

# The “New Normal” in Liner Shipping: Are Policies Fit for Purpose?

Olaf Merk

Freight Forwarders Forum 2020

Session 1: Liner Shipping Put to Test: Serving Global Trade at Times of Crisis

12 November 2020

# Theory

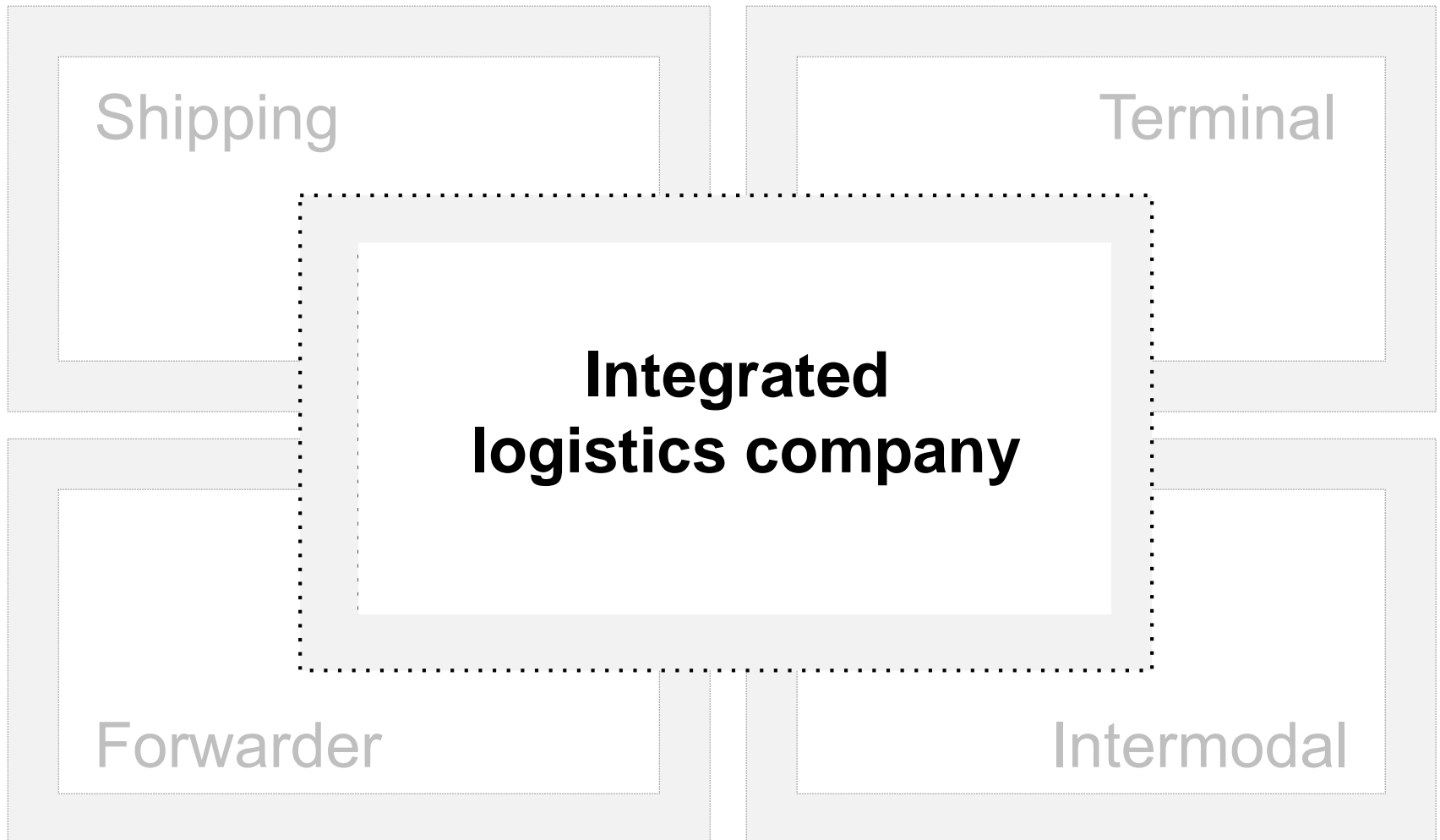
Shipping

Terminal

Forwarder

Intermodal

## Practice




# Regulation

Shipping special regimes:

- Competition
- State aid
- Taxation



## Key messages

- Pure liner shipping only exists in theory.
  - Practice is much more hybrid. Most major liner companies have integrated other activities: terminal operations, freight forwarding and intermodal transport (“door-to-door”). In other words: **vertical integration**
  - EU regulation does not take account of this, perpetuating special regimes for liner shipping: **competition**, **state aid** and **taxation**
  - In this way, regulation creates market distortions – that risk to increase in the future
- 

## Market shares of shipping in other sectors

Shipping



Terminal

**~40%** (container)

Forwarder

**~15%** (ocean freight)

Intermodal

**~45%** (feeder)

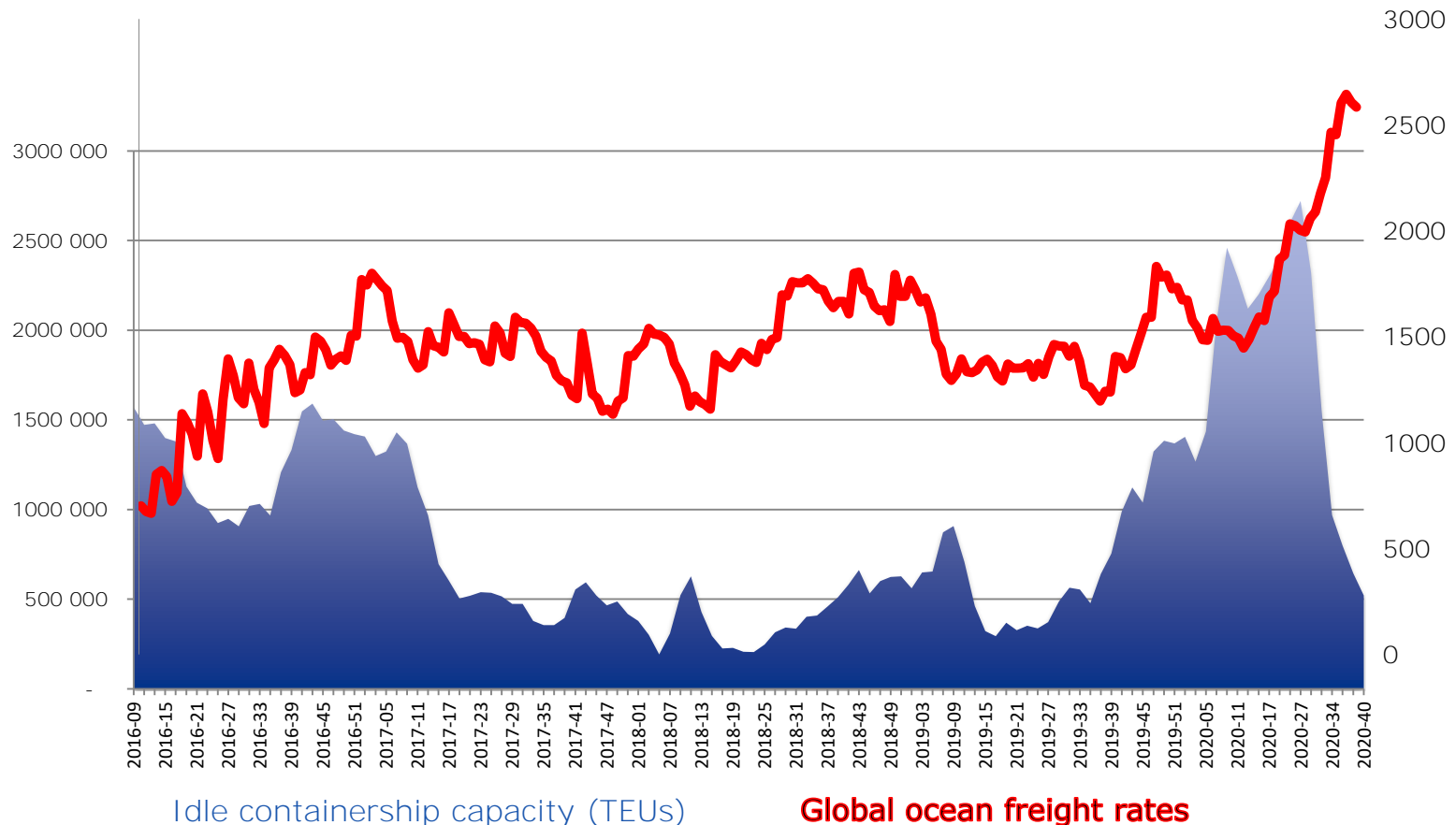
# 1. Competition: EU regulation

- Shipping cartels outlawed in 2004. (Cartels influence freight rates via joint coordination of prices/capacity).
- Cooperation agreements are facilitated via the Consortia block exemption regulation since 1995, revised in 2009.
