Growing liner mergers will dampen competitiveness in shipping trade

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I must bring the growing concern of increasing market concentration in the liner market and the subsequent threat to shippers' interests to the fore.

Currently, several major merger-and-acquisitions are taking place, such as the one between Hapag-Lloyd and CSAV which was announced in December 2015; the merger in progress is poised to become the fourth largest shipping line in the world.

China's two largest shipping lines, COSCO and China Shipping Corporation have now merged to form the third largest shipping line now known as China COSCO Shipping Corporation Limited; the new line began operations in early June.

As a result of the creation of the China COSCO Shipping Corporation Limited, CMA-CGM, which will be acquiring American President Lines (APL), has slipped from third to the fourth biggest shipping line worldwide.

APL's major shareholder, Temasek, handed over its stake of APL to CMA-CGM in early June and the acquisition is set to go ahead.

Two major Korean shipping lines, HMM and Hanjin, are also in the process of finalising their own merger. It is clear that there is a growing trend of shipping mergers and the balance of power is beginning to shift, but more importantly, these mergers and alliances will inevitably lead to a rapid increase in market concentration and will consequently have a detrimental effect on maintaining competitiveness within the shipping trade.

Further to this, the membership of the existing liner alliances will also change. Case in point, the alliance of Hapag-Lloyd, K-Line, Hanjin, MOSK, NYK and Yang Ming, was announced in May 2016 and will become the third largest shipping alliance after 2M Alliance of Maersk and MSC, along with the CMA-CGM, COSCO, Evergreen and OOCL which form the Ocean Alliance.

The newly expanded THE Alliance will contribute approximately 3.5 million TEU or 18% of the global container fleet capacity.

In terms of capacity, 2M has a market share of 34% in the Asia-Europe trade and 16% in the Trans-Pacific trade. The OCEAN has an even greater market share of 39% in the Asia-Europe trade and 35% in the trans-pacific trade. The new THE Alliance is estimated to have a market share of 30% in the Asia-Europe trade and 39% in the Trans-Pacific trade.

The above aggregated capacity

exceeds 100% in the Asia-Europe trade because of overlapping memberships in OCEAN Alliance and THE Alliance.

The three alliances' domination of main markets is beyond question and it is clear that shippers do not consider it a healthy and positive development for the sector.

As reported by Lloyd's List on June 14, marine consultant Drewry is already predicting lines will stop their fight over market share and opt for rate increases. Although all attempts of rate increases in the last few quarters have lasted for no more than a few weeks, many lines' drastic actions in laying off capacity have led to a much improved vessel utilisation of over 90% in the slack season of the 2016 first quarter.
Lines will now be in a better position in the second half of 2016 when the trades enter into the peak season.

Furthermore, many shippers' concerns of a threat to overall market competitiveness are a valid one.

While the Competition Commission is reviewing liners' applications for block exemption, the commission must take market concentration as a core consideration, amongst other factors such as price collaboration and common tariff. While the European Commission allows Vessel Sharing Agreements (VSAs) to operate, it has restricted each agreement to a maximum of a 30% share of the market. The 50% cap set by the Singaporean authorities is far too high to provide reasonable protection to users of liner services.

As of now, all signs point to a gloomy outlook of international trade and shippers will be facing difficulties in this atmosphere in mergers and growing alliances. Shippers need to keep their supply chains competitive if they are to weather the oncoming storm. For that very reason, shipping lines should not be given any special privileges of lenient competition compliance treatment.