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THE POLISH SHIPPING COMPANIES IN MARKET CONDITIONS

Abstract:

At the end of the eighties fundamental changes took place in the Polish shipping. Implementation of the market economy system was at first demonstrated in the introduction of the principles of self-dependence, self-government and self-financing of the shipping companies. Privatization performed a key role in the program of transformation of the centrally planned system into the market oriented financially independent shipping organizations.

The previous principle of necessary participation of the own fleet in transport of own sea-borne trade has been mostly replaced by crosstrade. Many shipping services have left its basic ports in the country for West European basis securing alimentation of home and transit cargoes by feeder - service systems.

Join stock companies in shipping with substantial share of a foreign capital are welcomed and the previously obligatory system of administrative methods of the state monopoly was abolished.

The principles of the shipping policy represented in the past by Poland and also by UNCTAD in 1960s have lost their impact and must be changed and adapted to the new demands of the shipping markets.

TRANSFORMATION OF CENTRAL PLANNED MONOPOLISTIC SYSTEM TO MARKET ECONOMY

The market economy principles based on Adam Smith's theory in his *Wealth of Nations*, advocated free competition and showed the negative features of monopoly.

Most present-day economists present the classical case against monopoly based on a simple explanation whereby, given identical cost and demand conditions, monopoly leads to a lower output and a higher price than does perfect competition.

The steps initiated against monopoly by the governments of different countries, manifested *inter alia* by the American anti-trust laws, have also many examples in shipping practice.

The American negative attitude towards liner shipping conferences representing in the past the features of monopolistic cartels and the process of liberalization of conferences by the UN Code of Conduct for Liner Conferences are examples of the tendency leading to the liberalization of the shipping market.

All economic systems based on principles of the central planned economy represented by socialist and some of the developing countries have treated shipping as an important element of the national policy. Shipping and other branches of the maritime economy of the country have realized the demands of the central economic plan, where the quantitative factors have often been more important than the economic ones.

Competition between different state owned firms and factories was not allowed and governmental funds have often supported less profitable institutions regarded as more important for the realization of the national plan organizations. This has involved transferring financial resources from more profitable economic units.

At the beginning of the 1990s the liberal movements of the Central and Eastern European states were observed carefully and with hope by the Western Countries. In the majority of the ex-socialist countries

the preconditions for the free competition economy had hardly existed. Some consequences of the limited development of competition were also visible in Poland.

Poland which, as the first country in Central and Eastern Europe, has pioneered a radical programme of transformation of her economic system from a centrally planned basis to that of a market economy, at first brought runaway inflation under control. The second step was privatisation and reprivatisation. This was expected to provide a foundation for the efficient operation of a market economy system.

The basic principles of the stabilization programme of the country were:

- Acceleration of private sector development and demonopolization of the economy,
- Price liberalization through the dismantling of administrative price controls and a transition to more general state regulation of the economy by the means of fiscal, monetary, currency and customs policies,
- Development of the banking system and fiscal services sector. This included introducing convertability of the zloty into other convertible currencies at real and stable exchange rates and facilitation for inward capital investments by foreign countries,
- Lifting the state monopoly of foreign trade and liberalization of foreign trade policy by permitting all interested companies to conduct foreign trade activities,
- Opening up the Polish economy to the world, in particular with the European Community, EFTA and neighbouring states of the previous COMECON countries,

- Establishing free trade zone between Poland, Czech and Slovak Republics and Hungary, activation of commercial relation with Russia, Bielorussia and Ukraine and all Baltic states,
- Realisation of a vast program concerning the reconstruction and development of a multimodal transport system integrated with European transport corridors and linking Nordic countries with West, Middle and East Europe including the southern hinterlands of the Baltic ports. Development of the Trans-European North South Motorway (TEM) sponsored by the UN Economic Commission for Europe, including ferry and feeder service connections with Baltic and Northern Sea ports.

As noted earlier, implementation of market principles in the foreign trade organizations and in shipping companies had been most advanced because of their long practice and relatively closer contacts with the international market.

