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Alliances and the Container Port System

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International Transport Forum/OECD

Session III: The Evolution of the Global Shipping Industry and Shipping Routes

Outline presentation

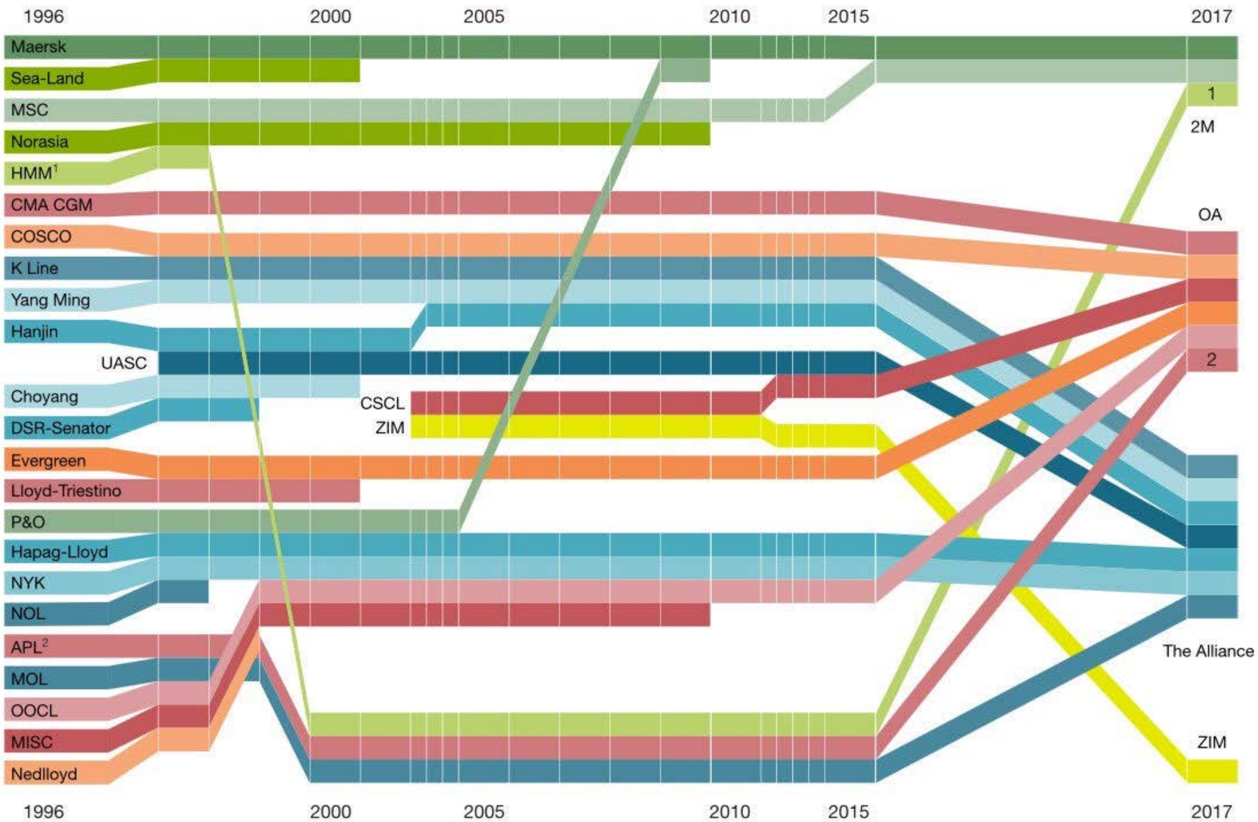
Alliances and the container ports system:

1. What are alliances?
2. How have liner shipping alliances developed?
3. What are the impacts on the ports system?
4. How to deal with them?

- Alliances = consortia = vessel sharing agreements
- Alliances do not cooperate commercially: they are not allowed to jointly set prices
- Advantage for carriers: higher utilisation of vessels, more extensive networks, stronger bargaining position towards suppliers.
- Recently alliances have engaged in coordinated orders of mega-ships

2. Development of alliances

Alliance shuffles are nothing new, but the most recent consolidation is the industry's largest.

