

# 極東地域 러시아 海運私企業의 出現과 韓國近海海運에 미친 影響에 관한 研究

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A Study on the Emergence of Private Shipping Enterprise in Far East Russia and their  
Impact on Korean Shortsea Shipping\*\*

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## 요 약

1992년 전반기에 우리나라에 근해해운기업 3개사가 도산하였으며 많은 근해해운기업이 심한 경영상의 어려움을 겪고 있다. 그러한 도산이유를 대별하면 기업 내적요인과 기업 외적요인으로 나눌 수 있을 것이다. 이 논문에서는 기업외적 요인의 하나로서 근해지역에 있어서의 선박의 과잉공급과 운임의 덤핑을 상징하고서 최근 소련의 연방해체이후 극동지역에서 생성되기 시작한 러시아의 해운사기업의 생성배경 및 경영 형태를 분석하고, 그러한 러시아의 해운사기업이 보유하고 있는 선박이 우리나라의 근해해운시장에 미치는 영향을 살펴본 뒤 이에 대처하기 위한 우리나라 해운정책의 기본방향을 제시한다.

이 논문의 목적을 달성하기 위하여 사용된 연구방법은 문헌조사, 현장조사 그리고 면접법이다. 본 연구는 러시아 해운사기업의 생성근원이 되는 국영해운기업, 실제로 극동지역에서 경영되고 있는 러시아의 해운

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기업 및 러시아 연방정부의 교통부산하 해운국을 방문하여 각 조직의 최고 책임자 및 주요 인사를 대상으로 면접과 현장조사를 실시하였으며, 일본 및 러시아의 해운연구기관의 주요인사와 우리나라의 해운기업의 최고경영자들도 본 연구의 면접대상에 포함되었다.

이 연구에서 도출된 주요 결과로서는 첫째, 러시아의 해운사기업은 소련연방산하에 있었던 국영해운기업에서 제공된 매우 낮은 용선료의 선박과 우리나라의 근해선사 또는 대리점과의 노우 하우(know-how)의 결합에 의해 생성되었으며, 둘째, 그러한 메카니즘에 의해서 우리나라의 근해지역에 영업활동중인 러시아 선박은 재화중량톤수 약 4천 내지 5천톤에 해당하는 하천·해상 형태(river sea type)의 살물선으로서 총 40여척에 달하고 있으며, 셋째, 그러한 선박의 용선료는 1992년 3월 현재 우리나라 근해해운시장에서 형성된 용선료수준의 50% - 60%에 해당하며, 넷째, 우리나라의 근해화물을 원활하게 확보·수송하기 위하여 일부의 선박은 편의치적국의 선적을 이용하여 운항되기도 하였다.

이 연구의 결과를 바탕으로 한 정책적 제언은, 경영기술, 자본력, 선박의 질적수준 및 경쟁의 측면에서 일본보다도 취약한 상태에 있는 우리나라의 근해해운을 성장·발전시키기 위해서는 정부는 먼저 연안해운에 적용시키고 있는 면허제도를 점진적으로 개방화시켜 우리나라의 연안해운의 자본력을 증강시키고 경쟁원리에 의한 경쟁력을 제고시켜야 하며, 제2선적제도의 발달과 해운경영의 국제성에 맞추어 근해해역에서 활동하는 우리나라의 선박에 대해서 부분적으로 선박의 국적을 점차 개방시켜나가는 정책을 검토해야 할 단계라는 것이다. 이러한 점에 있어서 지난 30여년간 외항해운부문에 중점을 두어온 우리나라의 해운정책은 이제 근해해운정책의 개발에도 관심을 기울여야 하는 전환점에 있다고 할 수 있을 것이다.

## 1. Introduction

Since the reorganisation of Korean shipping industry in 1984, three shipping companies were bankrupted during the first half of 1992<sup>[1]</sup>. It was a really shocking event, though rather expected. They have mainly engaged in Korea/Japan/China trading area. What made them bankrupt? This question was raised by some shipping interests in Korea.

