

PRIVATISATION AND RESTRUCTURING OF SHIPPING COMPANIES IN TRANSITION ECONOMIES

KARL-HEINZ BREITZMANN

University of Rostock
Institute of Transport and Logistics
Schroederstrasse 23
18055 ROSTOCK, GERMANY

FALK VON SECK

University of Rostock
Institute of Transport and Logistics
Schroederstrasse 23
18055 ROSTOCK, GERMANY

Abstract

Privatisation in shipping focuses on systemic change by establishing private property as the basis of a market economy. Ownership rights are broadly distributed to the private sector while possession rights are often allocated to insiders. The process of privatisation, however, shows distinct differences in the countries studied and has not yet been finished.

Market transition went hand in hand with fundamental tonnage reduction and re-orientation in fleet strategies and service configuration. Generally, regional market niches were sought and also diversification into the non-shipping sector had been observed. Cooperation became a basic necessity, though approaches in joining international cooperative structures differed. Generally, organisational restructuring led to integrated holding structures.

Developments make clear that mere change in ownership does not ensure for long term competitiveness. Evidently, the decisive contribution for the success of transition rests with sound restructuring.

THE STARTING CONDITIONS FOR TRANSITION

The shipping sector in socialist economies was generally defined by state-ownership, heavy centralisation and concentration. The state as owner set political and macro-economic goals for the companies and decided very operational matters too. There were only limited possibilities for strategic decision making and action at enterprise level. Strict limits of governmental shipping policy dominated. Thus, shipping companies were rather executing units, translating strategic targets into specific structures and fulfilling them practically afterwards.

Following central governmental policy, the main tasks of shipping were to transport goods for the national foreign trade, to earn foreign currencies and to save on these expenses. Moreover, Soviet fleets made particularly strong defence efforts, orientating for example on Ro-Ro- instead of worldwide applied container technology. At the beginning of transition, currency functions dominated Polish as well as East German shipping.

Fleets were built-up according to their national functions, with their enormous dimensions often ranking top in Europe. The structure of the fleets followed the aims of national shipping policies and thus showed a distinct complexity (see table 1).

Table 1- Fleets of Eastern shipping companies at the beginning of transition*

Vessel Type		Shipping Company			
		BSC	DSR	LSC	POL
Total	number	164	164	104	97
	1,000 dwt	1,737	1,700	1,433	914
General cargo vessel	number	67	70	8	46
	1,000 dwt	838	708	22	357
Container vessel	number	17	16	4	36
	1,000 dwt	262	232	33	482
Ro/Ro-vessel	number	36	7	7	9
	1,000 dwt	455	39	38	54
Ferry	number	0	2	0	3
	1,000 dwt		24		10
Reefer vessel	number	0	10	27	3
	1,000 dwt		56	177	11
Wood transporter	number	41	10	0	0
	1,000 dwt	182	45		
Bulk vessel	number	0	24	0	0
	1,000 dwt		558		
Tanker	number	0	0	51	0
	1,000 dwt			1,122	
Gas Tanker	number	0	3	7	0
	1,000 dwt		17	41	
Short-sea vessel	number	n.a.	21	n.a.	0
	1,000 dwt		18		
Passenger vessel	number	3	1	0	0
	1,000 dwt	n.a.	3		

*data by 31.12.1989; fleet in ownership of the companies or its subsidiaries

Source: authors's investigations on the basis of LLOYD'S Confidential Index, var. volumes.

Contrary to common belief, there was no effectively planned division of labour between the socialist shipping groups of different countries. Even the institutionalised shipping organs in the framework of COMECON factually never reached influence. Rather, shipping companies were assigned national or regional monopoly positions. Shipping in East Germany, for example, was allocated to Deutsche Seereederei (DSR) only. Soviet structures relied heavily on regional groups with distinct geographical and cargo specialisation. Shipping companies working from the Baltic

Sea base showed clear focus on their home ports. There were the Baltic Shipping Company Leningrad/St.Petersburg (BSC), Estonian Shipping Company Tallinn (ESCO), Latvian Shipping Company Riga (LSC) and Lithuanian Shipping Company Klaipeda (LISCO). In Poland, liner structures were distinct from the bulk sector and short-sea shipping. Here, Polish Ocean Lines Gdynia (POL), Polish Steamship Company Szczecin (PSC) and Polish Baltic Shipping Company Kolobrzeg (PBS) were the companies concerned.

Shipping companies were part of horizontally and vertically integrated maritime complexes, often combining brokers and agencies, ancillary services and others. In the GDR and also in the Soviet Union seaports were integrated into these combines, even ship repair yards in the latter case.

The formation of highly integrated structures was a prerequisite for central steering. It, moreover, opened chances to raise scale-effects from concentration of resources into competitive advantages. Yet, none of the centrally planned economies was in a position to translate all this into practical long term competitiveness on an international level. On the contrary, the restricted managerial independence of the shipping firms and growing problems of the socialist economies contributed to a loss of competitiveness. They encountered delays in following international trends of containerisation, increasing ship sizes, installation of information- and communication networks or of setting up new organisational structures and often did so in a fragmentarily way only.

