International Transport Forum

The Impact of Alliances in Container Shipping

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European Sectoral Social Dialogue Commission for Ports
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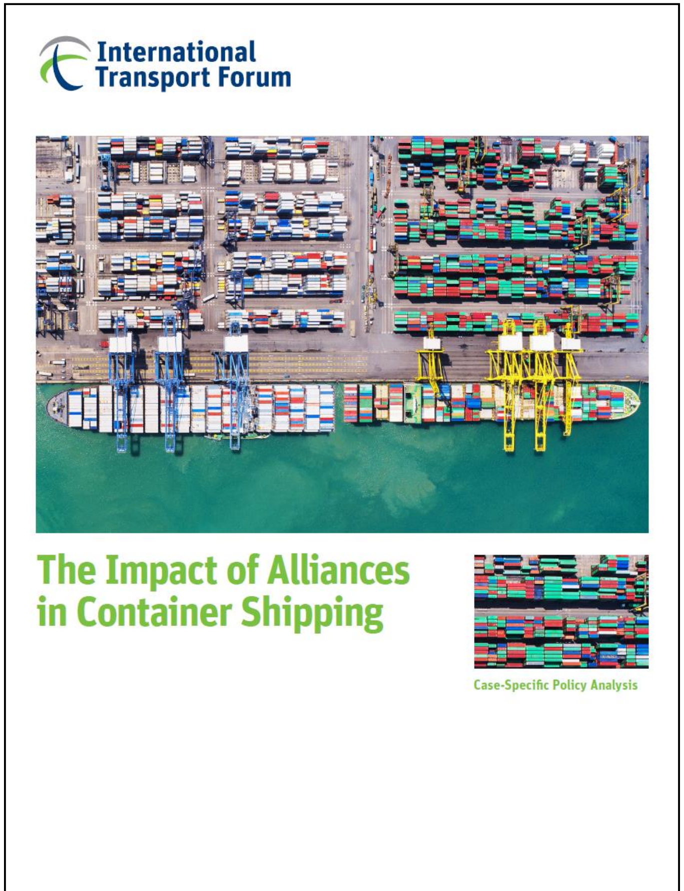
OECD

International Transport Forum

New report



At the request of:

- Italy Ministry of Infrastructure and Transport
- Puertos del Estado (Spain)
- Hamburg Port Authority

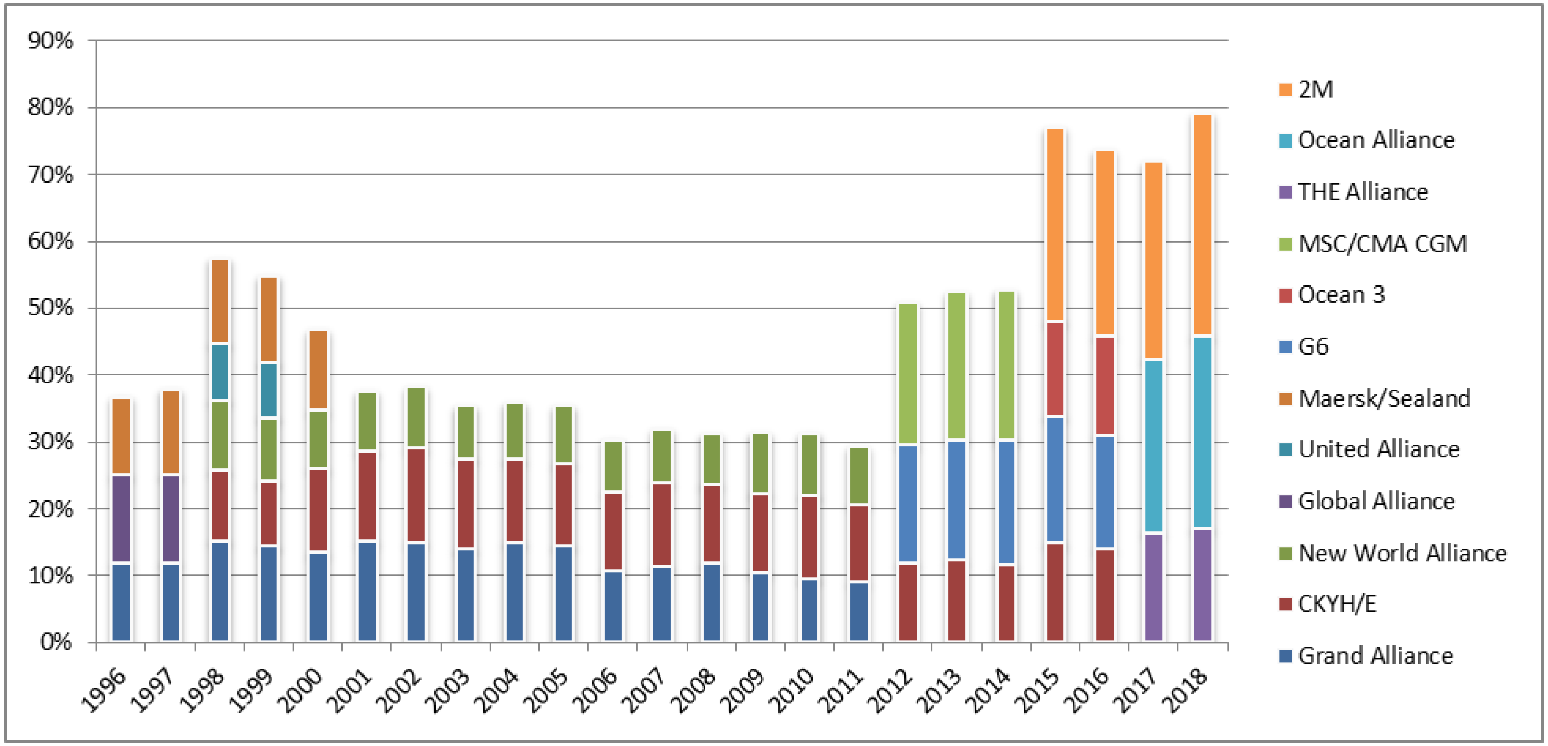
https://www.itf-oecd.org/impact-alliances-container-shipping