- Goal: economies of scale. A fair share should be passed on to transport users (frequency, quality, reliability).
- Special privileges for liner shipping: capacity management, information exchange, joint negotiation.
- “...the **combined** market share of the consortium members in the relevant shall not exceed 30%” art. 5(1)



# 1. Competition: capacity management

“capacity adjustments in response to fluctuations in supply and demand”





# 1. Competition: information exchange

Which information is exchanged?

- Volumes moved by carriers in each direction of trades
- Average revenue per TEU earned by carrier per trade
- Demand and supply forecasts

What do carriers know of each others via consortia?

- Reference costs (fuel costs, vessel operating costs and depreciation costs); per service or trade.

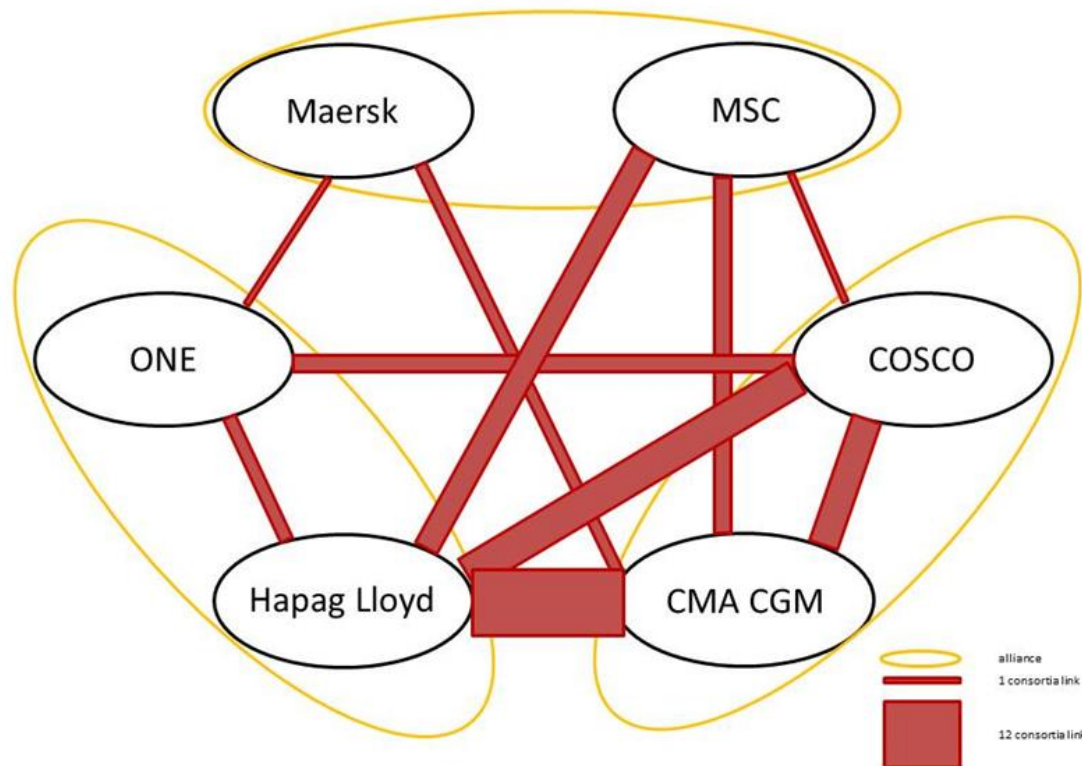
Price information exchange where conferences are allowed