Increasingly deficient supply chains and insufficient technical and social infrastructure forced the companies to seek self-sufficiency, sometimes even in agriculture and food processing. Likewise, shipping enterprises had to perform a variety of social obligations and services for the community or the region.

SHIPPING POLICY UNDER LIBERALISATION AND DEREGULATION

Privatisation was not the element of transition which was generally implemented first. Rather, changes in the economic policy framework dominated. All transition economies underwent swift and comprehensive **liberalisation**. In addition to reforming the currency basis towards convertibility, the abolition of the state's monopoly in foreign trade went in hand with ending the transport monopoly. While formerly the foreign trade function was entrusted to special foreign trade companies of the states, each enterprise was now given the freedom to export and import independently. Shippers obtained the freedom to choose their carriers. Moreover, foreign carriers gained access to formerly restricted transport markets in the countries in transition. Only cabotage markets in Russia remained partly protected.

It was the OECD which became very active in formulating multilateral shipping principles with transition countries, culminating in a pact signed on 26.5.1993. In twelve principles, the parties agreed on the elimination of discriminatory practices or preferential treatment concerning access to transport markets, to ports and infrastructure, concerning agency operations and relations with forwarders. It also included the freedom to choose multimodal transport solutions and joint ventures, the swift and undiscriminatory handling of commercial and financial shipping transactions, the encouragement of cooperation, the application of market pricing principles, the freedom of shippers to choose among different carriers, the open access to inland waterways for seagoing vessels in international trade and the compliance with applicable international rules and standards for maritime safety, training, prevention of pollution as well as living and working conditions on board. There, moreover, was agreement on reaching improvements in transparency regarding information on owners, operators or those involved in maritime transport operations. Finally, consultations were agreed for confirming compliance with the principles (OECD, 1993).

Liberal changes during the course of transition went far behind the foreign trade aspect, as **deregulation** enlarged the scope for economic decision making at enterprise level. Central management- and controlling functions were replaced by allocations through markets and prices. Strategic decision making was brought back to the enterprise level. Former restrictions of participation in the international division of labour were abolished and negative restrictions on competition lifted. State combines were broken down. The ports became completely independent firms, e.g. in East Germany and in the Soviet Union. The state monopolies of brokers and port forwarders were abolished and new firms were set up. Former dominantly vertical integration within the combines was replaced by cooperational links of shipping companies to their business partners and clients.

A third core aspect of transition was the **commercialisation** of enterprises. Aiming at international competitiveness, shipping firms swiftly became commercially autonomous. Budget limits were hardened and state subsidies cancelled. Internationally applied accounting standards and cost benefit approaches were increasingly put in place.

The fundamental changes described here eliminated the system-based particularities of former socialist shipping policy approaches in the transition countries concerned. It, however, did not imply a complete adaptation to Western patterns. Clearly, the state also performs manifold shipping policy functions in established market economies. East German shipping, for example, has been integrated into the established German system of shipping policy measures through the German economic, currency and social union and the unification treaty. At the same time, DSR became a subject of EU-shipping policy too.

However, the complete vanishing of former protective measures in other transition countries was not accompanied by establishing a competent shipping policy scheme as it is known in Western market economies. Instead, a void in governmental shipping policy was characteristic. The absence of active financial and fiscal support measures (which, however, are widely applied for example in Germany or in the Netherlands) turned out to be seriously obstructive. In contrast, shipping companies in Russia and Latvia regularly ranked first among the regional and even national contributors to the state's income from taxes. It is a unfortunate matter of fact that the above named OECD principles did not address the necessity of active shipping policy measures for transition economies. Consequently, they have to be regarded as one-sided.

The transition countries themselves did more or less recognise this problem, yet, as they were lacking budgetary funds they could not remedy matters practically. In 1992, for example, Jelzin the Russian president proclaimed a challenging fleet renewal program for the „revival of the Russian fleet“. Expecting state support of at least one third of the total investment needed, it strongly resembled fleet programs in the United States of America. Yet, the program failed, mainly because of absent finance from the Russian state.

PURPOSE, PROCESS AND RESULTS OF PRIVATISATION

Purpose of Privatisation

Privatisation constitutes the core of transitional processes. At heart, it addresses the transfer of state ownership and possession of assets into the hands of private natural or legal economic persons. In its narrow sense, privatisation concerns the transfer of existing property, i.e. whole enterprises or parts of them, assets or shares. In its wider sense it includes the independent expansion of the private sector, i.e. the setting-up of new firms.

Privatisation within the context of transition fundamentally differs from world wide privatisation processes. Key transformations of ownership structures and efficiency criteria of the whole national economies are typical here instead of limited changes by reforms within existing structures.

In this context, two main targets of privatisation can be identified. Firstly, privatisation focuses on systemic change by establishing private property as the basis of a market economy. There, secondly, are efficiency functions on micro- and macroeconomic level.

1.) The system creating function of privatisation

The primacy of privatisation as the core of systemic change towards new economic pattern was defined right at the beginning of transition. At the same time, the installation of appropriate market structures and societal relations was regarded essential to replace the planned economy structures. The practical implementation functioned accordingly.