There are many reasons for shipping business failures, simply speaking, internal and external factors. It seems to me that most shipowners tend to blame them for external factors—lack of government subsidies, protectionism of their competitive countries, increase of shipping costs, excessive tonnage in a certain route, etc. So did the Korean

shipowners. We can cite many similar examples in foreign countries from literature surveys. However, they added one factor more, which has never been considered before 1988 in Korea: dumping freight rate of Russian as well as disguised ships. In Korea the term "disguised ship" is commonly used to describe the flags of such countries as Panama, Liberia, Honduras whose laws allow ships owned by Korean national or shipping companies or shipping agents to fly these flags in Korea/Japan/China/Russia trading area. Many Korean shipowners maintained that such ships disturbed a stable and protected shipping market in Korea and played a major role in resulting in their business failures.

It is felt that the validity of this argument must be tested by field surveys and reliable evidence<sup>[2]</sup>.

1. They are Jang Yung Line Ltd., Boyang Shipping Co., Ltd. and Samjung Shipping Co., Ltd.

2. S. G. Sturmev, *British Shipping and World Competition* (London: The Athlone Press, 1962), Chapter 1.

It is difficult to make precise assessment of the impact of Russian and disguised ships on Korean shipping market since it is impossible, for one thing, to acquire a complete set of statistics of them carried by each line. Secondly, it seems to us that the argument which Korean shipowners made was not open to the general public for inspection and, in addition, was not based on reliable data. Consequently, we are forced to rely almost entirely on national and international interviews, mostly contemporary, to acquire sources for information about the operations of such ships.

Organisations with which the author had interviews from April to July 1992 are as follows :

- (a) Japan Maritime Research Institute in Tokyo
- (b) United Orient Shipping and Agency Co., Ltd. in Tokyo
- (c) Lena River Shipping Company in Yakutsk
- (d) Arctic Shipping Company in Tiksi
- (e) Far Eastern Shipping Company in Vladivostok
- (f) Amur River Shipping Company in Khabarovsk
- (g) Primorsk Shipping Company in Nakhodka
- (h) Black Sea Shipping Company in Odessa
- (i) Department of Merchant Marine under the Ministry of Transportation of Russian Federation in Moscow
- (j) Seven private shipping companies in the region of Primorsk, including Vladivostok, Nakhodka, and Khabarovsk
- (k) Four Shortsea Shipping Companies and three shipping agents in Korea

Much of the information acquired by interviews consists of very fragmentary evidence and, except in few cases, it was virtually impossible to construct a reasonably reliable series of data which could be used to test the argument posed by the Korean shipowners. Nevertheless, despite the un-

systematic data, it is possible to make one or two observations, though we should be warned against placing too much reliance on them.

Although the primary purpose of this paper is to test the argument by using the information and data acquired by interviews I had carried out, there is a secondary objective, namely to look into the prospects of the Korean shipping policy as a whole to changing circumstances.

## 2. Economic cooperation in Northeast China, Russian Asia, and North and South Korea.

Two-thirds of Russian territory is within the Asia Pacific region and, as a result of the development of Siberia and the building of new trans-Siberian railroad, the weight of the Russian Federation in the Asian Pacific economy is bound to grow. In 1991 an organisation for exchanging human and physical resources between the City of Pusan and the City of Vladivostok was established and its name is the Pusan-Vladivostok Friendship Association, whose members consist of mayors, businessmen, politician and scholars of both cities, e.g. members of National Assembly of Korea and the City Councilors, key figures of the Pusan Chamber of Commerce and Industry. Following this progress, on the 30th June 1992, the City of Pusan, one of the largest container ports in Asia, had sister-city agreement with the City of Vladivostok, which was changed from a military port to a commercial one from January 1992. These movements will contribute to promoting and accelerating economic cooperation.