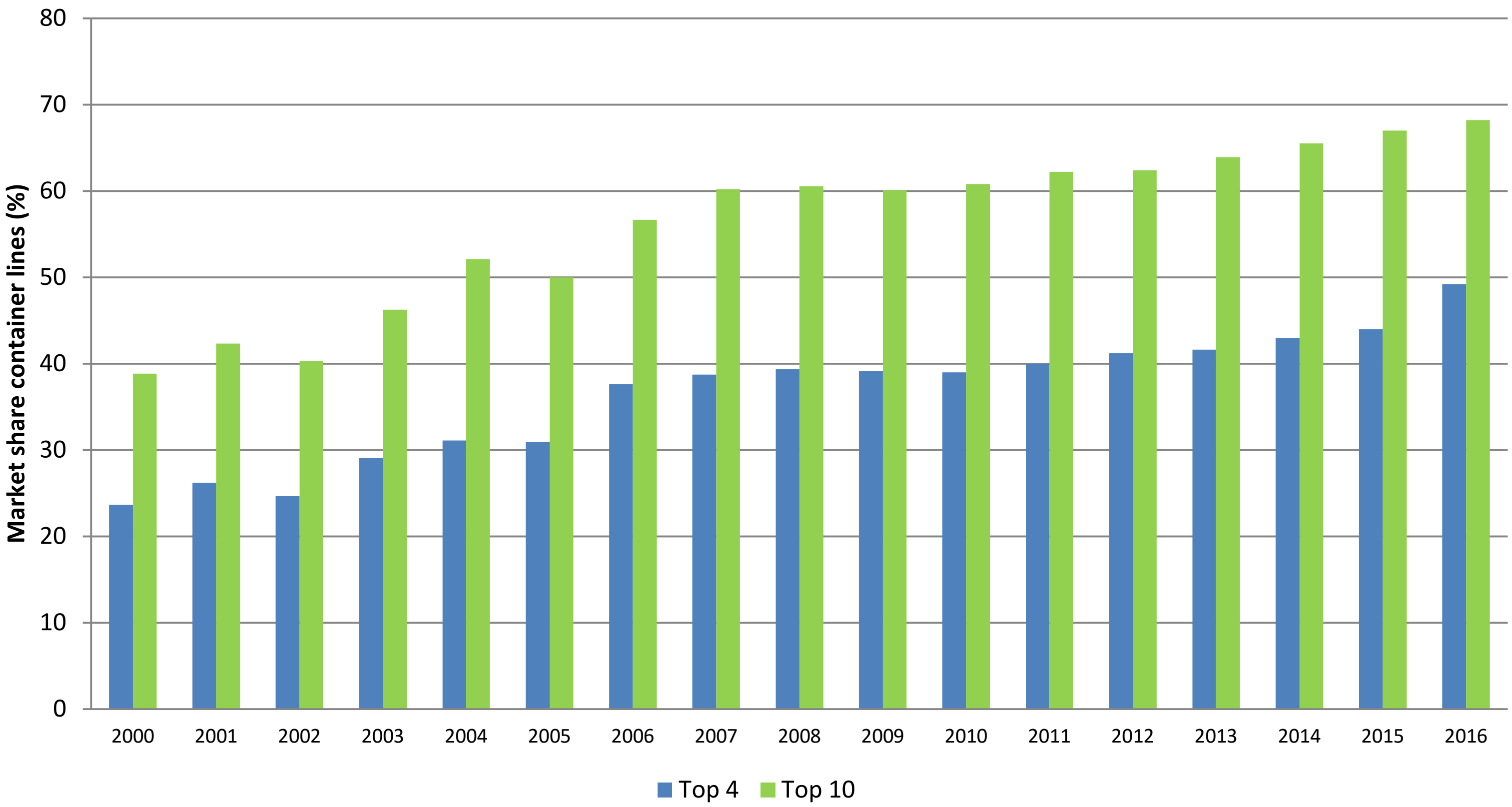


[1]HMM not yet confirmed.
[2]APL to merge with CMA CGM.