Outline

1. What is an alliance?
2. Impacts on the transport system
3. Impacts for transport stakeholders
4. Implications for policy

1. What is an alliance?

Dominant feature of current container shipping industry



Global market share (container carrying capacity) of global alliances (1996-2018)

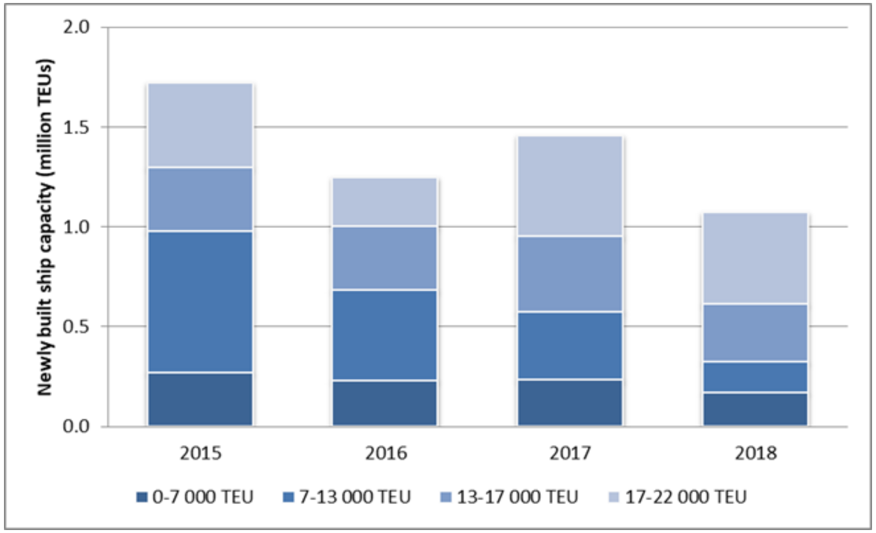
1. What is an alliance?

Transformed into tool for the big players

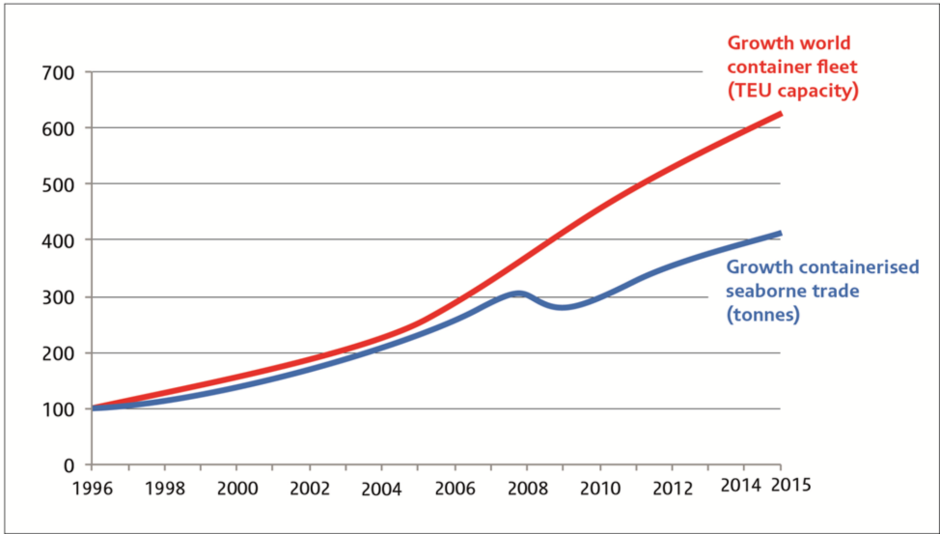
Alliance	Carriers	Global market share (%)	Global carrier rank
2M	Maersk	19	1
	MSC	15	2
Ocean Alliance	Cosco-OOCL	12	3
	CMA CGM	12	4
	Evergreen	5	7
THE Alliance	Hapag-Lloyd	7	5
	ONE	7	6
	Yang Ming	3	8