In the past the Polish shipping companies have been operating in various shipping ranges using different forms of cooperation with foreign companies including liner shipping conferences. They have followed these principles ever since. Nevertheless liner operators often had difficulties and problems with the practical measurements applied by liner conferences which have been barely moderated by the rules of the Code of Conduct.

It might be emphasised that the Polish operators are developing an active policy in relation to the conferences, motivating the choice for a member, an associated member or a tolerated outsider by the economic criteria.

ESSENTIAL CHANGES IN THE SHIPPING POLICY OF THE COUNTRY

Dramatic efforts to put Poland's economy back on the right track, indicate an urgent need to formulate the future shape of Polish Shipping. Modernisation of tonnage according to the growing demand of shippers, expansion of domestic and foreign infrastructure, implementation of active manning policy in the fleet and improvement of managerial techniques are some of the most important tasks which have to be considered for further development of the Polish Merchant Marine.

Following the way leading to the Free European Market we have noted with some sense of relief, that European Economic Community is unlikely to see the single, Mega Carrier serving the whole Common Market. Such monopoly would be disastrous to any attempt to build the ground for the right cooperation. By the opening of the Polish economy to the world and its gradual approach to the European Community the previously well-established national shipping policies have been radically changed.

The strategy of opening up the Polish economy to the world, adopted in late 1989 and early 1990, has led to a substantial increase in the foreign trade share in the national income during the last two years. The net share of export of commodities and services (including shipping) in national income increased from 21.5% in 1989 to 30.7% in 1990. In two years, Poland's hard currency exports rose from US\$ 8.5 billion to more than US\$ 13 billion in 1991. The Polish shipping companies have been largely absorbed in crosstrades, diminishing substantially their share in the transport of Polish foreign trade cargoes.

Many shipping services have left their base ports in Poland, for West European bases, securing home and transit cargoes by feeder-service systems.

This situation has radically changed the previously accepted principles of the shipping policy of the country, which had been closely related to UNCTAD's philosophy of the late 1960s.

According to UNCTAD's argument the main advantages a nation's having its own were as follows:

- satisfying the needs of own foreign trade
- accepting the principle of a special value of the national merchant marine for the balance of payments of the country
- strengthening strategic function of the fleet which is derived from the importance of shipping for defence purposes
- building up the international position of the country by membership in the international maritime organizations.

These arguments, which had in the past formulated the principles of the shipping policy of many countries including Poland, have lost their actual value.^{x)}

Generally speaking, the basic arguments of the above-mentioned shipping policy of many countries have lost their actuality and must be changed and adapted to the demand of the new philosophy of the international cooperation, seaborne trade and rational development

x) Compare: Krzyżanowski M.T. 1992: International market and shipping policy.

“Bulletin of the Maritime Institute” vol.19 no.2

of the word shipping.

The maritime transport is faced at present by a need to change its development strategy from extensive to intensive; that is with stress on higher quality, broadening the scope of services, increasing flexibility in shaping structures and so on with a view to economic expansion generally.

These features are being forced by the recently-introduced mechanisms of market and self-regulation which did not exist in the previous central planned economy systems. The growing competition and implementation of the new technologies in shipping as well as the political changes in the world have changed and reorganized world shipping in the 1990s. The structural changes of the market at present may be more easily tackled thanks to technical achievements in shipbuilding and ports, progress in communication systems and massive flow of information data due to computerisation applied on all levels of business management. These factors contribute to flexibility in the decision-making process and better operation of the fleet. But the achievements of individual shipping companies may still vary.

The concept of the national carrier, previously much-appreciated by many countries, is losing its merits even though some of the stronger national lines are still ensuring transport services for the needs of national foreign trade.

Private or state-owned companies, in order to secure their firm position on the highly-competitive shipping market are watching their costs carefully by implementing logistical controls in management and selecting the best types of ships adapted to the changing demands of shippers.

