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Rethinking maritime cabotage for improved connectivity

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Executive summary

This paper discusses maritime cabotage in the current context of international maritime connectivity. Its purpose is to assist policy-makers in identifying and analysing options for improved connectivity.

Maritime cabotage refers to sea transport between two ports in the same country. It involves different operations and different services serving the domestic, intra-regional and international markets. Service patterns vary depending on whether cabotage is part of a hubs-and-spoke network or a regional short sea service.

Maritime cabotage markets represent considerable business and trade potential, particularly in countries with longer coast lines and in archipelagic countries. From the perspective of supply chain efficiency, maritime cabotage can be of interest to improve door-to-door services as it can enhance efficiency in the logistic supply chain, promote the carriage of larger cargo volumes at lower costs and guarantee service continuity.

Maritime cabotage services are generally excluded from trade liberalization commitments. In addition, cabotage restrictions remain in place in the applied regimes of most countries and take the form of conditions that need to be met by foreign vessels in order to be able to provide maritime transport services between two ports within the same country. Relevant restrictions include, among other limitations, requirements relating to (i) ownership and flagging (related, for example, to foreign equity limits, nationality/residence requirements for crews and managers) and (ii) registration.

The restrictive nature of maritime cabotage regimes is indicative of the sensitive nature of this sector. Originally motivated by security concerns, maritime cabotage restrictions today are more related to building national capacity in shipping to derive revenues and employment benefits.

The present research suggests that some developing countries appear to have succeeded in building their supply-side capacity by implementing certain policies in addition to their cabotage regimes. Meanwhile, a number of other developing countries seem to have faced challenges in leveraging cabotage restrictions in order to build their supply-side capacity. Overall, it would appear that cabotage regimes in these developing countries have not been strictly applied and the use of waivers seems to be common practice. The experience of two developed countries, which had relaxed their respective cabotage regimes in the 1990s, suggests (at least in one of the cases) that although opening up the domestic shipping industry to international competition entailed challenges in terms of domestic trade-offs with different constituencies, it did lead to improved efficiency and reduced freight rates.

Maritime transport connectivity is about the nature of maritime connections, including aspects such as the number of regular maritime services, their frequency and reliability. Maritime transport connectivity is an important determinant of trade costs. Developing countries, in particular SIDS and LDCs, face relatively higher transport costs, given their access to fewer, less frequent, less reliable and more costly transport connections.

Improved liner shipping connectivity can help reduce trade costs and has a direct, positive bearing on trade volumes. In this context, the most important impact of cabotage restrictions in terms of

connectivity relates to restrained competition, which leads to increased costs and less efficient transport operations.

An environment witnessing the deployment of ever-larger ships, cascading of vessels from main trade routes to secondary routes and growing concentration in liner shipping can lead to a possible deterioration of maritime connectivity in many developing countries. In this context, relaxing cabotage restrictions can, in some cases and for some products, present possibilities from the perspective of influencing shippers' distribution strategies, which would positively impact on service quality of shipping lines, port operators and allied industries.

Relaxing cabotage restrictions can help improve maritime connectivity by linking the national, regional and intercontinental liner shipping services. This is because, in the current environment, transhipment and feedering remain key elements of liner shipping operations from the perspective of collecting cargo from spokes ports and transferring it to hub ports and a vital part of filling very large ships. In recent years, several developing countries have relaxed their cabotage regimes as part of their broader strategies to increase competitiveness, improve connectivity and adapt to the new context and emerging trends.

It is important to highlight that, although relaxing cabotage regulation can contribute to improve a country's liner shipping connectivity, achieving this objective is a function of several policy reform parameters related to infrastructure and hinterland development. These include: investing in port facilities upgrades; improving the efficiency of seaport operations; encouraging port competition, including among neighbouring countries' ports and developing connections between ports and their hinterlands through efficient inland transport networks.

Acronyms

CO2	Carbon dioxide
EEA	European Economic Area
EFTA	European Free Trade Association
EU	European Union
I-TIP	(WTO and World Bank) Integrated Trade Intelligence Portal
LDCs	Least Developed Countries
LLDCs	Landlocked Developing Countries
MFN	Most Favoured Nation (principle)
MOC	Ministry of Commerce, People's Republic of China
NZ$	New Zealand dollar
OECD	Organisation for Economic Co-operation and Development
RTA	Regional Trade Agreement
SIDS	Small Islands Developing States
STRI	(OECD) Services Trade Restrictiveness Index
TEU	Twenty-foot Equivalent Unit
UNCTAD	United Nations Conference on Trade and Development
US	United States