2. Impacts on transport system: efficient? (1)

Alliances are linked to overcapacity



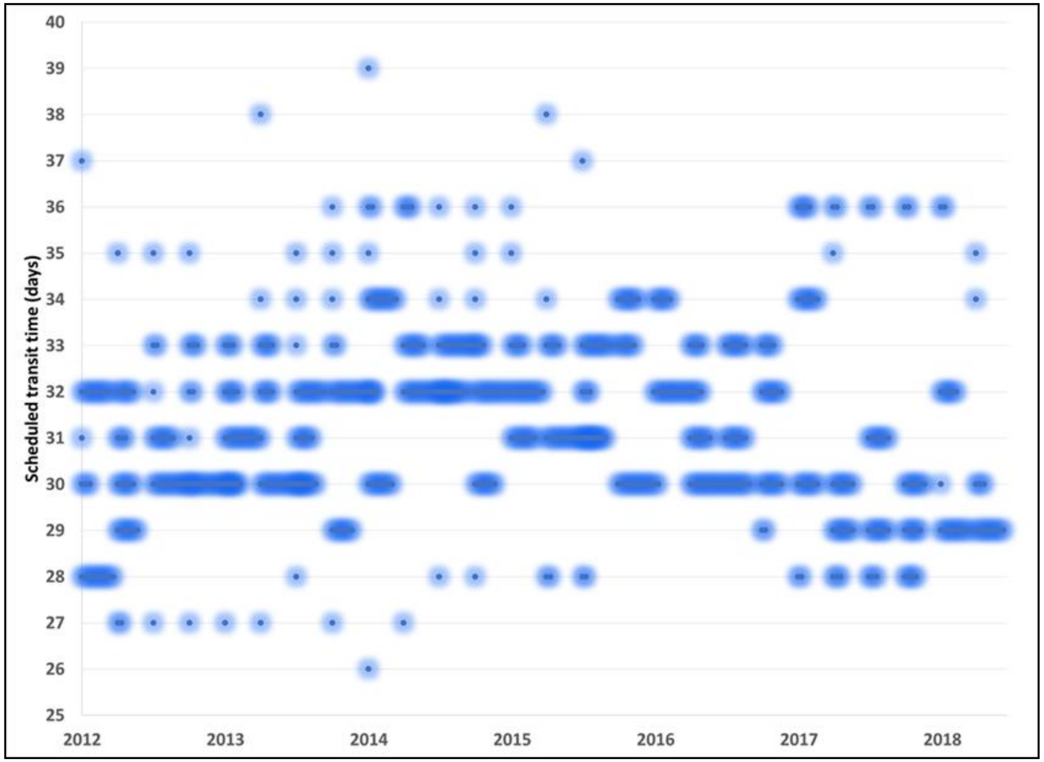
Mega-ships' substantial share of container ship orders



Disconnection of container ship size developments and seaborne trade growth (1996-2015)

2. Impacts on transport system: efficient? (2)

Alliances provide less choice and service differentiation

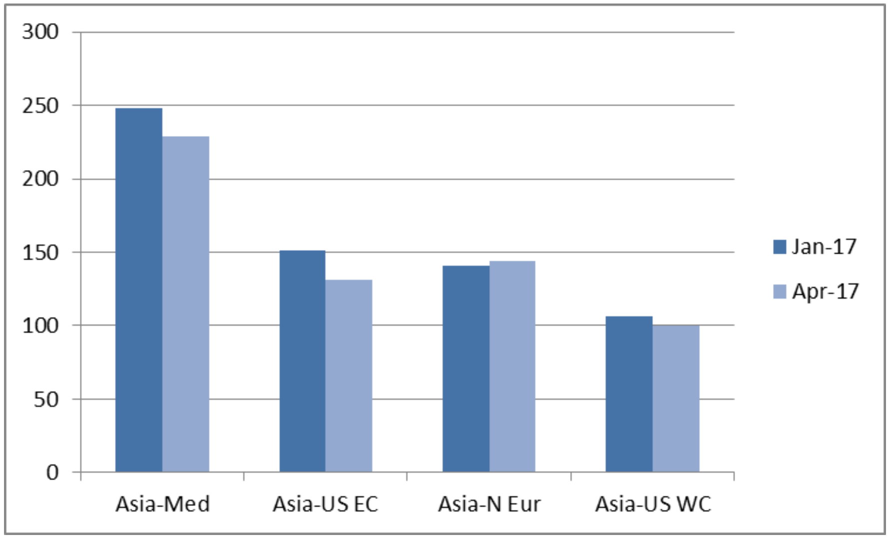


Scheduled transit time Shanghai to Rotterdam/Antwerp per carrier (2012-2018)

2. Impacts on transport system: efficient? (3)

Rationalising port networks: less frequency, less direct port connections

Weekly service frequency Asia-Europe 2012-2017



Direct port-to-port connections before and after new alliances (2017)

2. Impacts transport system: consumer surplus?

Price:

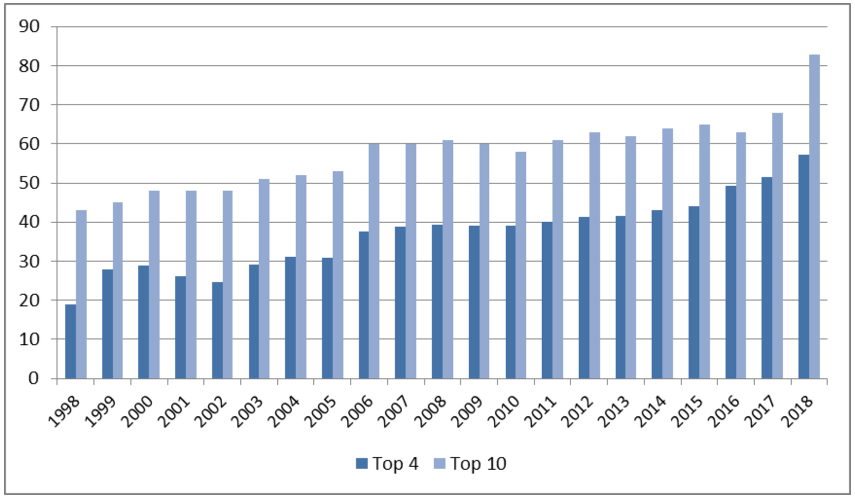
- Containerised freight rates have halved over the last two decades, yet there is a variety of surcharges.
- The multitude of surcharges makes it difficult to assess whether transport users benefit from alliances.
- This does not take subsidies and externalities into account.