McKinsey&Company | Source: Alphaliner

Mergers have increased industry concentration, but also made the alliance system unstable

The top 4 carriers had 23% market share in 2000, almost 50% in 2016

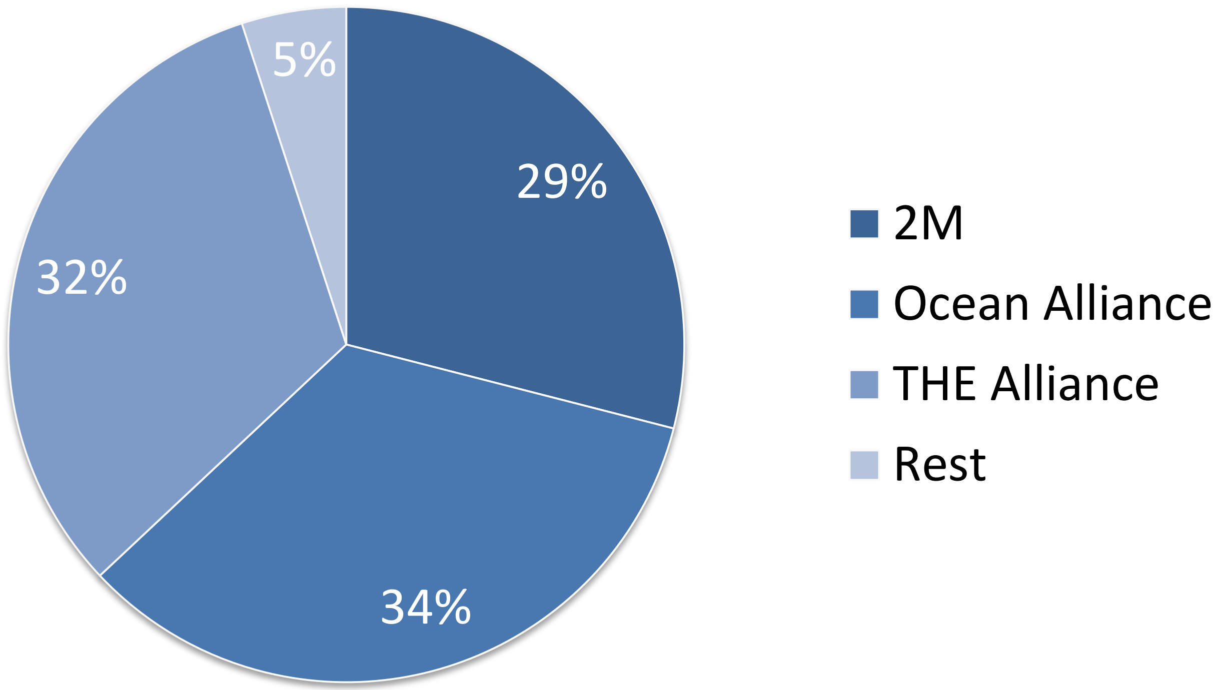