2.) The efficiency function of privatisation

Private owners are assumed to be the better executors of necessary adjustment processes. Accordingly, privatisation results in strategic changes that have the power to influence efficiency functions at enterprise- and macro level.

At enterprise level, the fundamental aim of privatisation is to minimise the states' influence on economic decision making. Orientating towards profit functions, privatisation of enterprises implies the chance for increased productivity and competitiveness. In the case of generally poor financial capabilities, privatisation can also be a meaningful solution to support capital investment, technology, management know-how and the integration into international economic networks.

At a macro level, privatisation aims at aggregate gains for the whole society. The combined activity of competing private enterprises is assumed to induce innovations and specific allocations of resources that allow for improved efficiency at the national economy level.

Finally, if one does reflect on specific sectors instead of the total economy (for example on shipping as done here) the aims of privatisation have to be determined primarily by the efficiency function.

Considering privatisation as a very sensitive factor of transition, a necessary levelling of interest has to be ensured and very cautious consideration applied. Since transition goes in hand with large income losses and budgetary deficits, bringing economic downfall for entire regions, it always bears the danger of social unrest. Thus, individual or grouped opposition from people long accustomed to values of equality is widespread. Evidently, the methods of handling the privatisation process have been of utmost importance for the outcome of transition.

Process of Privatisation

Russian media was already spreading news about privatising Baltic Shipping Company St. Petersburg in 1992. Today, we know that privatisation is an extremely complex process which occurs considerably slower than liberalisation and deregulation. Furthermore, privatisation in shipping can be better understood by looking at it from a general privatisation approach in a specific national context. Here, comparisons reveal common features and differences.

Most significant differences in privatisation can be established between East Germany on the one hand, and Poland, Russia and Latvia on the other. The original East German motivation to privatise among a broad public, for example, aimed at real participation of the people in national wealth. Initially, existing systemic principles were not questioned at all. This, however, soon changed fundamentally. The economic, currency and social union of 1.7.1990 defined the so-called social market economy with its typical private ownership as common economic basis for a reunited Germany. Later, the Treaty of Unification detailed the roles for advancing together on a practical basis.

Assessing privatisation as the best way of handling the conversion process, the states trustee holding „Treuhandgesellschaft“ decisively influenced the outcome of transition.

Owing to the fears of political hindrances and their potential for slowing down the transition process altogether, privatisation was speeded up. By the end of 1994, most of it was finished, with 68 % of the firms privatised and another 28 % going into liquidation. Beginning of 1997, only 11 % of the former stock remained in the account of the privatisation agency „Treuhandgesellschaft“. The high speed of this process was largely supported by the very existence of a stable West German social and economic system.

The German privatisation approach differed widely from other transition countries. While the privatisation procedure in East Germany did not fundamentally differentiate between enterprises sizes, other transition countries established distinct differentiation between privatising small and medium sized firms or large companies. Generally, privatisation of shipping followed the rules of „large scale privatisation“.

There is a close relation between the size of enterprises and the methods used to privatise them. Selling, for example, has been frequently applied not only in East Germany but also in the other countries in transition. Moreover, the method of giving away for free was widely used in Russia, Latvia and Poland where also voucher schemes served as means of distribution, particularly to employees. There obviously were two main reasons for this: on the one hand, employees thus obtained ownership rights on the national wealth they themselves had worked for formerly. Clearly, there is thus the intention to create incentives for broadly supporting privatisation. On the other hand, methods of selling state property were encountering very strict limits due to the common lack of capital. Additionally, the largely popular method of giving away for free has the advantage of quickly transferring ownership by avoiding costly and time consuming procedures of valuation.¹

A typical element of giving away was the so called „spontaneous privatisation“ where no price was paid for transferring property. Often, government employees, directors or managers obtained initial rights of possession of the relevant enterprises, of assets or future income. These rights have subsequently been converted into de jure private ownership.

Generally, restitution of private ownership rights played an important role. The exception here was the Russian privatisation approach, where a re-establishment of the tsarist status from before 1917 was out of question. In shipping, however, the specifics of being state companies right from the beginning made restitution irrelevant anywhere in the research area. Nevertheless, it partly concerned the land on which firms were built.

On the basis of our previously gained insights, let us now investigate the privatisation of shipping enterprises in more detail. Deutsche Seereederei Rostock –the former state owned carrier of the GDR– underwent compulsory capitalisation in early 1990. This went in hand with splitting up the maritime corporation, addressing more clarity of property rights and thus better incentives. Moreover, limited unit sizes were initiated in order to support saleability. Table 2 outlines the course of events in the process of privatising transition shipping.

