UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT
UNCTAD

No. 69
SEPTEMBER 2018

POLICY BRIEF

MARKET CONSOLIDATION IN CONTAINER SHIPPING: WHAT NEXT?

Over the past two years, a wave of market consolidation has transformed the global container shipping industry, leading to mergers and acquisitions between container lines, a reshuffling of shipping alliances and the expansion of shipping companies into port operations. There is potential for more consolidation, which raises the question as to the implications for market concentration levels, and whether the industry is becoming an oligopoly on certain routes.

Consolidation activity in 2016–2018 reflects the industry's efforts to cope with the difficult market conditions faced since the 2008 global financial crisis. For many years, container shipping has struggled with low freight rates, dwindling earnings and poor financial returns.

There are clearly two sides to the container market consolidation story. By consolidating and joining alliances, container lines can expect to reduce costs, better manage ship capacity and enhance efficiency. These, in turn, benefit shippers, if on a given route the savings achieved by container lines translate into lower rates and improved service offerings. On the other hand, shippers, trade and ports can be negatively affected, if on a given route, consolidation results in reduced competition, constrained supply, market power abuse, and higher rates and prices. These trends call for systematic and regular monitoring and assessment of consolidation trends in container shipping.

Growing container shipping market consolidation

Since 2016, the global container shipping industry, which handles about 60 per cent of seaborne merchandise trade in terms of value, witnessed a series of developments leading to major market consolidation.[1] Container lines concluded various mergers and acquisitions and formed larger strategic shipping alliances – groupings where member container lines cooperate on strategic issues. This consolidation activity resulted in greater market concentration, with a handful of container lines dominating the market. As of January 2018, the top 15 container lines accounted for just over 70 per cent of all container ship capacity. Six months later, in June, the top 10 controlled almost 70 per cent of capacity, reflecting the completed operational integration of the new mergers.

Between 2004 and 2018, the number of companies providing services per country

[1] This policy brief draws mainly upon the information, data and analysis reported in the UNCTAD publication, *Review of Maritime Transport 2018*. Relevant references and sources are available at http://unctad.org/RMT (accessed 13 September 2018).

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declined by 38 per cent on average. In this context and given the potential for more consolidation in the future, the critical issue is whether the container shipping industry is moving towards oligopolistic markets.

What drives container shipping consolidation and new alliances?

The industry experienced years of no merger and acquisition activity after intensified consolidation in the early 2000s. The new wave of consolidation observed since 2016 was a means for the container shipping industry to cope with the depressed market conditions and poor financial returns that had persisted since the 2008 financial crisis. Over the past decade, the industry has struggled with a chronic supply and demand imbalance that undermined profitability, reduced freight rates and compressed earnings. Weaker global trade and decreased demand for ships coincided with an overcapacity in ship supply. The prevailing supply and demand mismatch was further amplified by the arrival of very large container ships that had been ordered years earlier. The 2016 bankruptcy of the container line Hanjin (Republic of Korea) contributed to the trend towards consolidation.

Mergers and acquisitions and alliances: Mega deals

In 2016, the shipping line CMA CGM acquired American President Lines, China Shipping Container Lines merged with China Ocean Shipping Company and Hanjin filed for bankruptcy. Acquisitions concluded in 2017 include the Hapag-Lloyd and United Arab Shipping Company merger in May, the Maersk–Hamburg Süd sale and purchase agreement signed in March, as well as the joint venture between the three largest Japanese lines in July – Nippon Yusen Kabushiki Kaisha, Mitsui Osaka Shosen Kaisha Lines and Kawasaki Kisen Kaisha.

Beyond mergers and acquisitions, the industry has also undergone a shift by reshuffling existing alliances and creating new ones. Alliances allow container lines to participate as global players and reduce operating costs through asset sharing. While these cooperation arrangements have been a fixture of container shipping for many years, the scale and extent of the restructuring of late is unprecedented. The leading container lines joined forces in three global alliances, down from four at the beginning of 2017. The three global alliances dominate capacity deployed on the major East–West container routes.

Consolidation and alliances: Implications for shippers

By consolidating and joining alliances, container lines can improve rates, earnings and financial returns. This becomes possible as container lines are able to achieve the following: combine operations, improve supply management and fleet utilization, pool cargo, leverage economies of scale, reduce operating costs and share resources and networks. By increasing their size, container lines can offer a wider range of services and invest in technological upgrading.

Container lines that are not members of alliances will find it increasingly difficult to compete. Some argue that they will be forced to join alliances with one of the major strategic players. Others contend that some independent container lines will continue to operate in niche markets. Evidence suggests that smaller container lines operating in niche markets are already losing ground to mega alliances.[2]

Consolidation offers certain benefits for shippers as well. These include less fluctuation in freight rates, more efficient and extensive services offered by container lines and lower rates and prices if cost savings made by the lines are effectively passed on to shippers.

Shippers can also benefit from alliances that allow for stronger partnerships among container lines that enable preventive measures to protect the industry, including shippers. This was the case, for instance, with an alliance that put in place an emergency fund for its members in the event of a bankruptcy.

A priority for shippers remains their continued access to frequent and varied container-shipping services, as well as the ability to choose from a selection of container lines. In this respect, UNCTAD

[2] See JOC.com, 2018, Top carriers consolidate control of container shipping, 15 January.

finds that the average number of companies providing services per country increased between May 2017 and May 2018, thereby offsetting the effect of takeovers and mergers, although the long-term trend has been a continuous reduction in the number of carriers over the years. In particular, the number of operators servicing several small island developing States has continued to decline.

Ports of call experience changing relationship with carriers

Consolidation and the rise of mega alliances entails some important implications for ports as well. Alliances have altered the relationship between container lines and ports and have triggered new dynamics.

First, the lines have stronger bargaining power and influence. Ports may be negatively affected, with some potentially being left out or losing their market share. The stakes are high for terminal operators, as a port call by alliance members using larger vessels can generate significant port volumes and business. For example, Port Klang, Malaysia, handled less cargo in 2017, as alliance members limited their calls at the port. Meanwhile, the ports of Singapore and Tanjung Pelepas, Malaysia, benefited from additional visits by ships, following the decision by alliance members to use these two ports as pivotal ports of call. Such trends would be more detrimental for certain secondary ports with relatively lower volumes and weaker bargaining power. By reducing the number of port calls, container shipping connectivity at the country level could be undermined, while shippers could be required to redefine their supply chains.

and acquisitions in port terminals, such as APM Terminals' takeover of the Spanish Group TCB and Yilport's purchase of the Portuguese group Tertir, are also expected.

Policy implications: Regular oversight, monitoring and impact assessment

Current market concentration levels suggest a market structure that is more representative of a loose oligopoly. With container shipping consolidation activity likely to continue, there is a concern that markets will become more concentrated and result in reduced competition, constrained supply, market power abuse and higher rates and prices.

Relevant regulatory and competition authorities need to regularly monitor container market concentration levels and the potential for market power abuse by large container lines. They should investigate the related impact on smaller players, as well as potential implications in terms of freight rates and other costs to shippers and trade. In this respect, the Intergovernmental Group of Experts on Competition Law and Policy of UNCTAD at its seventeenth session, held in Geneva, Switzerland, in July 2018, called upon UNCTAD to continue its analytical work on international maritime transport, including monitoring and analysing the effects of cooperative arrangements and mergers not only on freight rates but also on the frequency, efficiency, reliability and quality of shipping services (see TD/B/C.I/CLP/49).

There is a need to assess the implications of mergers and alliances and of vertical

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Additional reading

Review of Maritime Transport 2017 and 2018 available at http://unctad.org/RMT