Over the longer run, Siberian gas, oil, and timber are likely to be important factors in the region's economic dynamism, to gain the benefits of growing trade and access to sufficient capital and advanced technology, and to use expanded inter-

national economic ties. The motive of the more rapid and comprehensive economic development of the Russian Far East and its closer integration into the Asia-Pacific region was coupled with the Vladivostok Declaration that Vladivostok itself might become "a major international centre...a seat of trade and culture...an open window to the East."<sup>[3]</sup>

The progress in talks and restoration of full diplomatic relation between China and Russia recently created a relaxation of tensions along the border, with increased trade, tourism and cultural exchanges. More importantly, China is eager to establish a special free trade zone within the area of Northeast China with the cooperation of Korea and Japan, and China has been implementing that plan.

Meanwhile, there are some signs that reflect the opening of North Korea. First, North Korea appears to be in the midst of a severe foreign exchange crisis as well as crises of rationality, legitimation, and motivation. Second, North Korea seems to be under pressure from its allies, mainly China and Russia, to open its society and to improve its economic performance. Third, relations between North and South Korean have tremendously improved in recent years even though major political differences and the way of nuclear surveillance remain. Recently, presenting its own development plan in cooperation with UNDP, North Korea declared to give an opportunity to invest within the framework of the Golden Triangle to South Korea. Moreover, South Korea is also promoting its depressed economy since 1990 and ensuring its own survival by becoming an indispensable economic partner of the neighbouring

countries. South Korea believes that it is very much in Korea's interest, in both the short and the long term, to promote regional economic cooperation and to secure political stability.<sup>[4]</sup>

The impact of the above economic and political developments on foreign trade can easily be identified through statistical tables published. In the period of 1985-1989, Korean foreign trade with China grew from 1,161 million US \$ to 3,143 million US \$, i.e. increase at annual rates of 28.3 %. In the same period, the value of Korea's trade with Russia grew by 6 times, i.e. from US \$ 102 million to US \$ 600 million annual rates of 55.7 %. The value of trade between North and South Korea has increased from US \$ 22 million in 1989 to US \$ 25 million in 1990. Although its size is small and most of it consisted of South Korea's import goods, this is a remarkable event when we consider that no direct and indirect trade was apparently transacted before. Unfortunately, we were not able to acquire consistent data concerned with the volume of seaborne trade in Korea. In the case of quantum data of principal cargoes being unavailable, the data of their value, as an alternative, can be used to estimate their quantity indirectly.

Employment of shipping is mainly dependent upon the volume and pattern of seaborne trade. The size of shipping tonnage is, therefore, ultimately governed by the volume of seaborne trade, the distances over which it is transported and the efficiency of seaports. The scope for employment of tramp shipping and its growth are dependent upon the volume of bulk cargoes in import and export trades of a country apart from international cross trades in which it can participate.

3. *Eastern Economic Review*, 11th September, 1986.

4. David Lee, "Newly Industrializing Areas in the Asian Pacific Economic Cooperation", Joint Seminar between the Association of East Asia Studies and the East Asia Research Group, 22-23 February, 1992, Pusan, Korea, p.15.

Since road and rail transportation system was not available between North and South Korea at the moment, all trade goods in the trading area of Korea/Japan/China/Russia must be carried by sea. Major bulk cargoes transported in the area consist of iron and steel, coal, crude oil, timber, and cement.

### 3. Emergence of private shipping enterprises in Russian Aisa and their impact on Korean shortsea shipping.

Let us now turn our attention to the argument posed by some Korean shipowners, centring on Russian as well as disguised ships.

It is worthwhile to discuss how they entered and made inroads into Korean shipping market and what their competitive factors compared to those of Korean national ships are. As a preparatory stage to this, it is necessary to note that

whatever their size and business performances are, more than ten private shipping enterprises were established in Russian Asia area, e.g. in Vladivostok, Khabarovsk, Nakhodka, and Yuzhno-Sakhalinsk within last two years. It seems to us that notable ones are mainly located in Vladivostok and Khabarovsk.

For Russia where shipping finance cannot be sufficiently raised at home, capital in hard currency is scarce, the investment barrier is one of the most serious obstacles to the development of private shipping enterprise<sup>[5]</sup>. Moreover, in Russia finance for purchase of second-hand ships is even more difficult to obtain from abroad and there was no original accumulation of capital in the private shipping sector. However, it is noted that a peculiar mechanism was generated Asia Russia as showned in Figure 1.

