway (TSH) between Cholyabinsk and Vladivostok which will complete the through route. Progress is difficult to assess and it is not possible to forecast a complete date but it seems unlikely that the TSH will be in operation before 1990. When it is complete, the trans-continental road from Brest to Vladivostok will be some 9,900 km long. Feeder roads are also planned.

3. Road, rail and ship (including canal) systems in the West of the USSR are reckoned to be more than adequate to support the present and planned TSR and TSH developments. It is assumed that in the interests of journey time rail will continue to provide the main feeder system for the TSR from Western Europe, although some delays may occur at change of gauge stations on entering the USSR. Such delays are on the decrease as the railway authorities of all the countries concerned are modernising and adding to the trans-loading and bogie changing facilities. The USSR is going ahead with plans to take advantage of the linking of the Rhine, Main and Danube rivers and is building many classes of river-sea ships to operate on them, but it is estimated that if speed is the main advantage of the TSL over

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West Europe/Far East shipping services then the canal system will not play a major rôle. However, as an alternative for less high value goods the canal routes could become important. Road transport is becoming increasingly important in the link between Europe and the TSL, but recent growth is not known.

4. In Western USSR, purpose-built container handling facilities now exist and are still being developed at several Soviet ports. The Leningrad container terminal handles 150,000 TEU containers a year and should handle 200,000 when finally completed. Container facilities exist at Riga and more are under construction at that port. At Tallinn, the present container berth handles 2,500 TEU containers a year; when a new berth under construction is completed, this should increase to 25,000 a year. Vontspils can handle containers at general cargo berths. A large container complex is reported to be under construction at Arkhangel'sk.

5. On the Black Sea, the major container terminal at Il'ichovsk now has a reported capacity of 500,000 TEU containers a year (at a rate of 45 an hour). Container facilities are also reported at Odessa and Zhdanov.

6. In the Far East, the major container terminals are at Nakhodka and Vostochny. Nakhodka, dealing mainly with containers coming from Japan, handles about 70,000 TEU a year. Vostochny can handle 66,000 TEU outward bound containers annually at the one completed container berth; when the further 6 planned berths are completed (though construction is reported to be proceeding slowly) the future capacity is expected to be about 250,000 TEU containers a year. A container handling facility has been reported at Vladivostok. It is expected that a container terminal will be built at Sovetskaya Gavan/Vanine to serve the BAH railway. A container terminal is also under construction at Magadan (Nagayev).

### Operations

7. The estimated sustained operating capacity of the railway East of the Urals ranges from 100 trains a day on the slower more difficult section of the track to maximum of 180. The estimated number of trains using the railway ranges from about 30 a day on some of the East Siberian sections to more than 120 in the West. It is assumed that this includes military trains. There is thus a fair size surplus capacity.

8. Containers carried by the TSR (including Soviet domestic traffic) in 1976 amounted to 121,000 TEU or the equivalent of three trains a day. An increasing number of

special container flats are coming into service and the majority of East-West container traffic is now carried by container trains. There are indications that the West to East traffic may be less organized due to the delays and difficulties reported in retrieving containers due to the imbalance of cross traffic over the TSR. It is planned that this traffic should increase considerably. Table C1 shows the movement of containers to and from Japan along the TSR.

TABLE C1. TEU CONTAINER TRAFFIC ON THE TSR

	<u>Eastbound</u>	<u>Westbound</u>	<u>Total</u>
1972	2,957	12,401	15,358
1973	9,330	18,959	28,289
1974	17,088	34,391	51,479
1975	12,632	47,314	59,946
1976	22,072	57,684	79,756

9. On estimates of best journey times via the TSL the rail element of the journey from Rotterdam to Japan takes 20-25 days compared with 30-35 days by sea via Panama or Suez and 40-45 days via the Cape, and TSL rates are 20-25% less on average than the West Europe/Japan Conference is quoting. However, best transit times via the TSL are not the norm and journeys of 30-35 days are the general rule. The MAT/Transib group operates a freight refunding project involving 50% compensation of transport costs if the agreed transit time is exceeded by 15-30 days, 100% if more than 30 days. Western and Japanese companies may be reluctant to tie up high value goods for unpredictable periods of time. In addition the TSL has not acquired a reputation for efficiency; for example, once a container is in transit it is impossible to trace it or estimate its date of arrival.

Future Plans

10. Estimated container handling capacity in the Far East is expected to rise to 200,000-250,000 TEU containers in the next few years. About a quarter of this capacity is likely to be for the USSR's own use. This is the equivalent of 7-8 trains a day along the TSR, and presumably represents an acceptable level of use. Given the USSR's operating problems at the terminals this level of activity is probably the maximum with which the USSR can cope. Freight rates will probably continue to reflect Western shipping rates but at a relatively lower level. Until its operating efficiency improves it cannot rival the major Western shipping companies with the TSL. The USSR will probably reach its target of 150,000-200,000 TEU containers along the TSL within the next years without a drastic cut in freight rates.

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PLANNED SOVIET MERCHANT FLEET ACQUISITIONS

1. Roll-on/roll-off vessels. Our estimate of the number of Ro-Ro ships in service by 1980 based on known building and acquisition plans is contained in Table D1. We have assumed that no further MAGNITOGORSK class are being acquired from Finland, although recent statements by Morflot officials suggest that at least two more ships of this type are being acquired. The progress of the ATLANTIKA building programme in the USSR is slower than anticipated but we believe that at least two will be in service by 1980. An 11,400 dwt class has been mentioned but no information on the building of such a class is available. By 1981 the USSR should possess a container carrying capacity in Ro-Ro ships of at least 18,000 spaces, and of this 11,500 spaces will be in ocean-going ships.