System resilience:

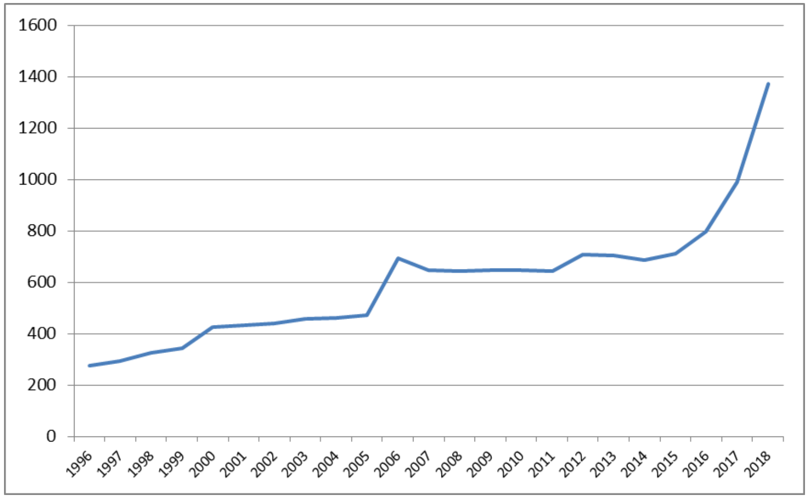
- Alliances impact transport system resilience via less risk diversification, lacking supply chain visibility and vertical integration

2. Impacts on transport system: inevitable?

Simultaneous consolidation via mergers and organic growth



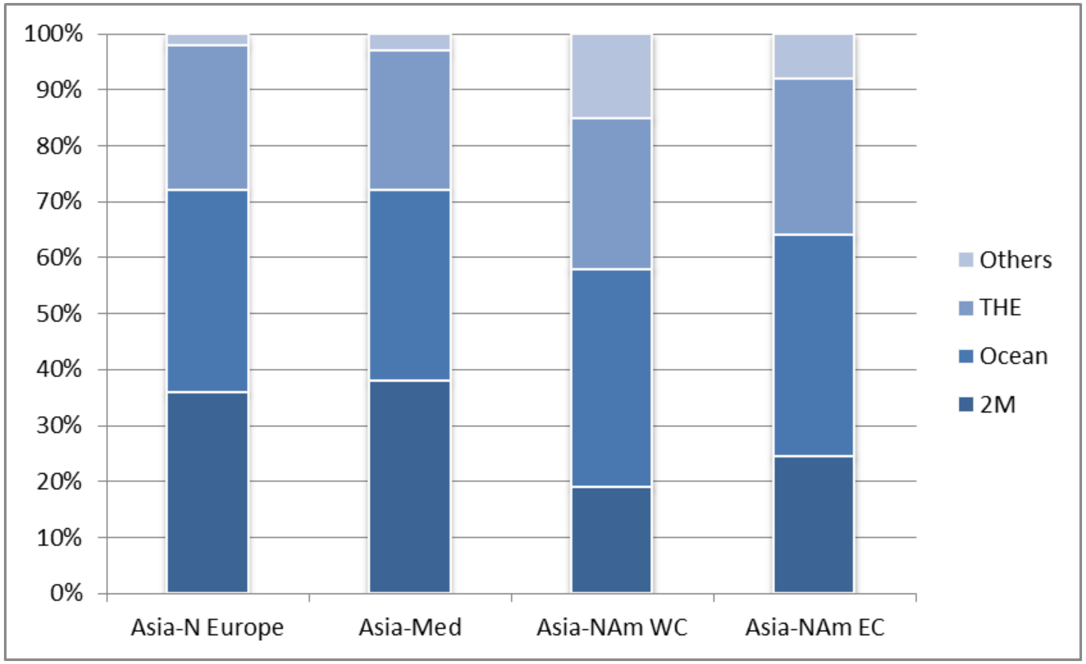
Concentration rate (%) in container shipping



