Shippers, alliances and fair competition

White paper

European Shippers' Council

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ESC

1. Why such an initiative?

The current overcapacity in the liners market and its consequences on freight rate for deep-sea shipping led the ship-operators to set between themselves so called “alliances”, in reality joint ventures to optimize capacity and rationalize service. Starting with the aborted P3 proposal, several cases of technical and operational cooperation such as alliance, Vessel Sharing Agreement (VSA) or Slot Exchanges (SE) have been succeedingly emerging and have finally led to the creation (or the strengthening) of four huge alliances in the sector of container shipping.

As the perimeter of such alliances has also evolved from local/single trade based to a global scale, it is no longer possible to consider liners market issues such as evolution of services and competition on a regional or national basis. Regulation authorities but also shippers and freight forwarders have to look at this new model from a world perspective.

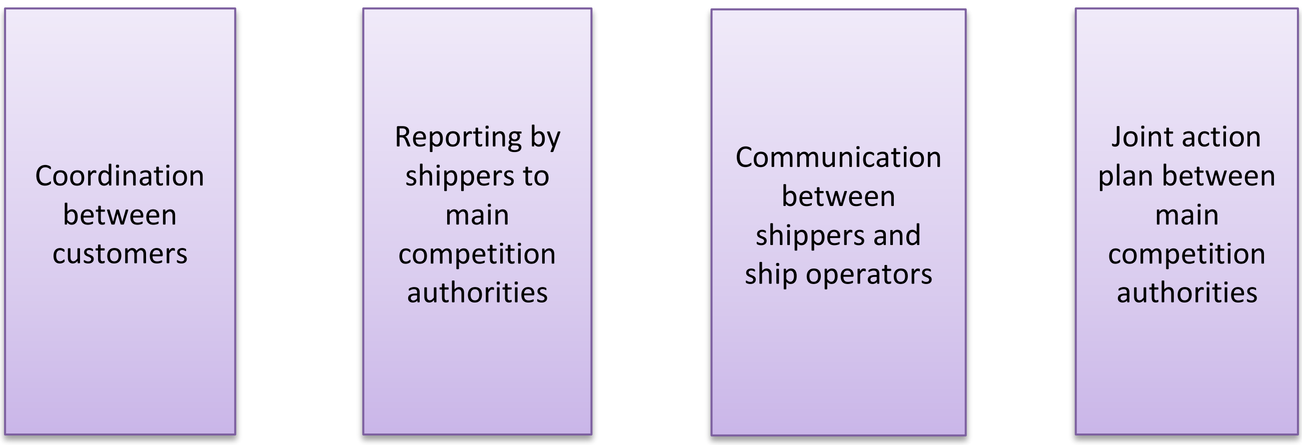
Shippers are always looking for better services and improved competitiveness and are therefore fully supportive of the any move by ship operators which helps to improve both the (financial) sustainability and the performance of the operators.

But this very recent and still growing concentration of the market has increased the risk that distortion of fair competition may happen in the future with its potential impacts on the market for all end consumers.

To illustrate above statement a situation of the actual market shares on four main trades is shown below.

The present initiative by European Shippers Council is intended to lower the level of risk by setting some form of cooperation and/or communication between the various groups of players in that field. This initiative calls for four pillars which are all necessary to achieve a common goal of a fair and competitive liners market. It is for these reasons that the European Shippers’ Council has determined the following four pillars

