Maritime Business Strategies

Olaf Merk

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ITF Roundtable on Future Maritime Trade Flows
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Outline

1. Which strategic choice?
2. Evolution of maritime strategies?
3. Where do we stand now?
4. What to expect for the future?
5. What impacts on maritime trade flows?
1. Which strategic choice?

<table>
<thead>
<tr>
<th>Economies of scale</th>
<th>Economies of scope</th>
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<tbody>
<tr>
<td>Cost minimisation</td>
<td>Revenue maximisation</td>
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<tr>
<td>Price competition</td>
<td>Service differentiation</td>
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<tr>
<td>Commodification</td>
<td>Market segmentation</td>
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- There is a strong – two way - interdependence of business strategy and shipping regulatory regime
- Regulatory capture but shipping policies also create path dependency for businesses
2. Evolution of maritime strategies?

The post-war Atlantic compromise

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<tr>
<th>Principle</th>
<th>United States</th>
<th>Europe</th>
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<tr>
<td>Privatisation</td>
<td>Creation of FoCs for US bulk shippers</td>
<td>Continuation of Europe-dominated liner cartels</td>
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<th>Instrument</th>
<th>United States</th>
<th>Europe</th>
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<tr>
<th>Outcome</th>
<th>United States</th>
<th>Europe</th>
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<td>Lower costs</td>
<td>Stability</td>
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Enshrined in OEEC/OECD instruments, e.g. in OEEC Code of Liberalization of Currently Invisible Operations
2. Evolution of maritime strategies?

Internal contradictions:

• The creation of Flags of Convenience by the US was motivated by lagging cost competitiveness vis-à-vis European flags. The reaction of Europe – after opposing FoCs in vain – was maritime subsidies, to address cost competitiveness vs. FoCs.

• The revival of Atlantic trade strengthened the hand of shippers and led to revival of strong antitrust approach in US towards liner conferences (OSRA, 1998). Facilitated by containerisation that improved the prospects for independent US liner shipping.

• Emerging economies pushing alternative approaches: national cargo reservations (UNCTAD Code of Conduct for Liner Shipping) and state-led capitalism (China).
2. Evolution of maritime strategies?

Results of the demise of the Atlantic compromise:

• More focus on cost competitiveness. Made possible by externalisation of costs, via flags of convenience and maritime subsidies.

• Stronger anti-trust policies in US resulted in the end of price fixing cartels. So less market segmentation, more price competition

• Focus on cost competitiveness further enhanced by cost externalisation via state-owned enterprises, in emerging economies.
2. Evolution of maritime strategies?

- Need to cut costs
- Lower freight rates
- Bigger ships
- Fleet overcapacity
2. Evolution of maritime strategies?

- Need to cut costs
- Lower freight rates
- Bigger ships
- Fleet overcapacity
- Flags of convenience
- Maritime subsidies
- Anti-trust policies

International Transport Forum
3. Where do we stand now?

a) Ever bigger ships
b) Industry consolidation
c) Commodification
d) Vertical integration as way-out
e) Oligopoly and monopsony
3. Where do we stand now?

a) Ever bigger ships

Source: Sea Intelligence
3. Where do we stand now?

b) Industry consolidation

Capacity market shares global carriers (1998-2018)

Source: Alphaliner
3. Where do we stand now?

b) Industry consolidation

Share non-alliances in East-West trades (2012-2018)

Source: Sea Intelligence
3. Where do we stand now?

c) Commodification

Scheduled transit time Shanghai to Rotterdam/Antwerp per carrier (2012-2018)

Source: Sea Intelligence
3. Where do we stand now?

d) Vertical integration

Carrier as terminal operator  Independent terminal operators  Other

Types of terminal operators (2001-2016)

Source: ITF 2018
3. Where do we stand now?

e) Oligopoly

Market shares Asia-North Europe trade, per quarter (2012-2018)
3. Where do we stand now?

e) Oligopoly: less choice
3. Where do we stand now?

e) Oligopoly: less choice

Weekly service frequency on Asia-Europe trade lanes 2012-2018

Source: Sea Intelligence
3. Where do we stand now?

e) Monopsony

Deviation from trend-line growth (million TEUs) (1987-2017)

Source: ITF 2018
### 3. Where do we stand now?

Divergence of regulatory regimes

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<th>EU</th>
<th>China</th>
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<tbody>
<tr>
<td>Flags</td>
<td>FoCs</td>
<td>Hybrid</td>
<td>National flag</td>
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<td>Subsidies</td>
<td>Fleet availability</td>
<td>Fiscal benefits</td>
<td>SOEs</td>
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<tr>
<td>Competition</td>
<td>Anti-trust</td>
<td>Competitiveness</td>
<td>Champions</td>
</tr>
<tr>
<td>Main beneficiary</td>
<td>Shipper</td>
<td>Shipping</td>
<td>Maritime cluster</td>
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3. Where do we stand now?

Consequences of regulatory divergence:

- Lack of level playing field. Challenges for compliance. But also: pick and choose for shipping companies
- Extra-territorial competition for maritime cluster functions, e.g. Chinese port-park-city model
- Complications of policy enforcement, e.g. with regards to competition regulation for shipping
- Part of a larger story on decline of multilateral cooperation and emergence of multi-polarity
4. What to expect for the future?

Three scenarios:

a) Status quo
b) Technological disruption
c) Regulatory convergence
4. What to expect for the future?

a) Status quo:

- Mega-ship proliferation to force further consolidation
- Alliances and inter-linked consortia as “second-best” alternative to conferences
- Vertical integration as differentiator
- Regulatory divergence as justification for state aid
- Return on port investment as collateral damage
- States with big pockets stepping in this void
4. What to expect for the future?

b) Technological disruption:

• Decarbonisation: what is the most appropriate ship type in the transition to zero-carbon shipping? The risk of stranded assets (LNG-powered ships) and related infrastructures.

• Information technology: potential of optimisation of processes. Will current digitalisation initiatives lock in existing structures? Are outsiders able to break through barriers of entry?
4. What to expect for the future?

c) Regulatory convergence:

- More “genuine link” between flag and nation
- Global agreement on subsidies
- Reciprocity on access for maritime clusters
- Global anti-trust policy; information exchange between competition regulators
- Norms on ship size
- More local manning and local content requirements
- Who has the institutional mandate and appetite to broker regulatory convergence?
5. What impacts on maritime trade flows?

Status quo:
• More concentrated port networks: feeder ing or inland transport
• “Locked-in” transport chains

Technological disruption:
• Duplication of infrastructures to power ships. Trade effects depending on internalisation of costs
• Optimalisation of routing, interfaces and processes

Regulatory convergence:
• Cost internalisation in price of maritime transport, possibly reducing maritime transport demand
• Less concentrated port networks
Thank you!

Olaf Merk
olaf.merk@itf-oecd.org
Twitter: @o_merk