Herfindahl-Hirschman Index index 1996-2018

2. Impacts on transport system: competition? (1)

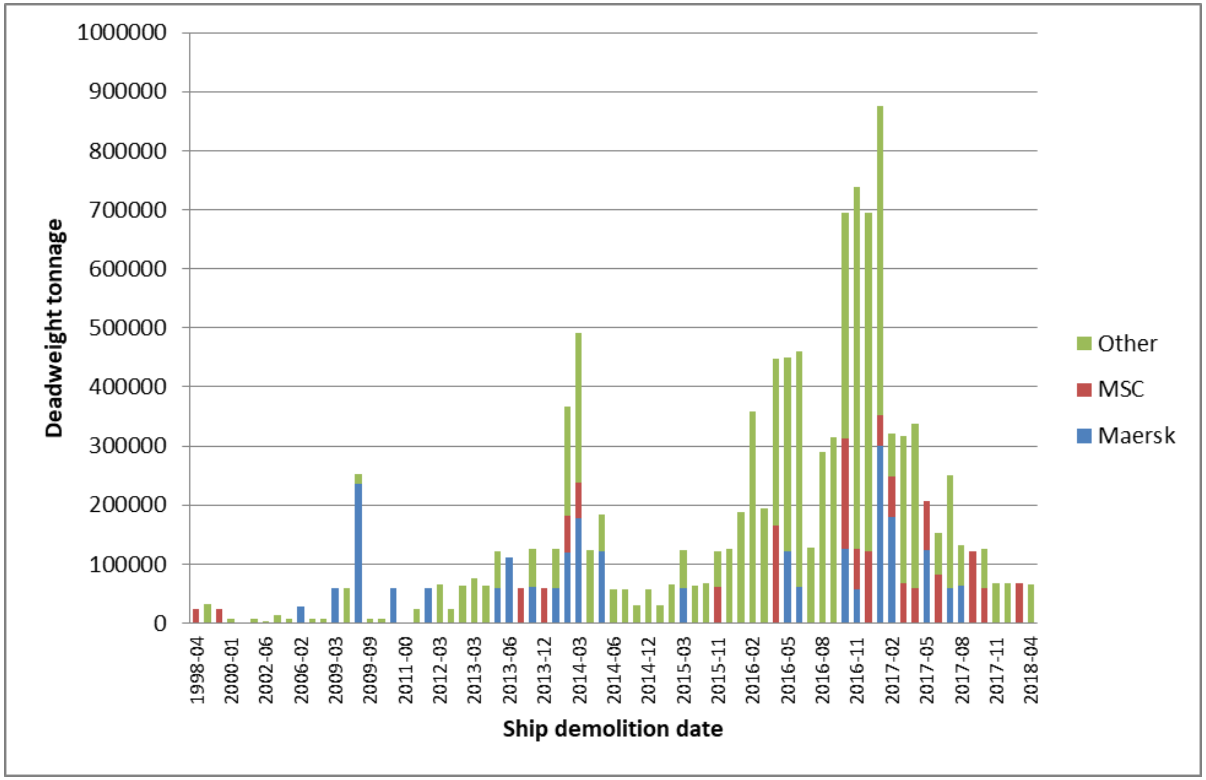
Alliance as a possible barrier to entry



Capacity shares of global alliances on main East-West trade lanes in 2018

2. Impacts on transport system: competition? (2)

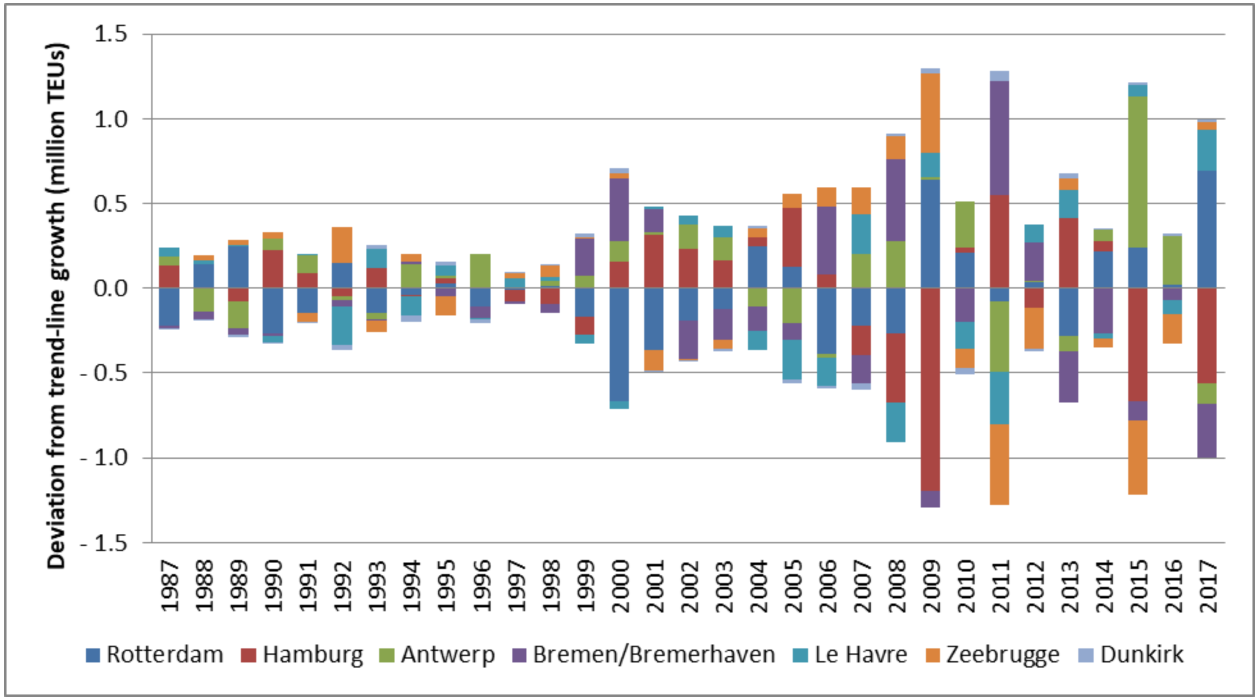
Alliance as a vehicle for potential collusion between carriers