The optimum size of the firm in shipping is influenced by economic, administrative and financial economies of scale. A substantial amount of operators have adapted their previous system of organization and services; simultaneously they have expanded their interest to multimodal transport.

Strong operators may find it easier to answer the challenge of competition in the international market. However, this option does not preclude the creation of new, small shipowners possessing only a few vessels to transport cargoes on shipping ranges which are not interesting from the point of view of the bigger companies. For instance, coastal shipping, almost neglected in our country, could easily be the subject of such activity.

The increase in number of shipowners will broaden the range of transport services. The reconstruction of the system requires substantial changes in law through defining the functions and tasks of enterprises, also some preferences with regard to the newly created firms are needed.

The external economic pressures, ie. liberalization of shipping markets through the increase in number of companies acting in the same field as well as the ownership changes will find full justification in the sphere of shipping activities.

With the need to cope with current requirements of sea transport, as well as to adjust to the existing conditions, the enterprises have attempted to change their organization system. Flattening the organization structures as well as eliminating certain intermediary levels should be judged as desirable development directions.

OUTLINE OF THE REORGANIZATION PROCESS OF POLISH SHIPPING COMPANIES

Shipping in Poland was represented in recent years by three large state-owned companies of strictly specialised range of activities.

It should be emphasised that state companies have operated under the socialist law, based on crew self-government and on financial management of state enterprises. As a result, nobody was acting as an owner, while authority within the enterprises has been split between the management, workers' council and trade unions. These three forces, with conflicting interests, still exist under the legacy from the previous political and economic system.

This is the main reason why enterprises have to undergo ownership restructuring, including the necessary changes in the organizational, legal and management structure of the enterprises. Only in the next stage they will be fully subjected to open international competition.

As mentioned above, the shipping companies are already better adapted to the world market demands in comparison with other Polish enterprises. Nevertheless the problem of uniform and efficient management is still present, though this situation varies between different companies.

The Polish Ocean Lines (POL), based in Gdynia, have been operating liner vessels since 1970. They are involved in containerised multimodal transport at present. The biggest task the company faces is that of catching up with the tonnage restructuring and modernisation, especially in the introduction of specialised container ships instead of worn-out conventional vessels.

Apart from sea-transport POL are occupied with land transport

using their own containers and trucks. The road stock (trucks, trailers and semi-trailers) is operated in Poland, in European transit countries and also on the territory of USA where POL are operating most of their own containers, trailers and trucks.

The fleet of the company decreased from 125 ships totalling 1 million dwt in 1985 to 85 ships of 817 thousand dwt in 1992.

Within the same time the share of specialised tonnage has considerably increased and the conventional tonnage has been sold out or scrapped.

The company is co-operative with many shipping conferences and foreign owners in developing joint services. The basic form of the present organisation is that of a holding company with many smaller companies representing Polish and foreign capital. The process of further reorganization of POL is still going on.

The Polish Baltic Shipping Company (PBS) based in Kołobrzeg operates car and passenger ferries on 4 permanent and 4 seasonal shipping lines, as well as small cargo ships up to 2000 dwt, operating in Baltic and North Sea areas. Moreover PBS manages certain small ports in the middle part of the Polish coast as well as ferry terminals in the ports of Gdańsk and Świnoujście.

In this company, as in others, economic and financial conditions of the business are constantly modified, improved and adapted to the new market conditions. The changes in the organisation system are based on simplification of structures leading to full privatisation in the framework of joint-stock company.

The Polish Steamship Company (PSC) in Szczecin is the largest of the Polish shipping enterprises and most advanced in their restruc-

turing process adapting the company to the new and highly developed market conditions. From 1970 PSC became a tramp owner/operator, with no restrictions as to range and capacity. In the 1980s profound changes in the organization of the company took place resulting in complete financial independence and full internal responsibility arising from the changing market conditions.