TABLE D1. ESTIMATED INCREASE IN SOVIET HOLDINGS ON ROLL-ON/ROLL-OFF VESSELS

<u>Class</u>	<u>Dwt</u>	<u>Builder</u>	<u>1st January, 1977</u>		<u>1st January, 1981</u>	
			<u>Nos.</u>	<u>Total Dwt</u>	<u>Nos.</u>	<u>Total Dwt</u>
MAGNITOGORSK	22,690	Finland	2	45,380	2	45,380
B 480	22,000	Poland	-	-	1	22,000
ATLANTIKA	20,000	USSR	-	-	2	40,000
SKULPTOR KONENKOV	17,500	Poland	2	35,000	6	105,000
BO-RO (HAMLET)	16,000	Denmark	-	-	2	32,000
INZHENER MACHULSKI	6,128	Finland	7	42,896	10	61,280
NEVA	4,800	USSR	2	9,600	8	38,400
AKADEMIC	4,500	France	6	27,000	6	27,000
VIIRELAND	1,550	-	5	7,750	5	7,750
VAVCHUGA	1,200	USSR	-	-	10	12,000
Total			24	167,626	52	390,810

2. Container Carriers. The 21 full container ships operated by the USSR at the beginning of this year have a total capacity of 6,000 spaces. We believe that the only sea-going class being acquired during the current Five-Year Plan is the East German built KHUDOZNIK (13,050 dwt), of which three are already in service. At least four others are thought

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to be under construction, and a total of 10 will probably be in service by 1980. This would give the USSR a capacity of 12,500 spaces in full container ships (see Table D2) of which 7,300 will be in ocean-going units. The USSR has recently converted two general cargo ships into full container ships, and more may follow.

TABLE D2. GROWTH IN SOVIET CONTAINER CARRYING CAPACITY IN PURPOSE BUILT SHIPS BY 1ST JANUARY, 1981

Roll-on/roll-off

	<u>Units/Ship</u>	<u>Total</u>
MAGNITOGORSK	1,400	2,800
B 480	1,400	1,400
ATLANTIKA	1,000	2,000
SKULPTOR KONENKOV	750	4,500
BO-RO	380	700
INZHENER MACHULSKI	240	2,400
AKADEMIK TUPOLEV	235	810
NEVA	240	1,920
VIIRELAND	100	500
VAVCHUGA	<u>100 (est)</u>	<u>1,000</u>
		18,090
of which ocean-going units		11,460

Cellular container

KHUDOZHNIK SARUAN	730	7,300
ALEKSANDR FADAYEV	358	1,790
SESTRORETSK	218	1,308
2 converted general cargo small units	<u>350 (est)</u>	<u>700</u> <u>400</u>
		12,498
of which in ocean-going units		7,300

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3. LASH. During 1978-1979 the USSR will take delivery of two large tonnage barge carriers (SEABEE) which are now under construction at the Valmet yard in Helsinki. Each vessel is designed to carry barges of 1,300 dwt and can take 26 such vessels on board. Lighter carriers are also to be built for use in the North and in the Pacific area. Although Soviet shipyards have the capacity to build these, so far there is no evidence of construction.

4. Bulk Carriers. The Morflot figure for the total bulk carrier tonnage as at 1st January, 1976 is very low because ore-bulk-oil (OBO) types have been included under tankers. However, even this does not fully explain this modest figure and it is assumed that a number of smaller bulk cargo types are carried under general purpose vessels. The Morflot figures show an increase in total bulk carrier tonnage of 643,000 in the period up to 1980. According to Soviet sources this will be made up of the ships shown in Table D3. These figures include a new unknown class to be built in East Germany, but they do not allow for any second-hand purchases (more of which can be expected).

TABLE D3. ADDITIONS TO SOVIET BULK CARRIER FLEET (ACCORDING TO MOREFLOT) 1977-1980

<u>Class</u>	<u>Dwt</u>	<u>Nos.</u>	<u>Builder</u>	<u>Total New Tonnage</u>
SOYUZ	50,000	2	USSR	100,000
SOVETSKIY KHUDOZNIK	23,500	6	Bulgaria	141,000
DMITRY DONSKOY	20,000	10	GDR	200,000
KAPITAN PANFILOV	16,000	7	GDR	112,000
KAPITAN PANFILOV	15,000	8	USSR	120,000
		Total		673,000

5. Combination carriers. The Soviet fleet is planned to increase from 370,000 dwt in 1976 to nearly 1 1/4 million dwt by 1981 (excluding any second-hand purchases). These include a fourth unit of the MARSHAL BUDENNY class from Poland, plus three units of a 116,000 dwt derivative, and also 4 units of the 100,000 dwt OKTYABRSKOYE class from a Soviet shipyard.

6. Tankers. The most remarkable feature of the Morflot projections is that relating to tankers over 50,000 dwt. The increase in the period 1976-1980 amounts to

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1,800,000 dwt. This jump is inexplicable unless acquisition of large OBO types is included (as is assumed). We estimate a jump in large tanker capacity to be rather over 1.0 million dwt as set out in Table D4.

TABLE D4. KNOWN PLANNED ADDITIONS TO THE SOVIET LARGE TANKER FLEET 1976-1980

<u>Class</u>	<u>Dwt</u>	<u>Nos.</u>	<u>Builder</u>	<u>Total Tonnage</u>
KRYM	150,000	d	USSR	600,000
GEROI SEVASTOPOL	112,000	3	UK	336,000
Second-hand purchases (1976)		2		
		Total		1,116,000

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