Monthly volumes of demolished ships (dead weight tonnes) per month

2. Impacts on transport system: competition? (3)

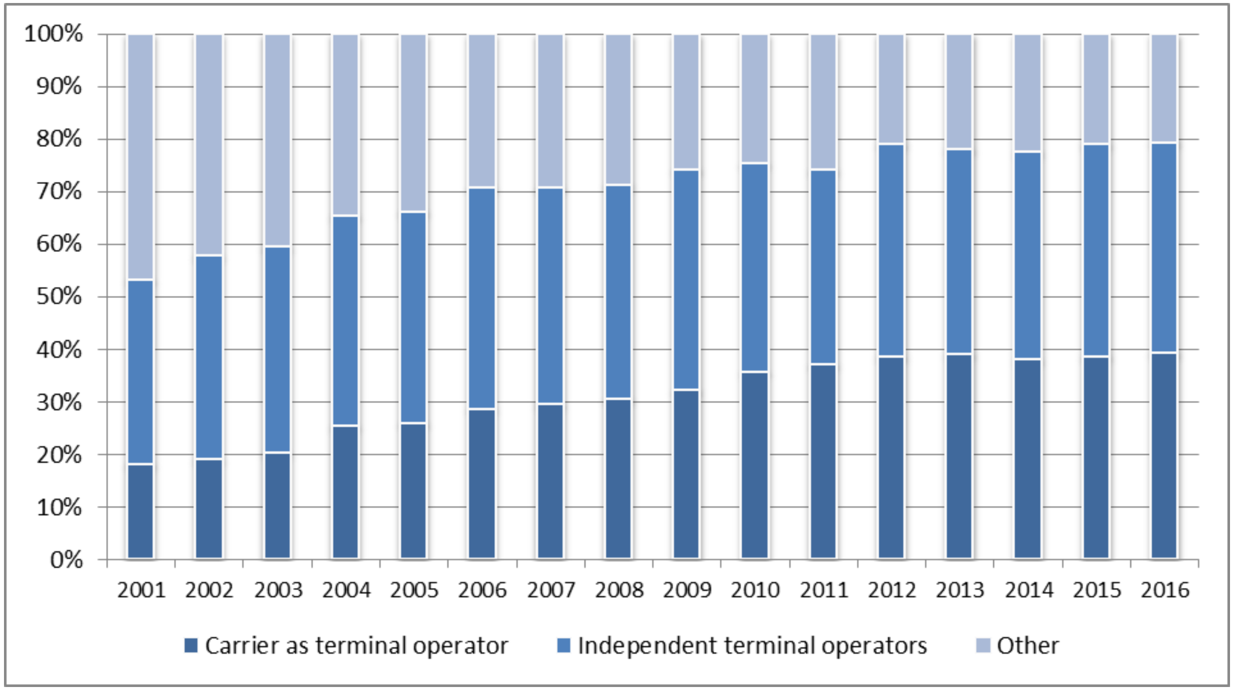
Monopsony power of alliances, playing off ports against each other



Deviation from trend-line growth (million TEUs) (1987-2017)

2. Impacts on transport system: competition? (4)

Vertical integration: e.g. carrier-terminal operations



Emergence of carrier-dominated terminal operators (2001-2016)

3. Impacts for stakeholders: shipping

- Barriers to entry for independent carriers.
- Most large carriers are large feeder operators. No joint alliance feeder operations (yet).
- Consolidation has increased leverage power of carriers vis-à-vis common feeder operators (rates, berthing priority).
- Alliance shifts require high flexibility from feeder operators
- Alliances and mega-ships create peaks that can easily result in port congestion.

3. Impacts for stakeholders: ports, terminals

Declining return on investment, related to:

- Growing dependence on alliance calls
- Buying power of carrier alliances
- "Winner takes all" competition

Resulting in:

- Decline of smaller container ports
- Concerns for independent terminal operators
- Concentration in the towage sector