A joint stock company under the name „Żegluga Polska S.A.” was established. The vessels of this company have been managed by PSC and close cooperation between both companies is being developed and maintained. This shipping group operates a fleet of bulk carriers and tankers of a size between 2,800 dwt and 150,000 dwt, singledeckers, both geared and gearless. At the beginning of that period more than 90% of cargo carried by PSC vessels consisted of bulk cargoes loaded and unloaded in Polish ports. The cargo carried in cross trade was only a small fraction of the total transported goods.

At the end of the eighties, when the quantity of bulk cargo exported and imported drastically decreased, their tramp fleet was increasingly employed in worldwide cross trades. Flexibility, well-grounded foresight of events to come and organisational mobility have secured profitable employment on the market to the fleet of about 3 million dwt of sizes between 3,000 dwt and „Panamax”. It has to be emphasised that the development of bulk fleet was not backed by government funds or subsidies. In the period of martial law in the country the company have managed to meet their financial obligations on time. This fact, among others, has contributed to the positive reputation of the company.

In 1992 PSC owned and operated 113 vessels of total dwt capacity 3,011,057 ton of which 108 were dry bulk carriers of 2,834,805 dwt.

Even though the company is still state-owned, it is totally independent in decision-making and in accepting the burden and risks. They have to pay taxes without any hidden deductions or any special clauses in favour of the company, and are not receiving any subsidies or other funds from the government.

As discussed before, there are restrictions arising from old legislation. Still it takes the parliament too much time to introduce the new legislation better adapted to the new demands, meeting the requirements of market conditions.

Decisions of the Director General concerning the vital projects of the company cannot be realised without reaching consensus with the worker's council (council of employees) and four trade unions.

The management and staff of the company believe in the importance of their professional skills and the market economy, being averse to all forms of state interference. In handling the problem of privatisation of a large shipping company with assets worth over one billion US \$ they are going to transform the Polish Steamship Company into a holding company and Żegluga Polska S.A. /Polish Shipping - j.s.c/ to become the fleet owner and operator.

The financial situation of the company depends on the level of freight/charter rates on the bulk market mainly in the segments of Panamax and 30-40,000 dwt. The seasonal fluctuations of freights and longer periods of recession have a direct impact on profit (before tax) which was about 40% in 1992.

The high level of interest of the home banks, for instance: 52-43% in 1992 and 43-40% in the first quarter of 1993, makes it difficult to arrange the financial projects, eg. contracts with shipyards, and the

realisation of ships constructed earlier and a hotel-office centre.

The main tasks of the company for the near future are:

- 1/ modernisation of the fleet
- 2/ further diversification of PSC activities
- 3/ uninterrupted cash flow
- 4/ well-prepared transformation into a joint-stock company

This programme of ownership and organisational restructuring, adapting one of the companies to the demands of market conditions, could be extended to the other shipping enterprises mentioned above.

The range of possibilities in realising the assets of those companies is necessarily strictly connected with their present economic position and reality of program of future developments. One of the important tasks which concerns all the companies and must be implemented as soon as possible is a modern information system.

The companies have already started to modernise the hardware and implement new systems.

Apart from the control and monitoring of individual ship's machinery and equipment, computers installed on board are also used for other purposes, eg. for the calculation of optimum ship's speed, materials and spare parts management, repairs, supplies, technical operation of the fleet, calculation of economic effectiveness, finance and bookkeeping, wages and personnel records, control of cargo movements etc.

The dispersal of sources of input data, and of decision making centres is forcing: shorter intervals from preparing the information to the moment it is accessible in the system, reliability, large geographic range, high flexibility, the need to connect new users to the system quickly and efficiently; as well as the possibility of working with world-

wide and local communication system eg. General Electronic, Tymnet, Datex-P etc.

As already mentioned, shipping companies are applying many information systems, which are constantly being improved and enlarged with regard to the world's standards.

The work is carried out by computing centres in the companies, by specialised information departments or centres, universities and appropriate research teams.

In the last years the process of informationisation has received its proper standing in the economy of the companies and information is generally acknowledged as an important and indispensable tool used to improve the economic effects of the shipping companies.

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