Source: ITF/OECD elaborations based on data from Alphaliner

2. Development of alliances: the current state

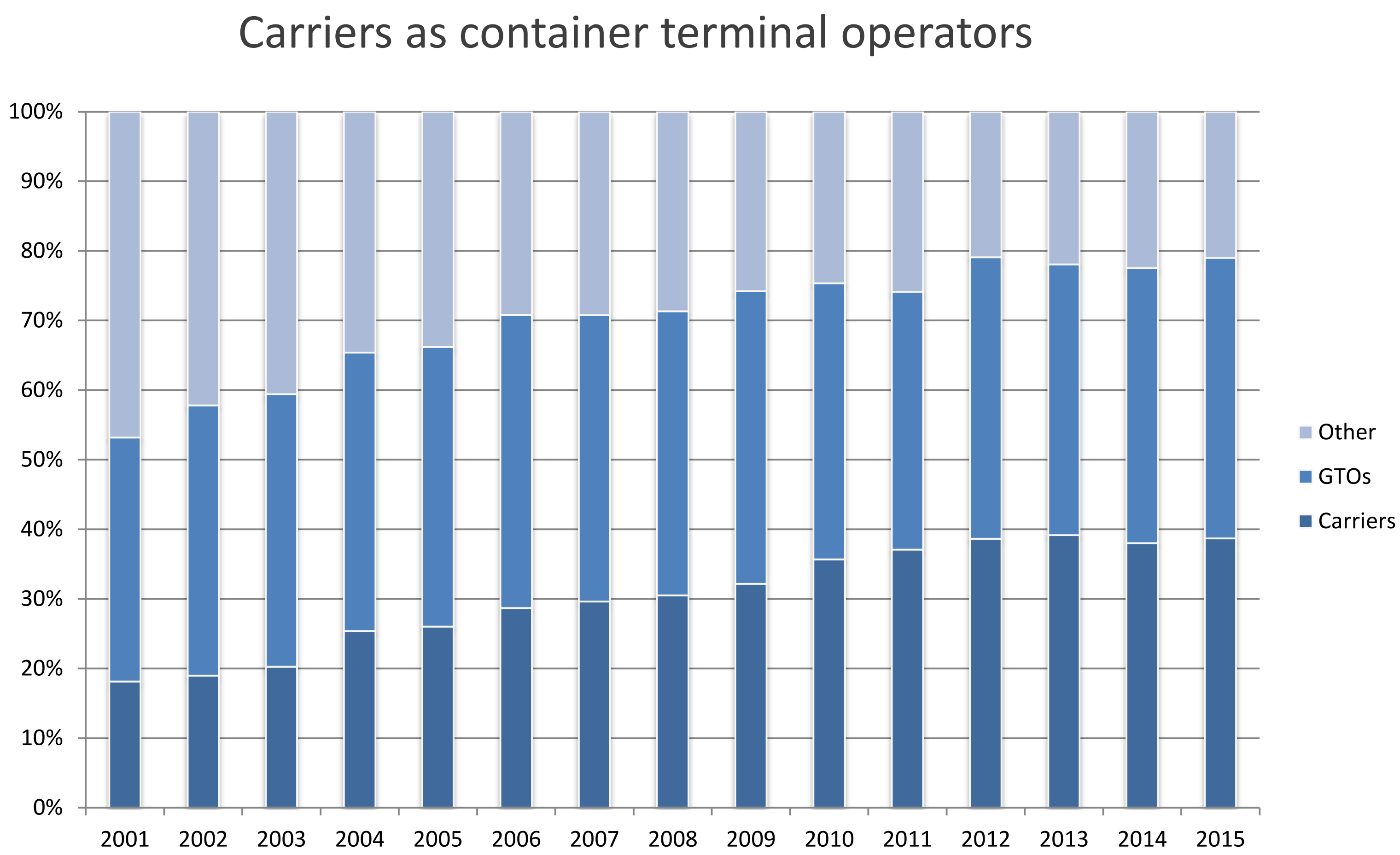
2. Development of alliances: a de facto oligopoly