Figure 1 shows the parties as they stand in legal and financial relationships to each other in a

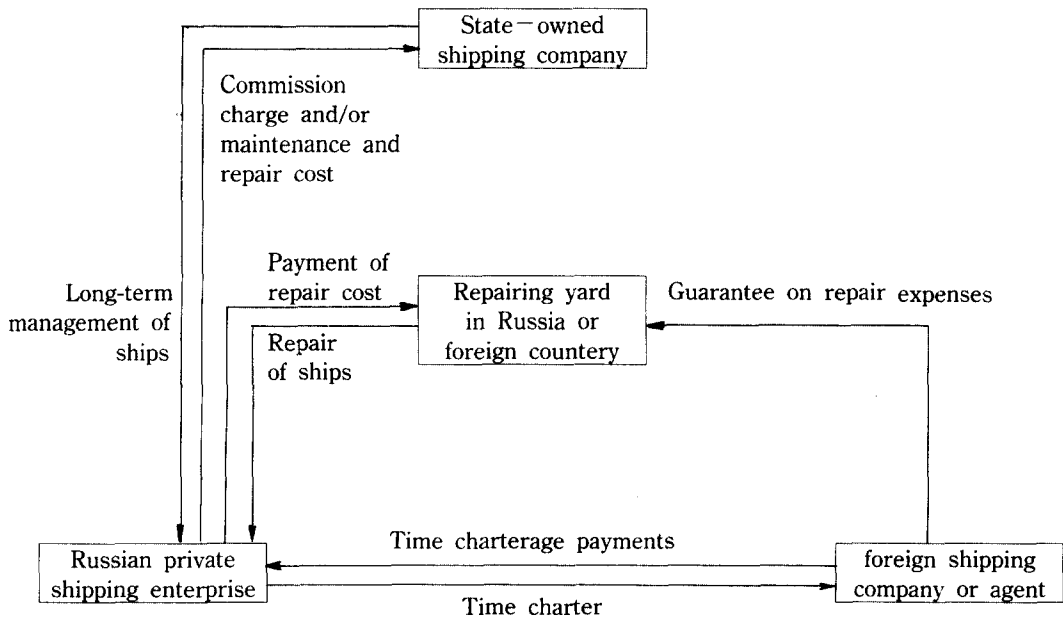


Fig 1. The Mechanism of a Ship Acquisition.

5. On the Soviet Shipping, see S. Bergstrand and R. Doganis, *The Impact of Soviet Shipping*(London : Allen & Unwin, 1987) and D. M. Long, *The Soviet Merchant Fleet*(London : Lloyd's of London Press, 1986).

typical mechanism of ship acquisition. Its events may be described as follows :

(1) The long-term management of ships, in which a state-owned shipping company gives a title to a private shipping enterprise in exchange for maintenance and repair costs of ships. Owing to deteriorated economy in Russia, most state-owned shipping companies in Russian Asia had a sizeable overcapacity of merchant ships. In addition to this, they have periodically idle tonnage during winter time. As a result, they could not make earnings even enough to maintain and repair their retained tonnage and, hence, some vessels are committed to the private shipping enterprise to cover their maintenance and repair costs.

(2) The Russian private shipping enterprise charters the ship out to a foreign shipping company or agent on the basis of time charter agreement with very low charterage.

In a time charter, a fully-manned and provisioned ship is hired by the shipowner to the charterer for a fixed period at agreed rates per deadweight ton. In the customary time charter provisions, the shipowner pays the insurance premium, crew wages, cost of stores and repairs, but not fuel costs; the charterer pays fuel, port charges, some crew overtime and loading and unloading expenses. However, it was confirmed by the field survey that even fuel costs were on Russian shipowner's account in some chartering contracts with Korean partners. In this case, 48 hours are exempted from off-hire clause for him. It may be due to the relatively cheaper bunkering costs in Russia rather than in Korea.

