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PRESS RELEASE

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GSF report says radical changes to container shipping market need new solutions

Radical changes to the shape and structure of the container shipping market mean ship operators and their customers need to develop new commercial approaches, as outlined in a major new report published today by the Global Shippers Forum (GSF).

The report entitled 'The Implications of Mega-Ships and Alliances for Competition and Total Supply Chain Efficiency: An Economic Perspective' is a detailed analysis of the global container shipping industry and a review of competition policy and the impacts of consolidation.

GSF Secretary General Chris Welsh said: "It has been clear for some time that the existing business model isn't working for either carriers or their customers. There is a widening gulf between customers' expectations and quality of service as carriers focus almost exclusively on operational arrangements and alliance structures. We urgently need a new 'commercial contract' where the needs and incentives between shippers and carriers are better aligned."

The GSF paper notes that the prospect of 6-10 major carriers controlling the world's main container trades looks more probable as the pace of consolidation through merger and acquisition accelerates. This is due to the introduction of mega-ships and the associated development and growth into four - and possibly soon to be three - strategic alliances involving the world's top 16 operators.

The new market structure presents real potential competition issues between carriers and for shippers, as independent carriers are forced out of the market or are driven into smaller niche markets. Should the market become consolidated into 6-10 major operators controlling the main trade lanes, GSF believes it would be inevitable that the market share thresholds for alliances and consortia agreements would have to be so low they would be ruled out on competition grounds, with carriers having to compete head-to-head.

The report questions the received wisdom in the shipping industry that vessel sharing agreements and alliances are good for competition. With important parameters of competition such as capacity, sailing frequency and ports of call removed, many shippers are questioning whether dealing with fewer fully-independent shipping companies could be better than dealing with a larger number of allied shipping companies in alliances.

Mr Welsh added: "Certain shippers believe that a degree of vertical integration between shippers and shipping companies is a potential method to increase the alignment of incentives between shippers and shipping lines. The nature of such integration, and the extent to which it might alleviate the problems felt by shippers, would of course need to be explored. Given the complexity of the issue, and the need for balanced consideration across the container shipping supply chain, there is strong merit in there being an active ongoing debate on the implications of mega-ships and alliances which GSF is keen to foster with the container shipping industry and other stakeholders."

The paper carries out a detailed competition policy analysis of the impacts of mega-ships and alliances, the main drivers behind consolidation in the container shipping market.

Mr Welsh said: "The report raises various competition issues related to mega-ships and alliances and concludes that the new market structures and trend towards consolidation may require new competition and regulatory approaches. These include prior notification and approval of alliance and consortia agreements, and greater use of merger legislation in the assessment of the competition impacts of alliances and consortia agreements, and the maintenance of genuine independent competitors on key trade routes to alliances."

Notes for editors:

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The Global Shippers' Forum (GSF) is the global voice for shippers, created in 2006 as the successor to the Tripartite Shippers' Group, first organised in 1994. Like the Tripartite Shippers' Group, the GSF represents the interests of various national and regional shippers' organisations in Asia, Europe, North and South America and Africa. The GSF is focused on the impact of commercial developments in the international freight transportation industry and the policy decisions of governments and international organisations that affect shippers and receivers of freight. The GSF was formally incorporated and registered as a non-governmental organisation in the United Kingdom in June 2011.