The four pillars for achieving a sustainable maritime transport



2. Real current situation of the competition on main trade lanes

2.1. Asia – North Europe

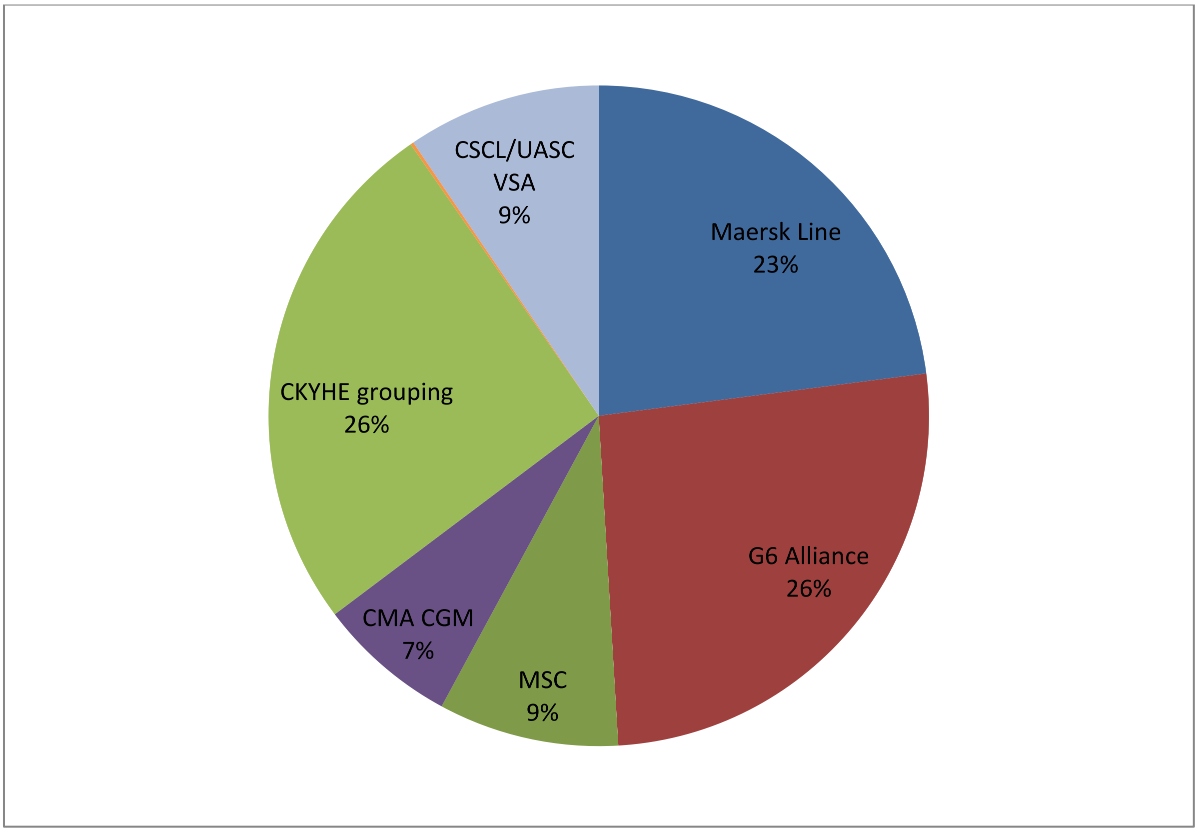


Figure 1: market share by annualized capacity on the Asia – North Europe trade lane (figures from Drewry – 1st of January 2015)

