



The Hong Kong  
Shippers'  
Council  
香港付貨人委員會



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# P3 alliance will threaten fair trade



Willy Lin  
Chairman

*The proposed formation of P3 – composed of Maersk, MSC, and CMA-CGM, the three largest global container liners – does not come as welcoming news to shippers.*

The collective capacity of the three liners well exceeds 37% of total capacity in the global East-West trades. P3's market share in the Asia-Europe trade exceeds 45%, and in the transpacific trade it tops 28%, which allows the mega alliance to predominate the world's main liner market.

The P3 alliance entails further market concentration and fewer choices for shippers. The international ocean liner market is already heavily tilted in favour of liners. If the competitive authorities give a green light to the formation of P3, fair trade will be further jeopardised.

Supply of global container space is already 15% greater than demand and the gap is widening as shipping lines keep ordering new ships. A total of 274 ships, with a carrying capacity of 1.75 million teu, are scheduled to be delivered this year, and further 161 ships, 1.18 million teu, next year.

As a basic economic rule, freight rate should drop when supply exceeds demand in the market. Nevertheless, the market was distorted when shipping liners slowed down their ships from 24 knots to 11 knots, laid off old and new ships, unilaterally tore up rate agreements with shippers, and organised themselves into alliances/consortia to control capacity and price. The result has been a roller-coaster type of freight rate fluctuations.



When market forces drive down rates, shipping liners resort to collective efforts to pull up rates. This sort of anti-competitive behaviour should not be allowed in today's business world.

Moreover, freight rates have changed so quickly that shippers have found it immensely difficult to conduct normal business. Freight rate was about US\$600-700 per teu before July 1, 2013 in the west-bound Asia-Europe trade. Shipping lines asked for a US\$900 per teu increase effective on July 1, and a further US\$500 per teu on August 1, 2013.

The two rate increases represent something like tripling the market rate in just one month. That makes it almost impossible to make cost calculations and commitments as we shippers have to commit costs at least six months in advance of shipment.

Shippers, quite rightly, continue to be frustrated by the inaction of the competitive authorities towards liners' obvious anti-competitive behaviour and market manipulation. Shippers were disappointed when FMC announced the results of the investigation into the slow steaming, rejection of booking and rate increase demand of liners in 2010, only

to recommend the formation of a Shippers' Group in order to establish a shipper-carrier dialogue, which would become the core of a rapid shipper-liner dispute resolution mechanism.

Shippers are also unhappy when the Mainland China authorities, as a market regulatory measure, require shipping conferences to consult shippers before rate increases and the introduction of new charges. The requirement itself is a de facto acceptance of the shipping conference system. The so-called consultation that is taking place right now is nothing more than notifying shippers of rate increases and new charges through e-mails by conferences' agents, while totally ignoring shippers' comments and objections.

It is by no means a mechanism that contributes to dialogue and understanding, and falls well short of establishing a level playing field.

Shippers are equally frustrated by EU Competition Commission's inaction towards liners' latest actions in manipulating capacity and rates, after the Commission's bold decision to make shipping conferences illegal in Europe in 2008.

We understand that the enforcement of competition law is not easy, as it is particularly difficult to secure firm proof of guilt. However, a more active approach, including the offer of attractive incentives to informers, calls on consortia members to submit meeting schedules and minutes, for example. One should remember that violation of competition law could be a criminal offence, which should not be treated lightly.

From a service angle, the P3 arrangement is also unacceptable. The three members are so different in their service levels and formation into alliance means that shippers will be forced to accept inferior service when shippers have signed up with one of the members at a premium rate and expect corresponding services.

I wish to conclude my message by quoting the statement of the joint meeting of Asian Shippers' Meeting and European Shippers' Council held on June 18, 2013 in Brussels. "ASM and ESC express their deep concern at the recent announcement of the new MSC, Maersk, and CMA alliance 'P3'. This co-operation should in no way jeopardise or impair the free choice of shippers and fair competition based on price, service level, and routing."

