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“SHIPPER/CARRIER RELATIONSHIP-NEED FOR REVIEW IN THE AGE OF MEGA ALLIANCES”



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SHIPPER/CARRIER RELATIONSHIP



Adversarial?

- ▶ Much of the shipper attitude is rooted in the historical perception that liner shipping conferences were monopolistic entities.
- ▶ Shippers Councils and State sponsored watchdog organizations were formed to counter the perceived strength of carrier conferences and rate agreements.
- ▶ With antitrust immunity carriers had a license to steal but did they?

CARRIER RIP (REST IN PEACE)

If carriers exploited the antitrust immunity and made huge profits we would not see the long list of carriers that are no longer in business.

The list (in no particular order)

- ▶ Japan Line
- ▶ YS Line
- ▶ Korea Shipping
- ▶ States Line
- ▶ Seatrain
- ▶ Sea-Land
- ▶ U.S. Lines
- ▶ Waterman
- ▶ Italian Line
- ▶ P&O
- ▶ Nedlloyd
- ▶ P&O Nedlloyd
- ▶ French Line
- ▶ Barber Blue Sea
- ▶ Johnson Scan Star
- ▶ American Mail Line
- ▶ DSR
- ▶ Choyang
- ▶ Senator
- ▶ ANZDL
- ▶ CSAV
- ▶ Chilean Line
- ▶ CP Ships
- ▶ Lloyd Brasilerio
- ▶ Ben Line
- ▶ Blue Star Line
- ▶ Glen Line
- ▶ Hellenic Line
- ▶ Hansa Line
- ▶ East Asiatic
- ▶ Gran Columbiana
- ▶ Dart Container line
- ▶ TNT
- ▶ Polish Lines



SHIPPER AND GOVERNMENTAL WATCHDOGS

- ▶ Despite the fact that carriers have rarely made more than 5% ROI (return on investment) shipper and government organizations continue to keep a close watch on carrier activity.
- ▶ Government watchdogs:
 - ▶ European Union's Competition Commission (DGIV)
 - ▶ U.S. Federal Maritime Commission
 - ▶ China's Ministry of Commerce
- ▶ Shipper organizations:
 - ▶ European Shippers Council
 - ▶ “With the continued growth in scope of carrier co-operation, the authorities considered that monitoring the sector warrants even closer contact and better communication between competition and regulatory authorities” (ESC white paper, June, 2015)
 - ▶ Asian Shipper' Council's action on THC's.
 - ▶ FMC action on U.S. port congestion
 - ▶ Various statutory actions such as EU competition laws, U.S. Ocean Shipping Reform Act of 1998, etc.

HORIZONTAL CO-OPERATION IN THE LINER SHIPPING INDUSTRY

Operational Agreements	
Conferences (from 1875 to 1998)	An association of shipping lines, all travelling the same route in the same direction; members explicitly and formally agree to common prices a set schedule and renegotiation and dispute settlement procedures.
Consortia (late 1960's to 1990's)	Aimed primarily at sharing fixed costs on a maritime route through various technical, operational or commercial arrangements such as joint use of vessels, port facilities, marketing organizations etc.

Operational Agreements

Strategic Alliance (mid 1990's to today)

Formed amongst two or more leading container carriers who attempt to enhance their competitive advantage collectively vis a vis competitors on a global marketplace. They do not include joint management and marketing functions or revenue pools

Conferences Versus Alliances

The main objective of conferences were to stabilize freight rates in order to earn a returns on investment. Alliances on the other hand, aim to rationalize costs, reap the benefits of the economies of scale and moderate investment risks.

OBJECTIVES OF SHIPPING ALLIANCES

Objectives	Details
Financial	Profit maximization, increase in shareholder wealth, capital investment sharing and financial risk reduction.
Economic	Cost reduction, economies of scale.
Strategic	Entry in new markets, wider geographical scope, increase in purchasing power.
Marketing	Satisfy customer requirement better. Eg. Higher frequency, schedule reliability, network expansion, environmental considerations.
Operational	Increase in frequency of service, vessel planning and coordination on a global scale.

LINER SHIPPING ALLIANCES

1995	2007	2015
Global Alliance OOCL MOL APL Nedloyd MISC	The New World Alliance APL MOL	The New World Alliance APL MOL
Grand Alliance P&O Hapag-Lloyd NYK NOL	Grand Alliance Hapag-Lloyd NYK OOCL MISC	Grand Alliance Hapag-Lloyd NYK OOCL
Maersk/Sea-Land Maersk Sea-Land	Maersk/Sea-Land Maersk Sea-Land P&O Nedlloyd	2M Maersk MSC
CKY Alliance Cosco K Line Yang Ming	CKYH Alliance Cosco K Line Yang Ming Hanjin	CKYHE Alliance Cosco K Line Yangming Hanjin Evergreen
Hanjin/Tricon Choyang DSR/Senator		Oceans 3 CMA CGM CSCL UASC

ALLIANCES – CAPACITY DEVELOPMENT

Alliance	2M	Ocean 3	G6	CKYHE
Capacity (Slots)	2,100,000	1,300,000	3,300,000	1,900,000*
Vessel Deployment	185	129	240	89


*Subject to Verification

- ❖ Alliances have marketshares of between 75-80% in the major trade lanes.
- ❖ **Monopoly to Oligopoly?**
- ❖ Have Shippers shot themselves in the foot?

Ouch!



MORE CARRIER CONSOLIDATION.....

- ▶ Further consolidation of container carriers could offer lines more market stability.
 - ▶ A lower cost level is likely to benefit all in the supply chain.
 - ▶ Proposed merger of COSCO & CSCL
 - ▶ Rumored sale of APL
 - ▶ Mergers between carriers in different alliances.
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A NEW ERA OF COLLABORATION?

- ▶ Carrier cost reduction and impact on service levels.
- ▶ New efforts at improving shipper/carrier communication
- ▶ Initiatives of major Shipper Groups
- ▶ In the era of mega alliances there is much to gain for shippers and carriers alike to change the relationship from ADVERSARIAL to COLLABORATIVE.



THANK YOU...

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