2.2.Asia – Mediterranean

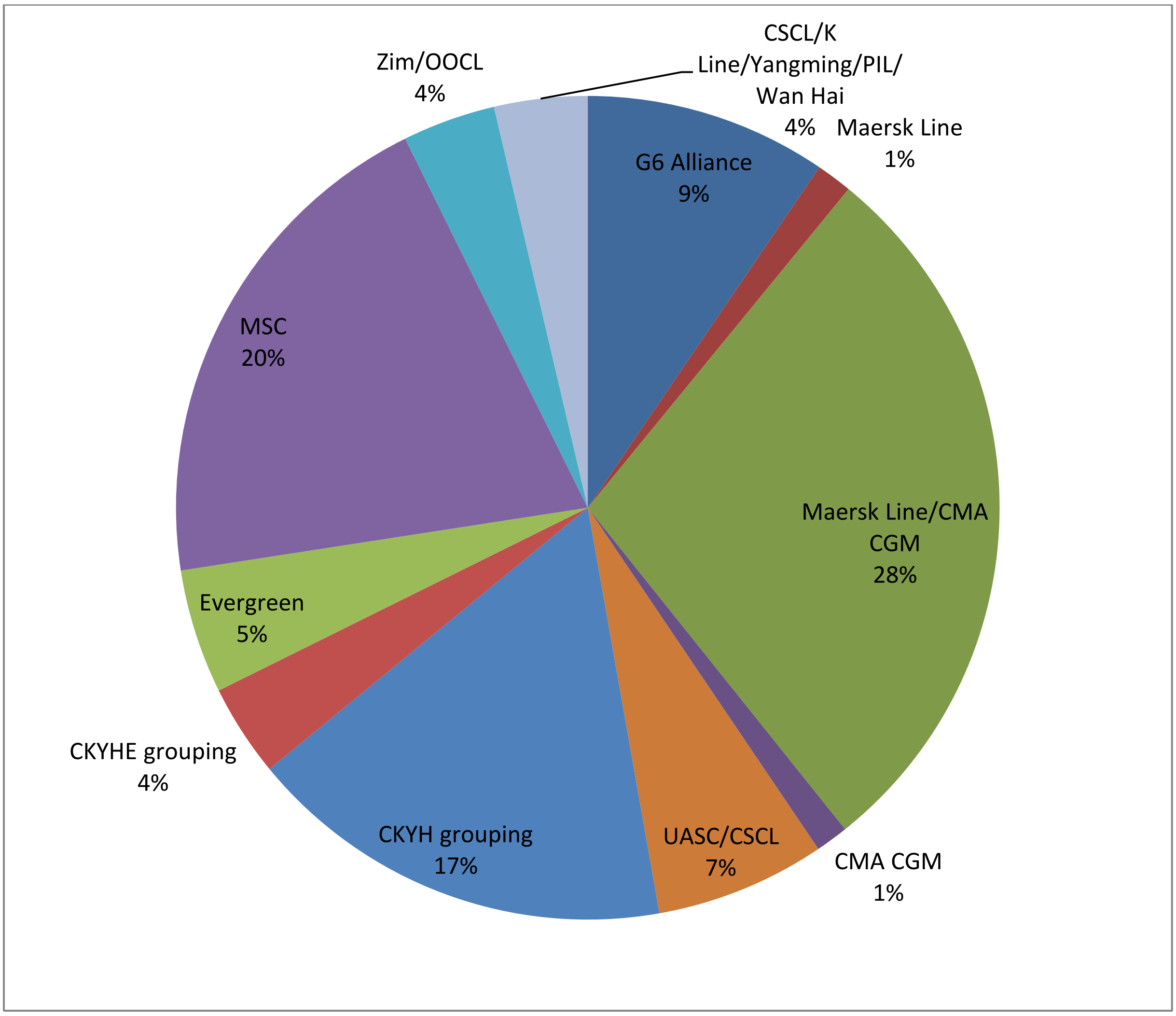


Figure 2: market share by annualized capacity on Asia – Med trade lane (figures from Drewry – 1st of January 2015)