Alliance market shares of East-West Container Capacity



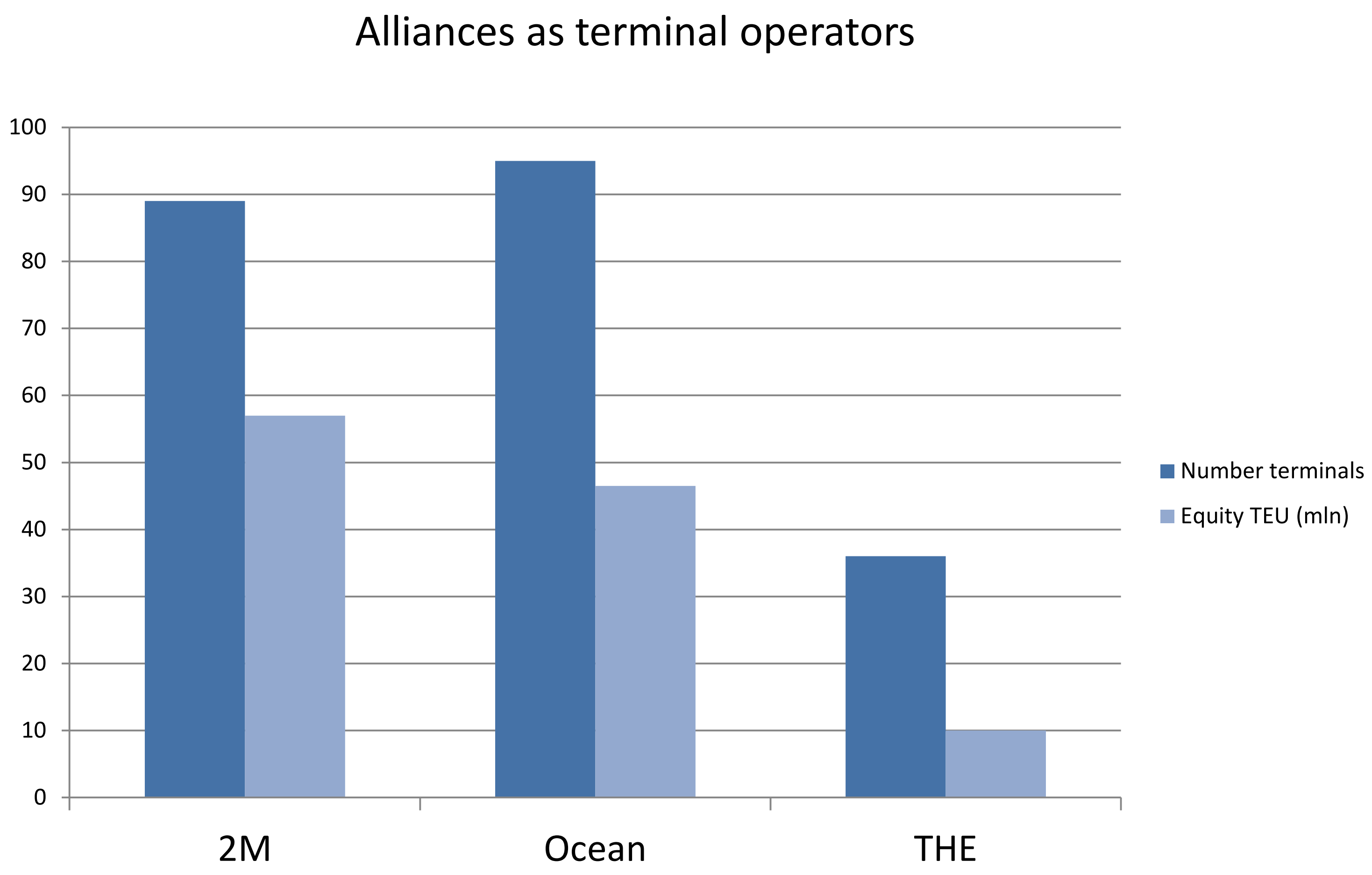
Source: Drewry Advisory