Intensifying information exchange via TradeLens, DCSA

- *Do freight forwarders have access to this information and similar possibilities of information exchange?*

# 1. Competition: a conglomerate of consortia

Large majority of trade routes to/from Europe operated by one conglomerate



# 1. Competition: joint negotiation

CBER generous on joint negotiation with suppliers.









Market power plus vertical integration creates risks:

- **“An offer you cannot refuse”**
- Unfair competition in non-shipping markets (terminal, intermodal) via product bundling, predatory pricing or forcing of own product.
- Interference in complaints via trade associations.
- This hollows out the function of forwarders: to offer best package of transport options.



# 1. Competition: which corrective capacity?

Passing on a fair share of CBER benefits to transport users?

	2015-2019	2020-....
Freight rate		
Frequency		
Reliability		
Connectivity		

Regulators: a problem of legal clarity, monitoring, sanctions

Countervailing powers: who understands, who dares to complain?



## 2. Maritime State aid: EU regulation

- Maritime State Aid Guidelines 1989, 1997 and 2004
- Beneficiaries: shipping companies
- Aim: provide clarity which support measures are **compatible with internal market: “not adversely affect trading conditions contrary to the common interest”**.
- In parallel: Commission decisions on notified measures by member states.
- For example: ~24 decisions on tonnage tax since 2004 that define – often expand - the boundaries of what the Commission allows.



## 2. Maritime State aid & vertical integration (1)

- The 2004 Guidelines do not indicate that the tonnage tax can cover non-shipping activities.
  - **However, Commission decisions have approved “ancillary activities” that can be covered by the tonnage tax: e.g. terminal handling, storage and demurrage.**
  - So: 1-2% tax rate instead of the regular CIT rate.
  - This applies to activities carried out by operator in the same group as the shipping firm applying tonnage tax.
  - Who benefits? Vertically integrated shipping groups, at the cost of independent shipping, terminals, forwarders
  - Incentive for carrier haulage instead of merchant haulage
-

## 2. Maritime State aid & vertical integration (2)

Which ancillary activities can be covered in tonnage tax schemes in EU?

<b>Ancillary activities</b>	<b>Most recent examples</b>
Self-handling	Estonia (2019)
Terminal cargo handling	Croatia (2020), Cyprus (2019)
Temporary on-dock storage	Croatia (2020), Cyprus (2019)
Consolidation/breaking cargo	Cyprus (2020)
Customs clearance	Croatia (2020)
Office facilities	Croatia (2020), Cyprus (2019)
Road haulage	Croatia (2020)

This creates market distortions throughout the EU market: a German freight forwarder can be disadvantaged because of a tonnage tax scheme in Cyprus



## 2. Maritime State aid & vertical integration (3)

Not just a theoretical possibility

	Effective corporate income tax rate
Integrated terminal operators	14%
Non-integrated terminal operators	21%
Shipping	7%



## 3. Taxation

OECD/G20 GLOBE Inclusive Framework Blueprint:

1. Digital Tax. International maritime shipping excluded
2. Global minimum tax for multinational enterprises. Maritime shipping possibly excluded.

Current effective corporate income tax rate:

- 27% for freight forwarders
- 7% for shipping.