(3) When an old ship is required to be repaired in Russian or foreign shipyard for reactivating her, repair costs were sometimes covered by loans of the security of time charters between Russian and foreign parties.

(4) The accumulation of capital by net revenue

after operating and other costs were deducted from time charterage, which plays a major financing source to purchase the ship from the state-owned shipping company.

A simple calculation showed me that a Russian shipowner could purchase a river/sea type of bulk cargo vessel of 4,000DWT 15 years old within two years, given present contract conditions made between Russian and Korean partners.

(5) The execution of maintenance and repair by the private shipping enterprise, which promises to keep the ship at a certain level, and/or commission charge is paid to the state-owned shipping company as a type of dividend when the private shipping enterprise made net profits through operating the ship. It was found that although it made really considerable net income through this mechanism, so far the private shipping enterprise has never paid part of its profits to state-owned shipping company. It opens normally its bank account in the third countries with the help of its charterer and it makes its net income nearly zero through internal transfer pricing procedures or paper working on its financial statements, e.g. accounts of maintenance and repair expenditure, agents charges, and crew's provisions in an income statement.

It was also confirmed by the field survey that some private shipping enterprises imported consumer and industrial goods from foreign countries with the capital saved at a bank in the third countries and made huge commercial profits. Type were mainly carried by its ship chartered under the mechanism, which was supplied with bunkers on Russian shipowner's account as mentioned in (2). This means that the private shipping enterprise first accumulates capital through shipping business and, in turn, changes the shipping capital into commercial one and speeds up turnover rate of capital.

(6) The execution of the time charter party by foreign shipping company or agent as the charterer, whereby the charterer promises to make periodic time charter payments.

According to surveys made recently in 1992, under this mechanism, though some differences case by case, Russian fleet totalled 21 vessels of 73,500DWT (an average size of 3,500DWT). For our references, it is very interesting to note that numbers of Russian ships calling at Port of Pusan are 85 in 1989, 263 in 1990, 683 in 1991 and 298 during the period January—April in 1992.

Let us draw some implications from the mechanism of ship acquisition described above.

Above all, a Korean charterer can employ a fully Russian manned ship without any trouble caused by crew's nationality in trading area of China and North Korea, unlike Korean flagged ships.

Moreover, a Korean shipping company or agent could enjoy very low time charterage, compared to his competitor, e.g. half of normal time charterage in Korean market, chartering ships from a Russian partner under this mechanism.

This big differences in time charterage enabled the Korean charterer to have competitive power rather than Korean national shipowners and thus, at the initial period, he was able to make a profit through this mechanism. However, owing to economic depression, including contraction of building construction in Korea since 1990, the volume of seaborne trade declined considerably from this year—for example cement between China and Korea and timber between Korea and Russia. As a result, it is reported that there is a sizeable overcapacity of bulk cargo ships and trade growth is unlikely vigorous to absorb the surplus within 2 years in Korea. Since cheap time charterages in themselves do not tell the success, from the charter's point of view, he can make profits only when freight rate is higher than time charter hire base.

The Pacific Ocean Transportation Conference (POTC), which was established in 1990 and consisted of five state-owned shipping companies, i.e. Arctic Shipping Company, Far Eastern Shipping Company, Sakhalin Shipping Company, Kamchatka Shipping Company, and Primorsk Shipping Company<sup>[6]</sup>. This organisation aims to cooperate and promote their shipping business and to remove unfair transactions and the discriminatory practices imposed on their ships by other organisations in Russia as well as abroad. It is also unlikely to happen that a charterer could continuously make advantages of dumping time charterage.

For example, regulatory procedures and ways on dumping time charterage by private shipping enterprises were included in the top agenda of the 14th Conference, which was recently held in Vladivostok. A key member of POTC said that "many data of some concrete cases of dumping time charterage were collected with reliable evidence by a special committee and we will urge the state-owned shipping companies concerned with this matter to retribute their ships from the private shipping enterprise and otherwise we will impose various powerful and strict restrictions on them".