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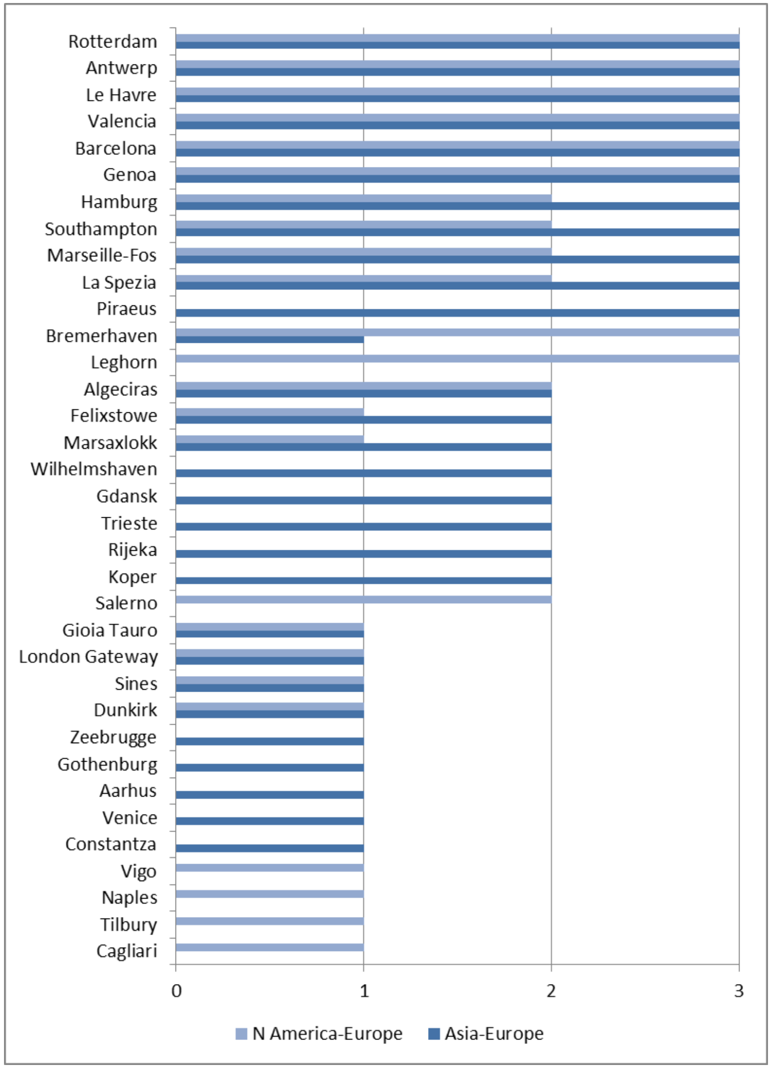
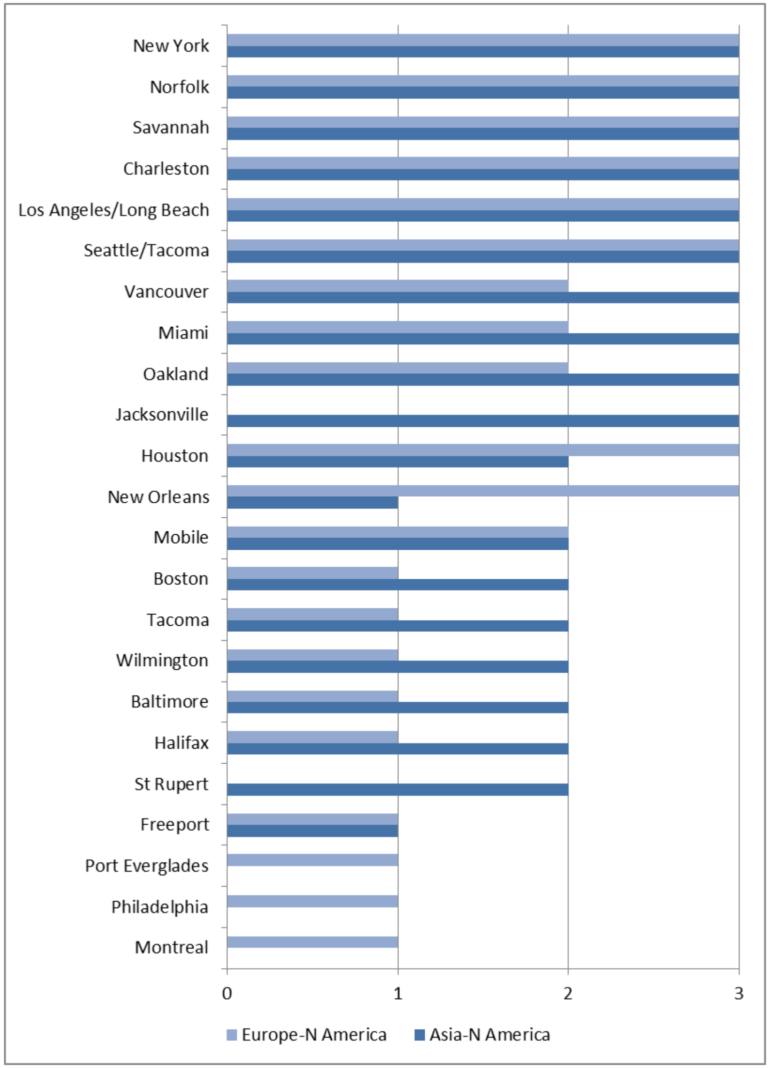
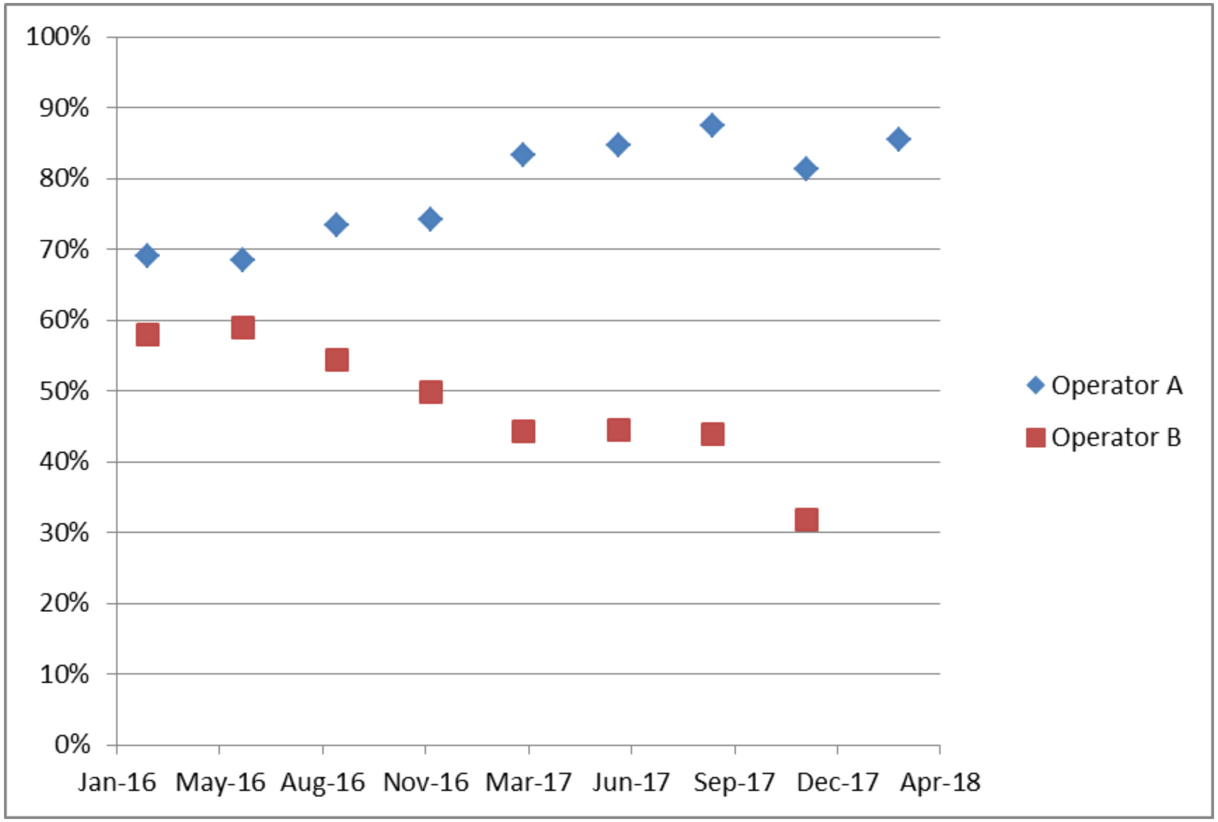
3. Impacts: growing dependence on alliances