2.3. Asia – North America

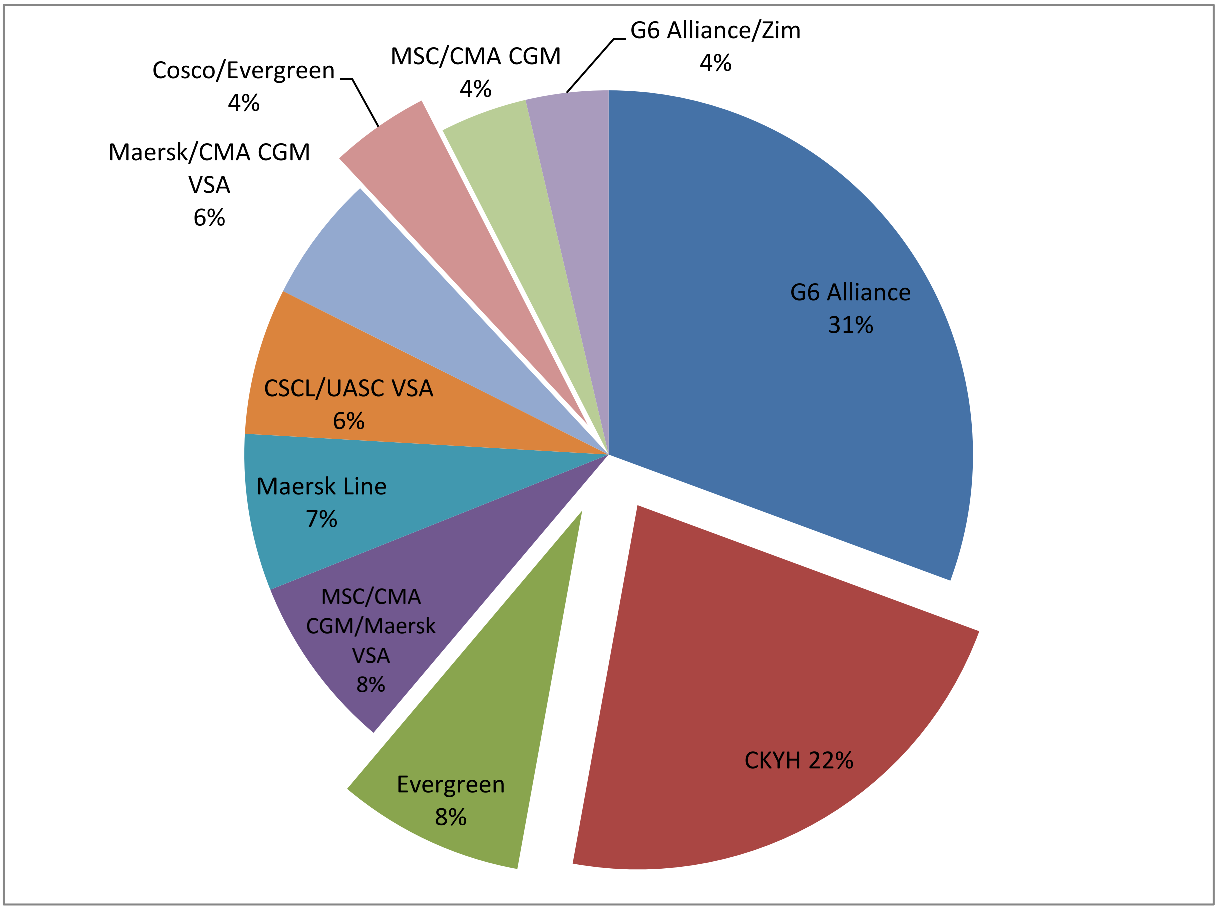


Figure 3: Top 10 market share by annualized capacity on the Asia – North America trade lane (figures from Drewry – 1st of January 2015)

If we look at the figures from CKYHE, it appears that the alliance own more than 34% of total market shares between Asia & US.

The other alliance G6 is even bigger with 35% of market shares.