Four ways to restrict them he suggested are (1) to prevent ships concerned from using Russian ports, (2) to stop them bunkering in Russian territory, (3) to prohibit them from using repairing shipyard in Russia, and (4) to reject their request of certificate of Russian ship's classification. It is unlikely that they are strongly workable for the purposes. The reason for this is that the ships can be not only registered in open registry countries but also repaired in third countries with the help of their charterers or agents. In addition, since prices of bunkers are sharply increased in Russia, much differences in them are not existed any more between Russia and other countries.

6. On Russian shipping organisations, see Appendices in the paper.

Meanwhile, thanks to widespread information on chartering market of river/sea type vessel in the trading area of Korea/Japan/Chian/Russia, the state-owned shipping company which had delivered their vessels to private shipping enterprises began to find their own chartering partner in order to make profits through a way similar to the mechanism as presented in Figure 1 as the demand for such ship with low charterage increases in the above trading area. Thus, time charterage has begun to relatively increase in recent and amounted to two-thirds of its normal level in Korean shipping market.

#### 4. Impact of "disguised ships" on Korean shortsea shipping

Before we discuss the impact of "disguised ships" on Korean shortsea shipping market, it is likely worthwhile to look into why such have appeared. We would like to point out the following, which are of prime concern for Korea's shortsea shipping interests.

First, Korea's shortsea shipping market is protected and severely regulated by the government. It is not easy for even Korean national to freely enter the market. Those who want to set up a shortsea shipping company should purchase more than one existing ship with a license of shortsea business. Thus, the value of the ship is absolutely higher than its market value because it includes high price of a kind of goodwill. The government fixes numbers of ships with the license by ship type at a certain period. Therefore, when a shipowner finds a big cargo owner with the contract of affreightment (COA) and wants to carry cargoes with his own vessel, he can approach three alternatives to secure shipping tonnage: (1) time chartering, (2) additional purchase of a pro-

per vessel with the license, and (3) to buy any vessel with the license, when a proper vessel with the license is not found, and to substitute it with a proper ship. In the case of (3), he has to buy two ships and thus, the license of shortsea business is taken off from the former and is transferred to the substitute vessel and the value of the former is sharply down to a scrap price. It is allowed to transfer a license to a substitute ship on the basis of one to one, disregarding size of shipping tonnage of the substitute less than 5,000 DWT.

When he has not sufficient capital to purchase a ship with the license and/or a substitute ship but has a long-term COA, a shipowner is forced to rely on either a time chartered vessel or "disguised ship." If he is not satisfied with the charterage of the former, he probably consider the latter as an alternative. In such circumstance, he is able to buy old vessel at cheaper price than a ship with the license and to register her in Panama, Liberia, Honduras whose laws allow ships owned by him to fly their flags. That is to say, a "disguised ship" is created. As far as shipping costs and flexibility of shipping management are concerned, it enables him to compete with time charterer or Korean national shipowner.

Second, the competitive power of Korean flagged merchant ships has deteriorated rapidly owing to sharp increase of crew wage and lack of seaman labour. This was coupled with the above first reason and accelerated the emergence of disguised ships, which can be benefited from lower crew costs and less regulations than the Korean national ones.

Third, disguised ships could freely ply to and from China or North Korea without say obstacles caused by flag, unlike the Korean flagged ships.

Fourthly, the financial condition of shortsea



shipping companies has deteriorated and their know-how in business management is relatively both low and unsystematic.

Fifth, there are too many small size shipping companies not enough to rationalize and vitalize their shipping management at shortsea shipping market in Korea.

Sixth, the reorganisation of Korean shipping industry has led the government to impose detailed regulations on shipping management and, in turn, has resulted in weakening the capacity or ability of shipping companies rapidly and flexibly responding to changing circumstances.

Thus, a disguised ship can be used for not only avoiding the government regulations but also saving shipping costs. However, it seems to us that not a few disguised ships which the Korean shipowners have are sub-standard ones on the basis of IMO regulations. These must be checked by the port state control system.