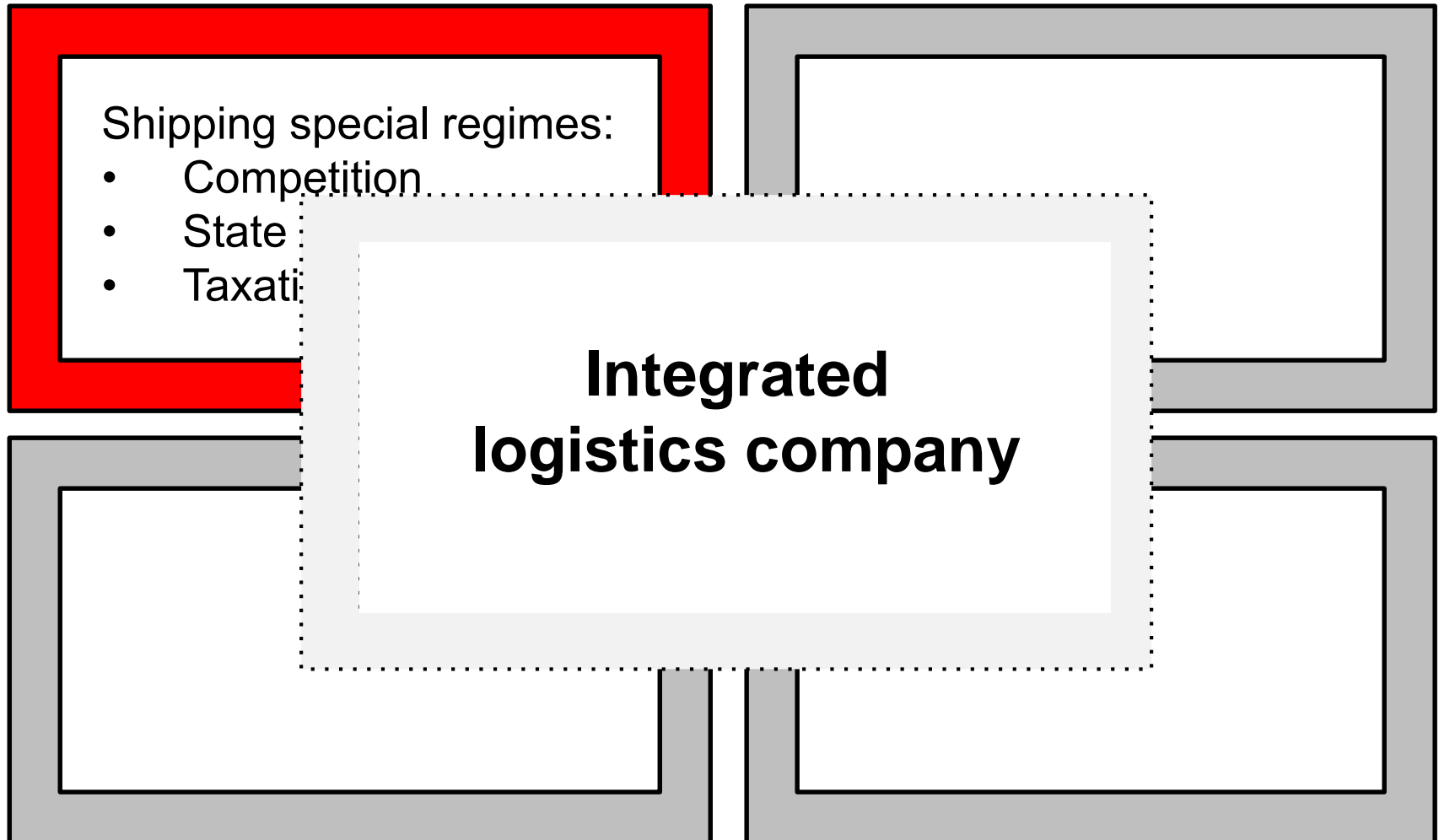
Impacts on level playing field in freight forwarding?