Table 2 - Course of Events in Privatising Transition Shipping Companies

Year Co.	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
DSR					Privatisation				DSRS to Hanjin	
BSC			First arrangements	Primary Distribution		Secondary Distr.		Bankruptcy		
LSC			First arrange.	Nationalisation	Tender begin	
POL				Privatisation of subsidiary companies				POL-group still fully state owned		

Source: authors' investigations and graphic

Owing to the special German approach of listing all enterprises for privatisation except those not worth continuing production, there was a dramatic fight to qualify DSR for privatisation. Privatisation was generally possible, provided that the Treuhandgesellschaft declared the relevant company worth and capable of successfully being privatised. Where a company was not to be awarded privatisation status, liquidation with subsequent closing down was the only alternative.

For DSR, West German shipping interests certainly would have liked to see a quick solution through liquidation. DSR, however, fulfilled the strict requirements for getting the chance to privatise. Moreover, DSR could apply a concept of focused restructuring although this generally got only second rating after privatisation in East Germany. The restructuring program intended to cutback losses and basically used tonnage sales and reduction of employment as a mean. Here, dismissals had to be paid for by single compensation, adding to about 65 mil. DM until privatisation, what even overcompensated savings of reduced employment in the short term.

The privatisation process was handled by the privatisation agency using an international tender procedure. However, the sale itself proceeded through personal and partly informal negotiations. Two Hamburg businessmen bought the company as a widely restructured unit for a price of 10 mil. DM in mid 1993. They accepted, inter alia, the obligation to provide 1.600 jobs at sea until end of 1995, to manage at least 60 vessels within the group until end of 1997 and to invest about 1,1 bln. DM, about half of this sum ashore. Among other assistance, the new owners received a state grant of about 200 mil. DM to implement the restructuring further necessary and covering unavoidable losses in a definite period.

In DSR liner shipping, the strategic partnership with Senator-Lines Bremen was extended to a full merger by setting-up DSR-Senator Lines GmbH in mid 1994. The move included the entire deep-sea liner activity of DSR. Moreover, the company linked globally with Cho Yang, Hanjin and also later USAC. Nevertheless, losses since 1993 could not be reversed so that the own capital base of DSR-Senator was nearly used up. In early 1997, South Korean Hanjin Shipping prevented the bankruptcy of the firm by paying 100 mill. DM for an increase of the registered ordinary share capital of DSR-Senator. Today, Hanjin represents the majority, holding about 80 % of share capital. Subsequently, the far-reaching abandonment of Rostock as a location for operative shipping business could not be prevented. Today, only part of bulk and shortsea shipping and shipmanagement activities are left with the original private owners.

In the USSR, first arrangements for privatisation started with changes for BSC and LSC initiated by 1990. The primary phase of mass privatisation in the case of BSC led to an allocation of about half of all titles to employees and management. By 1994, shares were distributed to about 17,000 private persons. This, however, did not ease the constant pressures from existence-threatening financial problems and ships were arrested world-wide. Mid 1996, BSC underwent bankruptcy proceedings which resulted in a factual re-nationalisation of the company. A state administrator was assigned, re-instituting direct governmental decision making in every respect.

Privatisation of Latvian shipping mainly centred on establishing capable transport structures independent from Russia. Social aims, investment and restructuring as well as the elimination of management defects were addressed here too. The early privatisation attempts under Soviet conditions were stopped in 1991 while nationalising LSC. Only since 1995 has privatisation come on the agenda again. The LSC decided on limited employee-ownership at 5 %, which originally had been scheduled for as much as 51 %. The company revised the intended selling through voucher schemes and started preparations in 1997 for being focusedly sold for cash through open tenders and via the Riga stock exchange soon.

In Poland, changes in the early eighties had resulted in the establishment of broad participation of the Polish people already. Facing the situation of the nineties, fundamental systemic change was

addressed immediately, running ahead of all other transition economies investigated here. However, in contrast to the swift privatisation of small and medium sized enterprises, large scale privatisation occurred rather slowly. After different ineffective efforts to privatise large enterprises, the setting-up of 15 national investment funds started in 1995. These funds aim at guaranteeing restructuring and functioning of industrial structures on a long term basis. The closeness to financial market structures suggests the opportunity to overcome the capital problems of transition companies. The public is also participating here via voucher distributions and the chance to trade them for fund shares.

Privatisation of Polish shipping started in 1991 on the basis of subsidiaries. After independent capitalisation of these subsidiary units, part of their shares was sold according to individual privatisation plans. Here, privatisation resulted in allotments of averagedly one third of the shares to the relevant employees and managers. An early example was the functionally specialised Polsteam Tankers Ltd. with 45 % of shares allocated to the employees. Euroafrica Ltd., a subsidiary of POL, also sold about 50 % of its shares to private legal and natural persons by 1992. POL, however, remains itself fully state owned as a so called „one man company of the treasury“.

Results of privatisation

Transition countries reached an extensive private sector participation in their national economy in a very short period of time (see table 3).

Table 3: The Status of the Private Sector in Transition Economies (in per cent)

Criterion	Country	Russia	Estonia	Latvia	Lithuania	Poland	East Germany
Enterprises privatised or liquidated of those designated for large scale privatisation*		55 %	74 %	46 %	57 %	32 %	89 %**
Contribution of the private sector to the social product***		58 %	60 %	58 %	65 %	58 %	n.a.