2. Development of alliances: link with vertical integration



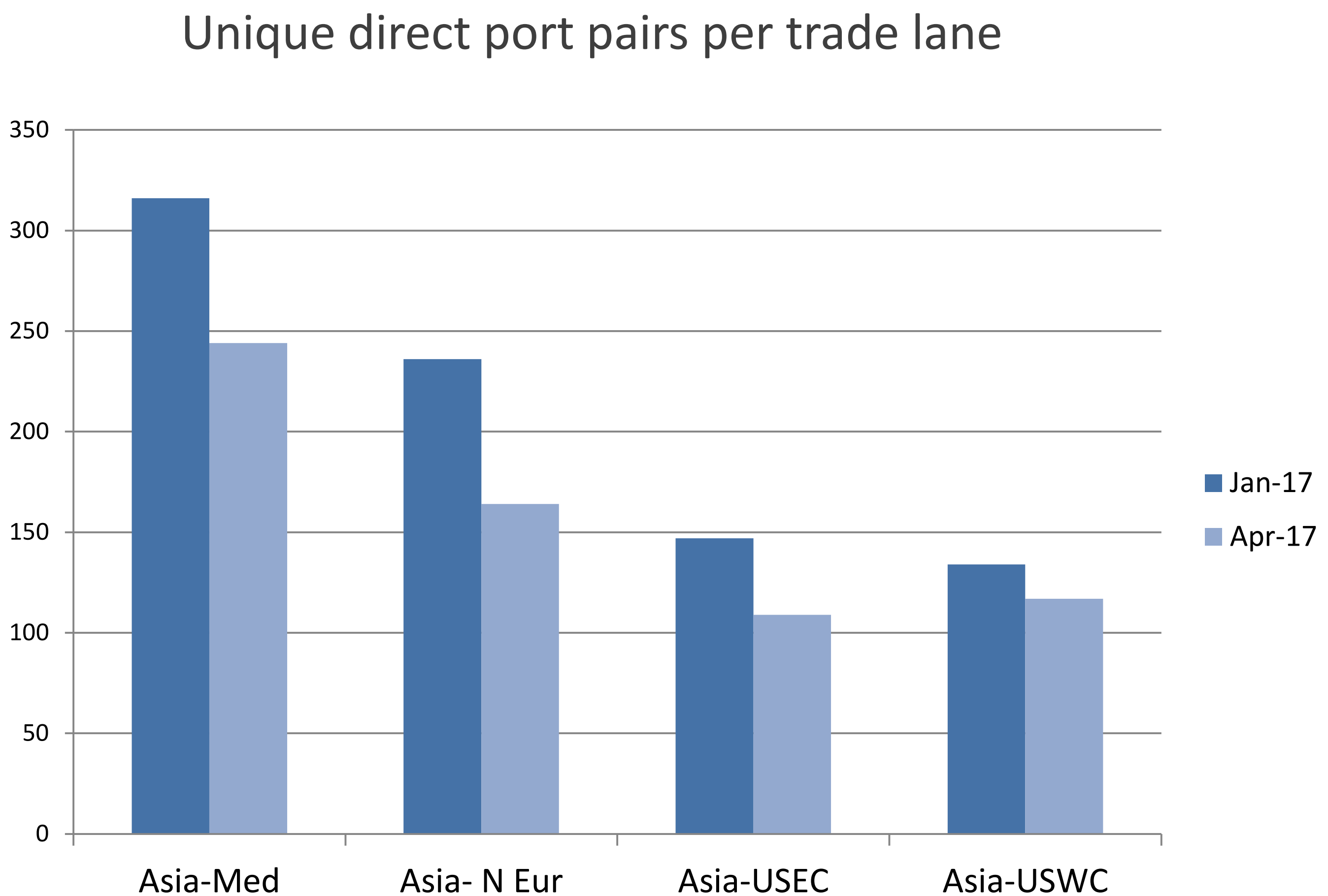
Source: ITF/OECD elaborations based on Drewry