It was reported by one organisation that about 80 disguised ships by tramp were employed in shortsea shipping market in Korea in April 1992. At this moment, it is difficult scientifically and systematically to quantify their impact on the Korean shortsea shipping market. However, it is sure that they played a leading role in highlighting advantages of opening Korea ship registration and in triggering discussions on its possibility and economic consequences and disturbed to some extent the Korean shortsea shipping market.

## 5. Conclusion

This paper tried to test the argument the Russian and "disguised" ships played a major role in disturbing Korean shipping market. Although the test was not satisfactorily carried out owing to unsystematic data and fragmentary information

acquired by interviews, some useful observations has been made not only on the mechanism of emergence of private shipping enterprises in Russian Asia and their management behaviour but also on the causes of creation of disguised ships in Korea and their implications on the Korean shipping policy.

It seems to us that the government paid much attention to oceangoing sector of Korean shipping policy rather than to its shortsea shipping until recent years since the First Five Year Economic Development Plan in 1962. In other words, in spite of its importance, Korean shortsea shipping has attracted a relatively little attention from the government and maritime researchers. As discussed earlier in this paper, economic and political cooperation between China, Russia and North and South Korea tends to increase seaborne trade volume and thus causes to develop shortsea shipping between these countries. This means that Korean shortsea shipping became more important sector than before.

Under these circumstances, we would say that now Korean shipping policy is at a turning point and should proceed in the direction of making efforts to let the shipping companies acquire enough competitive power to be able to cope with Russian and disguised ships, including Chinese ships which has not been discussed in this paper.

Moreover, the government must give more efforts to encourage and promote the shortsea shipping sector than before. This should be based on the philosophy of removing any unnecessary intervention enough to distort capital market principles and on the recognition of peculiarities or characteristics of the shipping industry. Thus, the government must abolish or deregulate inefficient and unnecessary governmental regulations so that shipping companies can restore vigor and vitality of their self-control management.

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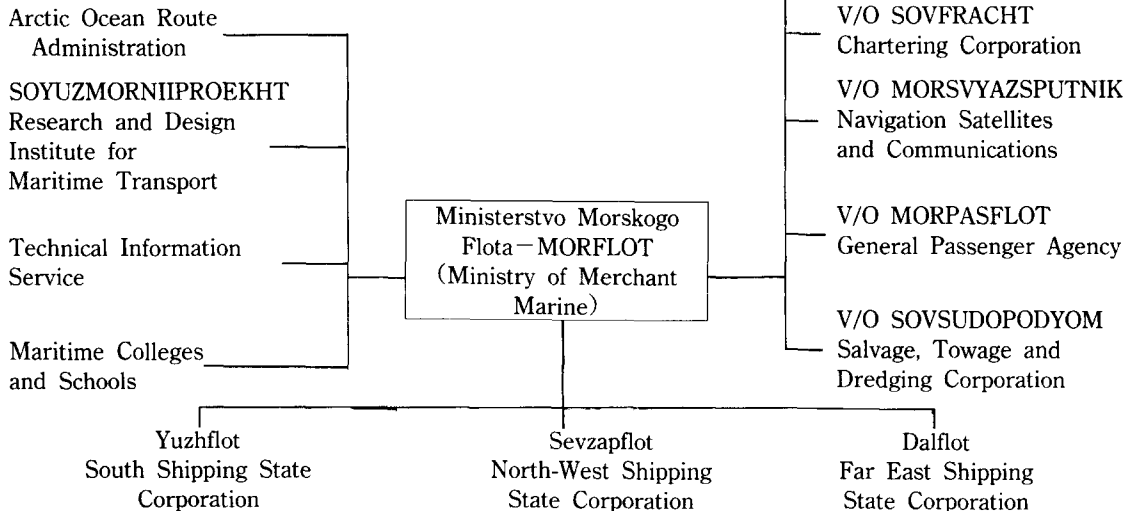
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Appendix 1. USSR Shipping Organisation