*data mid 1996; **data by 1.1.1997; ***data end of 1995, Latvia: share of the industrial production.

Sources: The World Bank 1996; OECD 1996; BMWI 1997; information by the Treuhandanstalt.

Shipping, however, proved very specific by its nature. Thus, the progress in privatisation differed remarkably from the transitional progress commonplace. The processes outlined above produce the following results:

1. The East German case which has widely finished the privatisation of large enterprises already cannot be regarded as typical. The other transition economies succeeded in privatising small and medium sized enterprises, yet were slower in achieving such for large units. This applies also to shipping companies where distinct features and contradictory developments marked the transition processes.
2. There remains a considerable amount of state ownership in fact. Russian shipping companies, for example, were given the possibility of staying in state ownership with up to 51 % of shares until the year 2005. In the case of Baltic Shipping Company, 29 % of the shares were in state hands after the primary privatisation phase with bankruptcy implying the factual re-nationalisation now. The Polish POL-holding is still fully state owned, the main creditors shall gain shares of the holding by debt-equity swaps only beginning in mid 1998. Also the Estonian government retained 30 % of the shares in the mid 1997 sold ESCO. The Latvian LSC originally strived for lasting state ownership of 50 %, yet finally decided for full privatisation which is scheduled for 1998.
3. Privatisation cannot be regarded as finished insofar as any ownership changes reached in the primary phases of privatisation were (and still are) subject to comprehensive secondary distri-

butions. Originally, broad partition of shares has been revised into accumulations and favours insiders. One procedure practised especially in Russia and Poland is to convince powerful shippers to participate as shareholders in shipping companies. Here, Russian oil and international agricultural concerns are giving the lead. Subsequently, national shareholders have been supplemented by foreign interests. After less than four years, the originally national sale of DSR turned into majority foreign ownership. In the case of BSC, the initial inland voucher sales were reversed to about 30 % in the hands of foreigners in mid 1996.

4. Scrutinising the results of privatisation more closely, the structure of ownership rights originally showed wide distributions. Here, the splitting to numerous individuals (often to employees through voucher distributions) resulted in main conflicts of interest. Moreover, the often divergent level of privatising possession rights limited the clarity of property rights altogether. A typical element was so called „spontaneous privatisation“. Here, government employees, directors or managers obtained initial rights of possession of relevant enterprises, assets or future income without paying a price for this transfer. Often, these rights have subsequently been converted into de jure private ownership. Income streams of Russian shipping companies, for example, are to a great extent controlled by the management quite independently of relevant ownership structures.
5. Privatisation in shipping was mainly reliant on the transfer of existing property. Correspondingly, the establishment of new shipping companies was addressed only secondly, partly in Latvia and Russia and even less in Poland in East Germany. Here, the readiness of the new private owners of DSR to support the establishment of one-vessel captains' companies did not fall on fertile ground. One skipper only decided to take the risk and the boat under a scheme not infrequent in Western Europe. This situation, however, contrasts with other branches of the maritime sector. The ports of East Germany, for example, experienced the establishment of a large number of small private companies in the brokerage, agency, port forwarding or the general transport business (Breitzmann et al, 1996).
6. The present results of privatisation invite reflections on the criteria and standards which must be fulfilled for approving the success of transition. Here, the bankruptcy of BSC and the taking-over of DSR-Senator-Lines by South Korean Hanjin Shipping lead to the conclusion that privatisation is not completed just by the transfer to the private sector. Instead, the success of privatisation within the context of transition must be measured against the factual market competitiveness of the units privatised.

For this very reasons, the paper will further examine crucial elements of restructuring.

RESTRUCTURING OF SHIPPING ENTERPRISES IN TRANSITION

The shipping companies analysed here underwent far-reaching changes in the course of market transition. The paper investigates this restructuring processes to establish typical features. The analysis closely connects to the question of whether the process of restructuring follows the aim of transition, namely the objective to establish economically sound enterprises able to compete successfully on an international level.

Changes in tonnage development and employment

Former fleet strategies followed the centrally planned pattern of foreign trade and the resulting flows of goods. Fleet arrangements, moreover, were determined by the hard currency functions in international markets and political-military considerations. All these former aims were abandoned at large with starting transition. A drastic shrinking of transition fleets was typical (see table 4).

Table 4: Development of the Transition fleets*

Company \ Year	1989	1990	1991	1992	1993	1994	1995	1996
DSR	164	139	120	78	49	63	56	41
BSC number	164	161	167	152	138	135	85	65
LSC	104	103	104	105	100	83	70	72
POL	97	93	85	70	54	46	43	47
DSR	1,700	1,509	1,417	1,141	927	1,102	1,022	751
BSC 1,000 tdw	1,737	1,809	1,886	1,884	1,562	1,697	1,042	779
LSC	1,433	1,432	1,350	1,334	1,416	1,152	1,359	1,242
POL	914	888	816	675	481	386	349	451

*data contain vessels under operation and under ship management as well as own tonnage and tonnage of fond companies (especially DSR since 1994).

Source: calculated on the basis of LLOYD'S Confidential Index, var. volumes; authors's investigations.