2. Development of alliances: carrier-terminals



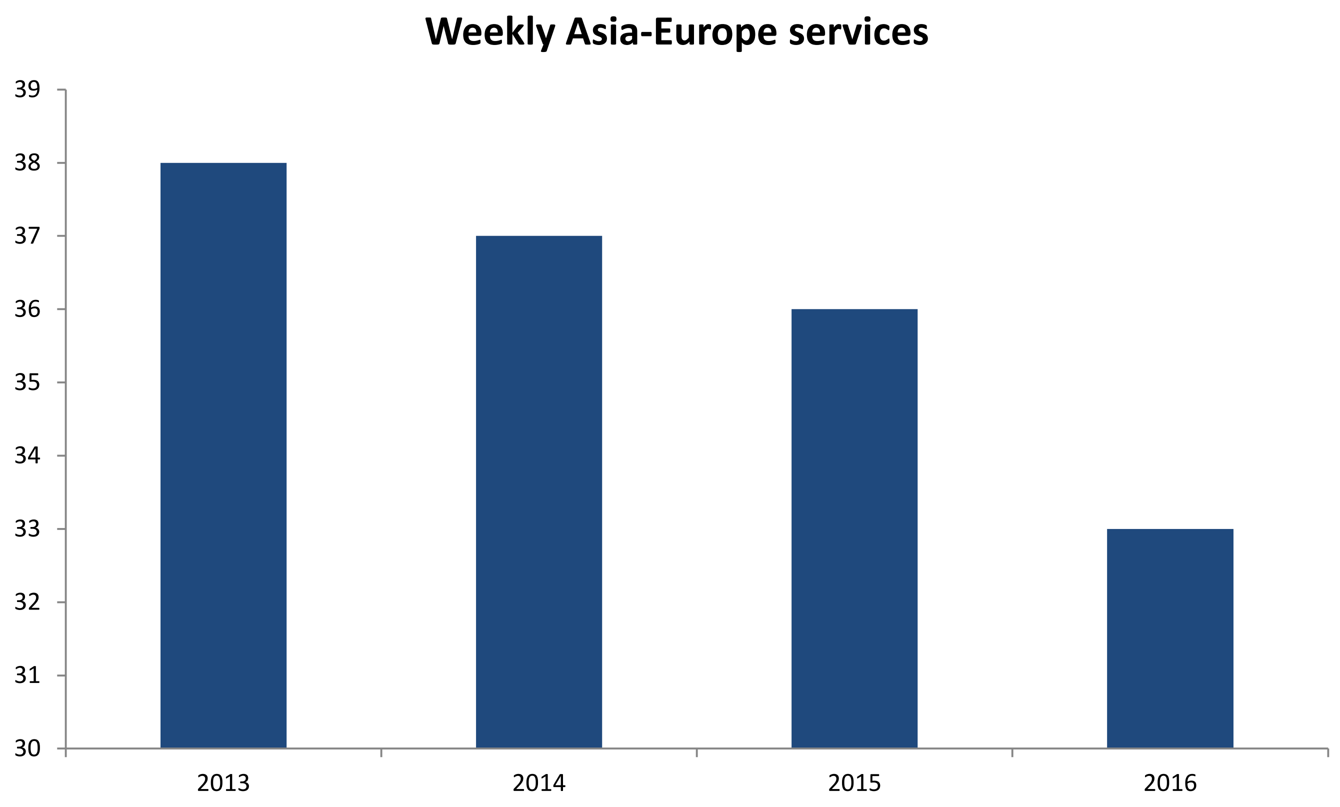
Source: ITF/OECD elaborations based on Drewry