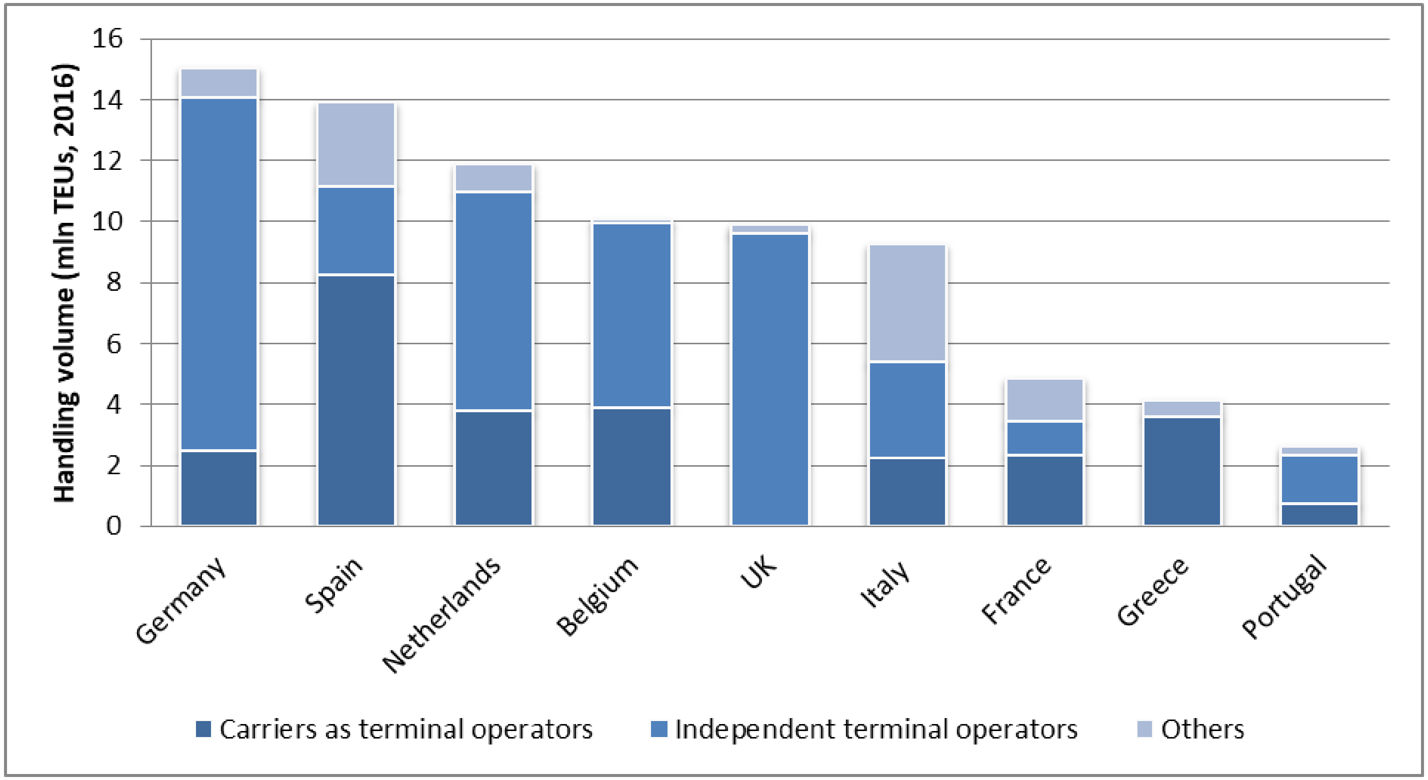


3. Impacts: “winner takes all” competition

The effect of alliances on utilisation rates of a port with two terminals



3. Impacts: less independent operators



Different types of terminal operators in European countries (2017)

3. Impacts stakeholders: freight forwarders

- Decreasing reliability and service quality
- Limited supply chain visibility
- Stronger leverage over contracts
- Availability of equipment and vessel slots
- Carriers’ initiatives in freight forwarding

3. Impacts stakeholders: shippers

- Less choice, less differentiation
- Supply chain disruption costs
- Bargaining power under pressure
- Constraints to risk management

4. Implications for policies

- Competition policy frameworks for liner shipping are diverse, but there is a tendency to reduce shipping specific exemptions over time
- Co-existence of different regulatory regimes
- Asymmetry of treatment of shipping and ports
- Port and terminal cooperation fairly rare
- Port hierarchy and specialisation policies are relatively common but not always focused enough

4. Implications for policies: recommendation 1

Presumption to repeal shipping-specific block exemptions

- No unique characteristics that justify exemptions
- Allowing “conferences” should be reconsidered
- Consider not extending EU consortia block exemption
- If repealed: possibly provide temporary guidelines
- If extended: limit scope, exclude joint purchasing and include a provision to consult maritime transport stakeholders.

4. Implications for policies: recommendation 2

Improve project appraisal for port & hinterland infrastructure

- Sound cargo projections, particularly from shippers
- Enforceable commitments from carriers
- Stricter conditions on public funding for port projects
- Common principles for port pricing to offset monopsony

4. Implications for policies: recommendation 3

Establish more coherent port policies

- Clarify roles: which ports handle mega-ships?
- Reduction of number of EU “core ports”
- Cooperation between ports (mergers, port alliances)
- Consider how to allow facility sharing within ports (between terminals)

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Thank you!

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