A first reason for this can be found in the breakdown of economic structures. In connection with liberalisation processes this led to an acute decrease of national demand for sea transport. Exports of raw materials, for example, from the former Soviet Union to other Eastern European countries diminished or vanished altogether. The former East German import of tropical fruit from Cuba (just to give another example) was abandoned and all DSR reefer vessels were sold.

A second cause was the considerable obsolescence of the transition fleets. Outworn technologies did not keep-up with advancing international quality requirements. The aged vessels with its high need for repair and maintenance caused considerable costs.

The same tonnage, however, thirdly stood for widely unencumbered and readily available assets. Vessels formed an extensive capital base even by international standards. The DM-opening balance of DSR, for example, named ship assets with a book value of about one billion DM. The BSC remained with tonnage worth about 800 mil. DM at market prices even in 1995. The LSC had been certified as having fixed assets worth 600 mil. DM in mid 1996.

In order to ease cost pressures and to additionally free urgently needed capital, shipping companies undertook far reaching liquidation of vessel assets and here even of modern ships. DSR, for example, sold almost the whole fleet or liquidated it through fund companies until 1997. Only small interests of about 4-5 % per ship lasted.

The diminishing of the fleets was connected with a reduction in employment. Typical overstaffing caused reductions in personnel beyond the quota originating from removing vessels. DSR released about 70 % of its workforce already until privatisation in 1993. In 1996, the total DSR-groups employment accounted for merely 25 % of the original level. At the same time, POL employment was down to 51 % of the former level. By 1996, the Russian BSC showed a decline to 75 % of the 1990 employment. The Latvian LSC shrank jobs to 57 % of those available in the socialist state respectively.

In all cases except East Germany, growing personnel markets supported attempts to diversify into the crew management business, particularly in Russia and Latvia. By the early nineties, more than 6,000 Soviet seafarers were readily available for hire to foreign vessels.

It was a typical feature of fleet changes that the bulk of the remaining tonnage has been brought under foreign flags. DSR, for example, flagged out completely, commencing 1993 until 1997. The main reason for this was the chance to reduce crew costs by employing, for example, Filipino seamen. Flagging out concerned about 17 % of the Russian tonnage in 1996. The Polish Steamship Company showed a figure of about one third flying a foreign flag at that time, the POL of about 50 %. The Latvian LSC had about 43 % of its vessels flagged out at the end of 1996.

With the named exception of DSR, reasons for flagging out differed considerably from the usual motivation in established market economies: owing to the often unstable legal and political envi-

ronment in transition economies, the primary impetus came from international banks generally requiring reputable foreign flags as one security for granting loans.

For shipping companies in transition, investment in new, modern tonnage must be regarded as an important criterion for deciding whether or not they are on the track towards competitiveness. Up to now, only few companies have attained fleet renewal. DSR, for example, was in a position to renew its fleet. The focus lays with full container tonnage providing for modern technology and economies of scale. There, additionally, were large bulk carriers brought into business. However, the deployment of chartered newbuildings finally went in hand with the near complete abandonment of fleet ownership and moreover resulted in a principal retreat from operational activities. Certain subsidiary companies –essentially those which were contributed as part of the purchase price by the private owners– service few external units with their ship management business.

The Polish POL also belongs to the majority of companies which –contradictory to DSR– could not achieve fleet renewal. Although the company announced the acquisition of about twenty vessels until the year 2000, financing this renewal program remains completely unclear: The chance to secure loans on the security of vessel was exhausted by 80 % already in 1994. The Polish Steamship Company presents a shiny exception insofar as it was capable of implementing a comprehensive renewal program based on income from yielding shipping operations in the late eighties. Moreover, an intelligent and timely loan policy contributed to realising the program as much as the success from focused diversification did.

The Russian BSC benefited from the former state-planned tonnage investment until 1992. However, because of lack of finance, BSC was not in a position to take delivery of several newbuildings. Subsequently, the average age of the companies fleet increased from 16 years in 1992 to about 22 years at the end of 1996.

The Latvian LSC made only limited tonnage investment in primarily second hand purchases. Nevertheless, fleet structures remained as stable here as in Russia, which is quite a symptom for the inertia of former orientations.

Analysis clearly showed the dramatic decline of tonnage and the almost ineffective programs for restoring national fleets. Although the surrender of fleet ownership might originally have positively contributed to raising finance, to shorter planning horizons and to increase flexibility, funds were soon consumed and opportunities of raising loans on the security of vessels were lost at the same time. Against this background, competitive activities of transition carriers as internationally significant shipowners must be ruled out, at least in the medium term.

Market Re-orientation and Cooperation

In all transition countries searched, the shrinking of the fleets was connected with further reduced transport volumes. The shipping sector of DSR, for example, experienced a halving of the original cargo base before privatisation in 1993. In 1996, the Russian BSC moved only about 47 % of the cargo transported in 1992. The total Russian fleet represented about two third respectively. Forecasts assume a further shrinking to 55 % until 2000. In 1995, the transportation of the LSC under Latvian flag accounted for only 41 % of the year 1991, with POL accounting for 74 % respectively. The total Polish fleet experienced a decline of the annual transportation by one third already between 1980 and 1990.