2.4. US – North Europe

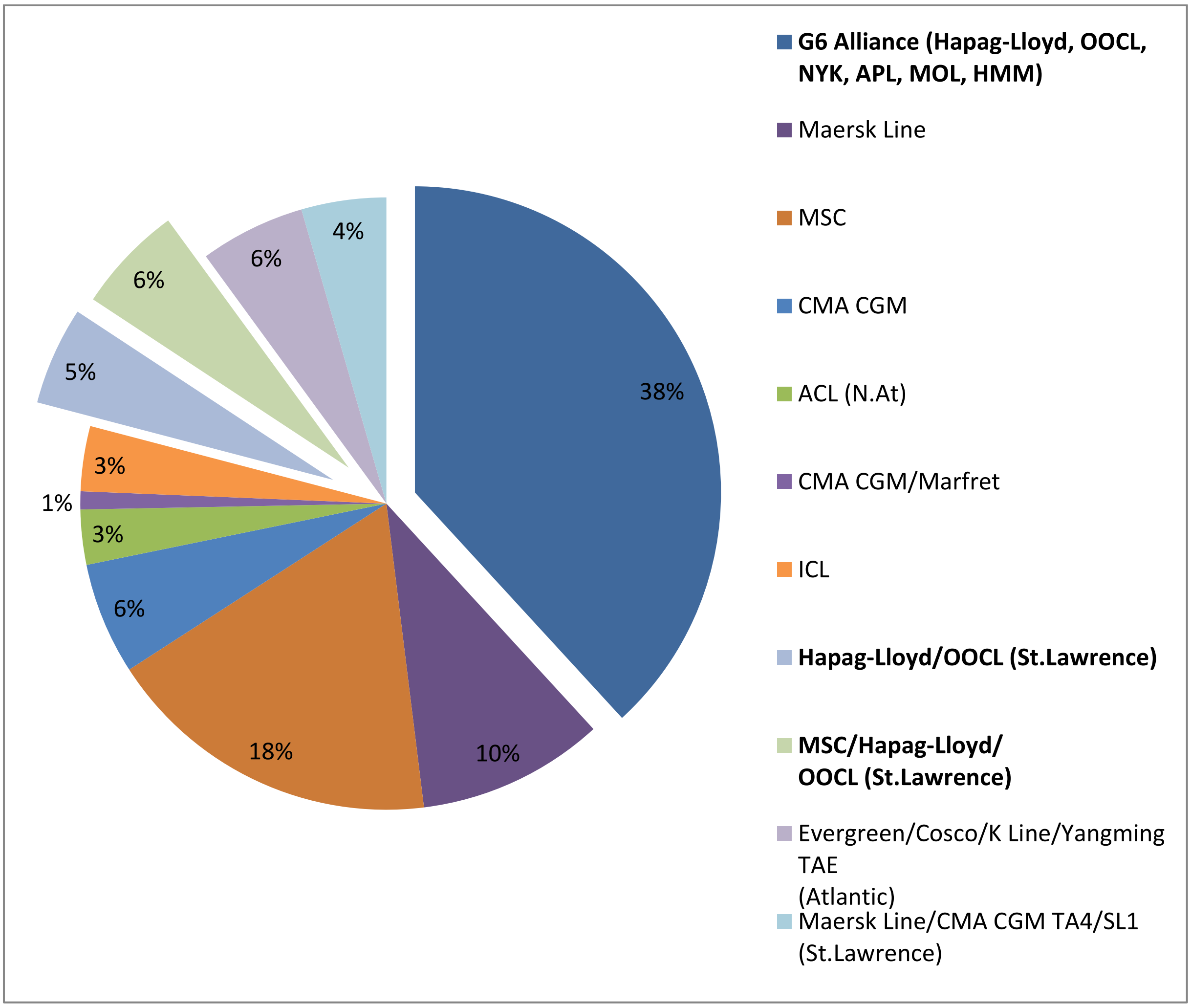


Figure 4: market share by annualized capacity on the US – North Europe trade lane (figures from Drewry – 1st of January 2015)

If we sum up all transatlantic traffics from the G6 alliances, it reaches a total of 47% market share.

3. Proposed coordination between customers

Consolidation of selected (legally wise) information about the market situation between representing groups of customers of ship operators will help get a better idea on what is happening on the field as all these groups have only a partial view. Exchanging not only findings but interpretation will also help as it might prove very difficult to analyse the real impact of the newly born ship operator's cooperation as well as their real benefits for the whole supply chains and the end customer.

Firstly, shippers' associations with freight forwarders' ones may launch a collaboration at international level to jointly collect and report some data such as perceived service quality from customers' view, reach of the network, contract quality, availability of cargo space, surcharges customer service quality, etc.

As a matter of fact the European Shippers' Council is currently monitoring several key data on the market (like the capacity, GRIs announced, port directly called, transit time, etc.). Such monitoring has started since the 1st of January 2014 and will be carried on for the years to come, with factsheets being published every quarter and a yearly dissemination of these materials being organized.

The data collection process could take the form of surveys and interviews of active shippers of all sizes, including SMEs, and related to different types of goods. Such process could be orchestrated by Global Shippers' Alliance (GSA) and other stakeholders. Then professional experts, consultants and academics, could be called to help analyse the data and identify emerging trends. Such surveys could be started by the end of 2015 and the first results made available by mid-2016.

4. Proposed reporting by shippers to the main competition authorities

Competition authorities, in order to protect customers' interests and to guarantee a fair market operation, need to get first-hand information from suppliers but also to cross check such information by receiving some of the data collected from customers. This will allow them to properly assess whether and how alliances are effectively contributing to an increased quality of services, to a sustainable container transport sector and improvement of the global logistics performance.

Customers through their national, continental or global associations could provide such information to competition authorities through regular meetings and communication of facts based analyses.

5. Proposed communication between shippers and ship operators

The main objective of establishing some kind of communication between ship operators and their customers (shippers and freight forwarders) is to better identify the global expectations and constrains of each of these parties and avoid misinterpretation of apparent actions. Better understanding of operational but also contractual needs (or willingness) would be very much profitable for both sides of the table.

Creating frameworks for such exchanges or strengthening existing ones could be launched on a pilot base at European level first with a first goal on defining a common set of KPIs to assess the quality of service and its evolution.

Such a pilot communication channel could be tested by the end of 2015 and during the first half of 2016.

6. Suggested joint action plan between main competition authorities

We advocate that the three main competition authorities of the world – MOFCOM from China, FMC from US and DGCOMP from EU – who have started regular consultation meetings on that matter since 2014, agree on a threefold action plan.

First commonly define the way the relevant “market” must be defined and considered when looking at potential anti-competitive behaviour, and particularly how to properly calculate the various players’ market shares.

Second establish a harmonized public file to be submitted by all carriers who want to collaborate between themselves (whatever their size). Such a file could be requested to be submitted in all parts of the world included in the cooperation perimeter. Comments from industry and other stakeholders on these submissions should be allowed for consideration by competition authorities. If the cooperation is granted exemption from prior notification (thanks to regional regulation for example), this file should still be submitted anyhow even though cooperation could start before the end of the process of analysing by the concerned regulation authorities. FMC filing format could be used as a model for such a file.

Third, get the legal authorization by their governing bodies to exchange information (eventually commercially sensitive) drawn from the various files submitted in order to cross check and consolidate the various data.