3. Impact of alliances: less port-to-port connections



Source: ITF/OECD elaborations based on SeaIntel

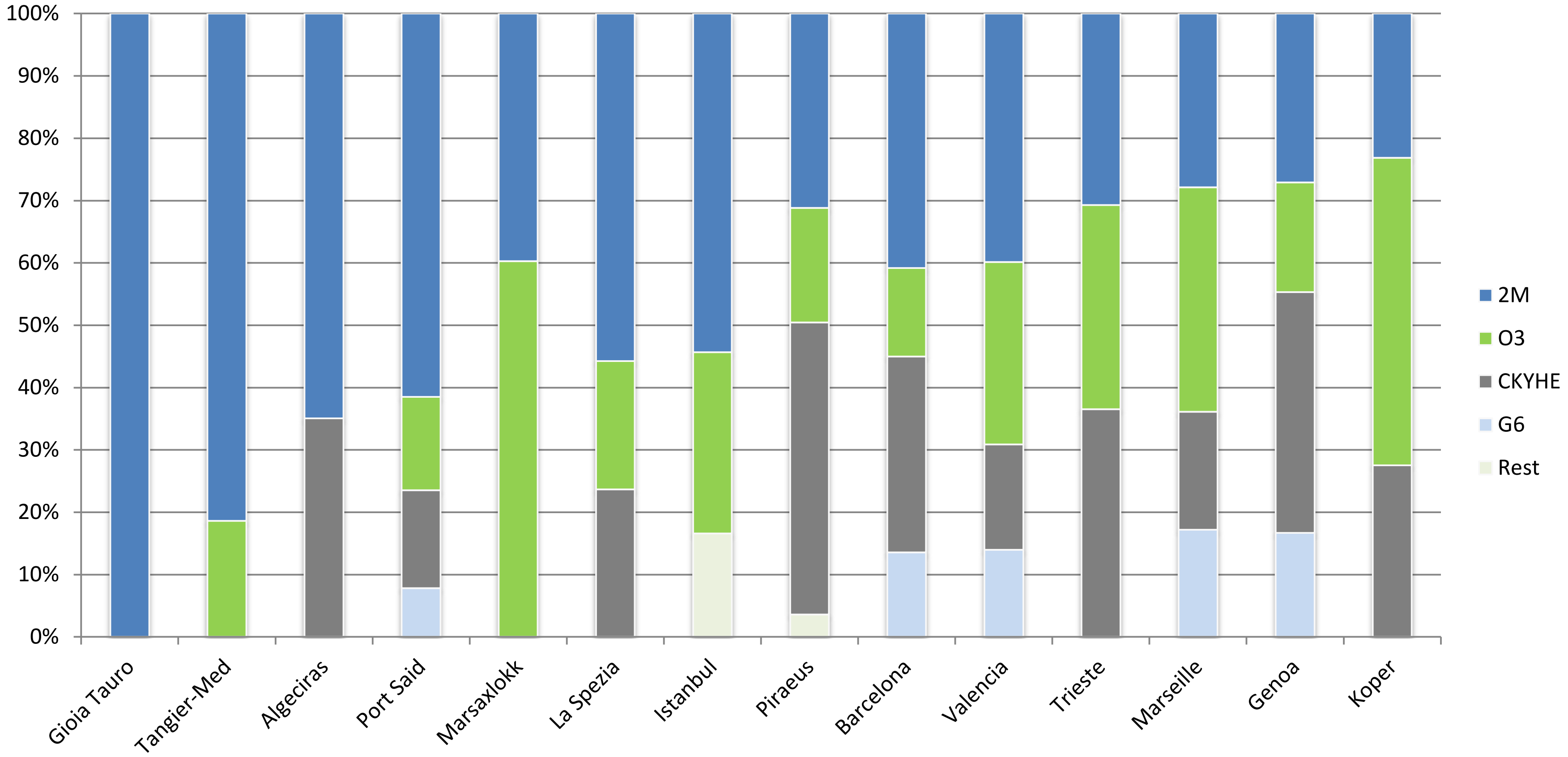
3. Impact of alliances: less weekly services



Source: ITF/OECD elaborations based on SeaIntel data

3. Impact of alliances: larger dependence of ports

Some ports are almost fully dependent on one alliance, so very vulnerable



Container ship capacity on Far East-Med route (2015)

Source: ITF/OECD elaborations based on data from Dynamar 2015

1. **Less ports**
   -> hub and spoke
   -> return on investment of port infrastructure
2. **Less choice for shippers**
   -> less resilience
   -> higher risks
   -> higher inventory costs
3. **Larger dependence of ports on fewer players**
   -> pressure on port tariffs with the real threat of port shifts
   -> return on investment of port infrastructure

Do the advantages of alliances for carriers outweigh the setbacks for the whole transport chain?

Options for policy-makers:

1. **Status quo**
2. **Stop allowing alliances**
   Why continue treating liner shipping as special case?
   Economies of scale via mergers and generic merger regulation
3. **Restrict scope and coverage of alliances**
   Threshold and relevant market area
   No joint bargaining with suppliers
   More active oversight of regulators
4. **Allow alliances of terminals and ports**

4. How to deal with alliances? Alliances of terminals and ports

- **Towards regulatory equivalence for shipping and ports?**
  If carriers can have vessel sharing agreements, why could terminals and ports not have asset sharing agreements?
- **Asset sharing by terminals within the same port:**
  Sharing of equipment, yard space and labour when needed.
  Made all the more relevant of mega-ships.
  (Note EU position: allowing vessel sharing of private sector, but taking issue with asset sharing in public ports)
- **Ports in same region: develop leverage vis-à-vis alliances**
  Mergers to sustain return on investment.
  Do not wait for clients asking for it, because they will not.
- **Ports worldwide: towards more strategic assertiveness**
  Ports should be one of the actors shaping the maritime supply chain of the future, rather than accommodating to whims of the "market".

Thank You

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