The shrinking processes went along with changes in market orientation for shipping. Adjustments here concerned product policy as well as geographical service patterns. Facing the steady diminishing transport demand from national foreign trade, all companies directed activities towards international markets, especially towards cross-trades. For the LSC, cross-trade today accounts for the considerable proportion of about two third of all earnings from liner trades. For BSC, the in-

come generated from transporting foreign trade cargoes shrank from 70 % to about 10 % in 1996. For Polish shipping and especially for the bulk sector with PSC, the move towards cross-trades began already in the early eighties and was brought about by the sharp decline of Polish hard coal exports. The stable international business contacts originating from that time proved very helpful for handling the transition process later.

Changes became very obvious in deep sea liner shipping. While DSR, POL, BSC and LSC formerly maintained a network of world wide liner services from Rostock, Gdynia, Leningrad and Riga, mainline calls for these Baltic ports have promptly been terminated with the beginning of transition. In this way, transition shipping corresponded to requirements of the modern container trade pattern where ever bigger vessels call at ever fewer mainports, the Baltic Sea being principally served by feeder services from North Sea ports.

Clearly, the modern container business is marked by the establishment of mega carriers focusing on scale economies and network effects on a global basis. Apart from DSR, transition carriers have not been in a position to follow this trend. They have rather withdrawn to the rank of niche carriers. They do not participate in the worldly controlling consortia and alliances. Former joint services between transition companies have generally been disintegrated and were closed down. Moreover, lack of adequate tonnage limited operative activity more and more to slot-chartering only. Furthermore, perspectives for shortsea trades and for lines on the outer edges of global service networks originated from the main-port concepts of big players.

In contrast, DSR has tried to catch up with mega carriers. The global alliance with Senator and the later merger of the entire liner sector was important for this. Yet, the Round-The-World concept failed and was finally abolished in favour of more flexible pendulum services. Besides, the merely inconsequent orientation towards multimodal transport operatorship contributed to constant losses which culminated in the taking-over of DSR-Senator by Hanjin, as mentioned above.

For modern shipping of the nineties the return to traditional core activities and competencies was characteristic. Development in transition shipping, however, appear to run opposingly. Here, market activities and products are extended into shipping linked sectors and completely separate fields, too. Shore sided activities receive much attention. Particularly the agency system –with its strategic positioning at the periphery of shipping companies, controlling the link to clients– is of great interest. Strengthened cross-trade, for example, did heavily rely on upgrading this system.

The agency sector in the successor states of the Soviet Union, for example, was characterised by three partly overlapping processes. There, firstly, was the original demarcation from the Soviet system of Sovfracht agencies. It, secondly, was followed by widespread privatisation of agency units to insiders, particularly to managers. The privatised agencies often surrounded the shipping groups with a cover of business contacts and insider knowledge and thus effectively controlled vital economic links. Consequently, even lasting state ownership in shipping did not hamper private profiting from it. The third process had its roots in the growing influence of agencies: Informal networks and the management in personam supported the entrance of agencies into shipping. Polish shipping also integrated the agency system into company structures, mostly by capital shareholding. Only DSR separated from an originally in-house agency system in the process of shrinking to core activities. Income shortfalls and rising costs, however, led to a revision of such DSR-Senator approach shortly before it was taken over by Hanjin.

All transition companies showed broad diversification into the non-shipping sector. Here, BSC, POL and LSC proved particularly active for example in hinterland transport, finance and insurance markets. After privatisation, also DSR changed its previous approach and went for focused extension of business fields. The company evolved as a sundry service provider, dominantly backed by loan capital. Activities in the real estate-, tourism- and finance business culminated in the near abandoning of operative shipping altogether.

After all, the research conducted made clear that there was no comprehensive economic theory of the firm being followed by the transition companies in the process of changing their market orientation and cooperation. Rather, decisions were dominated by the specific national conditions of the transition period. They were influenced by private interests and the circumstances of demand and supply.

CONCLUSIONS

About nine years ago, shipping companies in transition countries started to move under market economic principles, leaving behind central planning and regulation. Manifold changes in ownership and possession occurred since, operations changed significantly.

In many cases, the countries analysed showed common features but also proved very specific developments. The East German transition process turned out to be a very special case differing from the others in many respect. Yet, disregarding all special features and aiming at generalising explanations, four aspects have to be underlined:

Firstly, the changes in the system of state shipping aid and government regulation on the one hand and the market transition of former socialist shipping companies on the other hand did not run synchronously. Although liberalisation and deregulation led to the abolition of former far-reaching state protection and regulation very soon, the installation of new, adequate shipping political frameworks is still pending. Shipping companies in transition thus had to act under circumstances of widely absent state support otherwise commonly applied in market economies. This proved to be even more important at a time when significant concentration processes in international shipping were an effective answer to tonnage over-capacities and generally depressed freight rates.