Fully dependent organization

Semi-autonomous organization

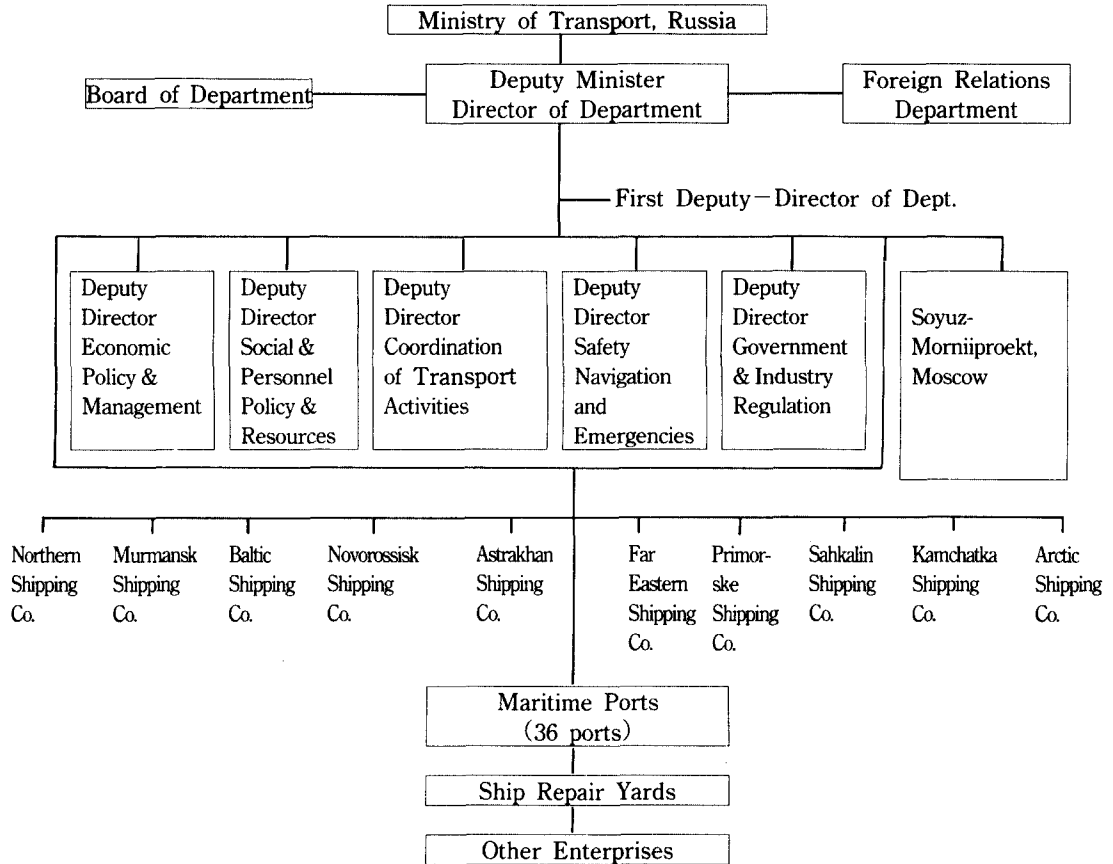


1. Capitan Shipping Co.
2. Georgian Shipping Co.
3. Novorossiysk Shipping Co.
4. Soviet Danube Shipping Co.
5. Azov Shipping Co.
6. Black Sea Shipping Co.

1. Lithuanian Shipping Co.
2. Latvian Shipping Co.
3. Estonian Shipping Co.
4. Baltic Shipping Co.
5. Murmansk Shipping Co.
6. Northern Shipping Co.

1. Kamchatka Shipping Co.
2. Sakhalin Shipping Co.
3. Primorsk Shipping Co.
4. Far East Shipping Co. (FESCO)

Appendix 2. New Shipping Organisation in Russia



Note : This chart was acquired by the author in Moscow in July 1992 and was translated into English by Mr. Vitali Serebriakov of SOYUZMORNIIPROEKT. I am grateful to him for his work.