Public consultation: contributions until 14 December 2020:

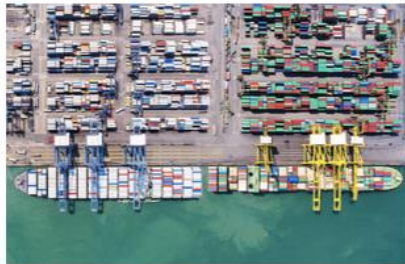
<https://www.oecd.org/tax/beps/public-consultation-document-reports-on-pillar-one-and-pillar-two-blueprints-october-2020.pdf>



## Avenues for reform: cancel, delimit or enlarge



# Recent ITF work on liner shipping



## The Impact of Alliances in Container Shipping



Case-Specific Policy Analysis



## Container Shipping in Europe Data for the Evaluation of the EU Consortia Block Exemption



## Maritime Subsidies Do They Provide Value for Money?



Case-Specific Policy Analysis

## COVID-19 TRANSPORT BRIEF

### Global Container Shipping and the Coronavirus Crisis

29 April 2020

As a result of Covid-19, container trade volumes and container port volumes have declined over the first months of 2020. Container freight rates have remained fairly stable because carriers have idle capacity, yet the high debt level of container carriers creates insolvency risks. Any bailouts for the sector should address offloading of risks to the public.

Global container trade volumes declined by 8.6% in February 2020 compared to the same month of 2019. Official figures for March 2020 have not been released, but in view of widespread lockdowns the reduction will likely be larger. The decline in container trade was particularly marked in the Far East, in Europe, North America and Oceania. It is also significant, while it is not yet noticeable in other emerging economies (Latin America, Sub-Saharan Africa and the Indian Subcontinent and the Middle East). The table below lists the changes in January and February 2020 for different world regions. The recent development of container trade volumes is depicted in Figure 1 at the end of this Brief.

Table 1. Changes in container trade volume by world region, 2020

World region	Change Jan 2020 to Feb 2020 (%)	Change Feb 2020 to Feb 2019 (%)
Far East	-20	-17.5
Europe	-17	-4.8
North America	-13	-7.6
Australia and Oceania		
Indian Subcontinent and M. East		
South and Central America		
Sub-Saharan Africa		

Source: International Transport Forum, 2020

The main response of carriers to falling (or missing) demand is to raise rates. Carriers have mostly started to do so even by cancelling compared to previous years, with 188 in Far America West Coast trade lane and 49 on the

## COVID-19 TRANSPORT BRIEF

### Lessons from Covid-19 State Support for Maritime Shipping

23 October 2020

State support packages are helping the shipping industry to deal with the Coronavirus crisis. Government support comes in many forms but usually without strings attached - and rarely aligned to broader policy objectives. A rethink is needed.

The Covid-19 crisis has a profound impact on the shipping industry. Passenger and transport in particular has suffered heavy setbacks in volumes. Ferry services and cruise shipping were strongly affected by border closures and other restrictions on citizens. Cargo sea transport also faced reduced demand, but container shipping in particular managed to compensate by withdrawing ship capacity and increasing prices.

Many governments have put in place additional support measures for shipping, on top of the broadly aimed support to mitigate the overall economic fallout from the Coronavirus crisis, including instruments that could have significant impact on the shipping sector such as changes in the terms of export credits. At least 13 countries have implemented state support for the shipping sector in recent months, according to a preliminary inventory of support packages compiled by ITF (see table).

This inventory may underestimate the level of government support for shipping, as there is currently no systematic data collection on state aid for the maritime sector. Even the European Union's state aid database does not contain all known support measures for the shipping industry, although EU member countries are supposed to notify state aid.

State support to mitigate Covid-19 impacts on shipping is in large part directed towards ferry and cruise shipping companies. These are the targets of more than half of known aid packages, with nine out of the 13. Ferry companies receive state support in Estonia, Ireland, Greece, Italy, Sweden and United Kingdom - countries where ferries provide important means of international or domestic connectivity.

# Thank you!

Olaf Merk

[olaf.merk@itf-oecd.org](mailto:olaf.merk@itf-oecd.org)

@o\_merk (Twitter)