Secondly, privatisation of the large shipping companies in transition economies has proved to be a lengthy process loaded with conflicts. Even today, the results do not allow for final evaluation of transition. Some companies just started privatisation, others stick in the process of secondary distribution. DSR, for example, –after having gone successfully through the process of privatisation– could be regarded as having finished transition. However, developments made clear that mere change in ownership does not ensure for long term competitiveness, which certainly must be considered as the core criterion for successful transition.

Thirdly, there is evidence that the decisive contribution to the success of transition rests with sound restructuring in connection with complex aspects of privatisation. Here, analysis has exposed unequivocal results of developments so far: former large and very complex shipping enterprises shrank considerably. Apart from the East German carrier, they were not in a position to raise the investment necessary, they rather fall further behind and degenerated to mere niche carriers. The implication of these processes for world shipping is, that shipping companies in transition in Baltic countries have definitely been eliminated from the circle of global players.

Fourthly and lastly, analysis made clear, that the failure of controlling and incentive structures was rather omnipresent. Particularly the former Soviet shipping companies were characterised by biased decision making, by signs of private money making and sometimes also criminal symptoms. In many cases, restructuring concepts focused on ownership and possession rights and primarily supported immediate privatisation aims. Decision makers often sought to maximise control and minimise restructuring costs. Thus, it could be concluded that it is not only the speed of privatisation which is crucial for the success of transition. Instead, strategic reorientation and its implementation is needed for establishing long term competitiveness for the relevant shipping companies.

ENDNOTE

¹ The former Privatisation minister of Poland, Janusz Lewandowski concisely characterised these problems of privatisation as follows: „... How does somebody who is not the real owner, sell something of an unknown value to a person with no money?“ (Lewandowski, 1994).

REFERENCES and LITERATURE

- Beesley, M.E. und Littlechild, S.C. (1992) Privatization– Principles, problems and priorities. In: **Privatization, regulation and deregulation**. Routledge, London, p.23.
- Bishop, M., Kay, J. and Mayer, C. (1994) Introduction: Privatization in Performance. In: Bishop/ Kay/ Mayer, C. **Privatization and economic Performance**. Oxford Univ. Press, Oxford a.o., p.2.
- Blanchard, O. and Layard, R. (1992) How to Privatize. In: Siebert, H., (ed.). **The transformation of socialist economies**. Mohr (Siebeck), Tübingen, p.30ff.
- BMWI–Bundesministerium für Wirtschaft (1997) **Wirtschaftslage und Reformprozesse in Mittel- und Osteuropa**. Sammelband 1997. Dokumentation Nr.420.
- Breitzmann, K.H. et al (1996) **Wirtschaftliche Effekte der Rostocker Seehäfen**. Rostocker Beiträge zur Verkehrswissenschaft und Logistik, Heft 6, University of Rostock, 1996 .
- Breitzmann, K.-H. (1993) Transition from a Planned to a Market Economy; Problems, Tasks and First Results in Shipping of Eastern Germany. In: Gwilliam, K.M., (ed). **Current Issues in Maritime Economics**. Kluwer Academic Publishers, Dordrecht a.o.; p.22-35.
- Breitzmann, K.-H., und von Seck, F. (1994) Market Transition and Privatization in East Germany - the Shipping Case. In: Breitzmann, K.-H., (ed.) **Shipping, Ports and Transport in Transition to a Market Economy**. Rostocker Beiträge zur Verkehrswissenschaft und Logistik, H.3. University Rostock, p.5-26.
- Lewandowski, J. (1994) A man of reform. Interview In: Kaznowski, A. (ed.): **The Coastal Times** - Polands International Business Monthly. Maritimus, Gdansk/Sopot, No. 1(7) Jan. 1994, p.1.
- LLOYD'S Confidential Index**, var. volumes, Lloyds of London Press.
- OECD (1993) Consultations between the members of the maritime transport committee and representatives of NIS and CEE countries. In: OECD (1995) **Maritime Transport 1993**. Paris, p.143-147.
- OECD (1996) **Trends and Policies in Privatization. vol. III, No.1**, Centre for Co-Operation with the Economies in Transition, Paris.
- Preis H./ Skurewitz (1992) **Problemy reformy systemu transportowego kraju ze szczegolnym uwzglednieniem transportu morskiego w latach osiemdziesiatych**. Gdansk/Szczecin, Instytut Morskiego, p.24.
- The WORLD BANK (1996) **World Development Report 1996: From Plan to Market**. In: Executive Summary. Washington D.C., p.7.
- von Seck, F. (1996) Marktwirtschaftliche Transformation und Privatisierung der Seeschiffahrt Rußlands. In: Breitzmann, K.-H. (ed.): **Marktwirtschaftliche Transformation und Strukturveränderungen im Seeverkehr der Ostseeländer**. Rostocker Beiträge zur Verkehrswissenschaft und Logistik, Heft 5. University Rostock, p.7-44.
- von Seck, F. (1997) Strategic Reorientation and Restructuring– The East German Liner Shipping Industry. In: Misztal, K. (ed.) **Economic Reforms– The Maritime Sector in Poland and Germany**. University Gdansk, p.43