

# Maritime Business Strategies

Olaf Merk

15-16 April 2019  
ITF Roundtable on Future Maritime Trade Flows  
Paris, France

## 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?

Economies of scale	Economies of scope
Cost minimisation	Revenue maximisation
Price competition	Service differentiation
Commodification	Market segmentation

- 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

	United States	Europe
Principle	Privatisation	Self-regulation
Instrument	Creation of FoCs for US bulk shippers	Continuation of Europe-dominated liner cartels
Outcome	Lower costs	Stability

Enshrined in OEEC/OECD instruments, e.g. in OEEC Code of Liberalization of Currently Invisible Operations

## 2. Evolution of maritime strategies?

### Internal contradictions:

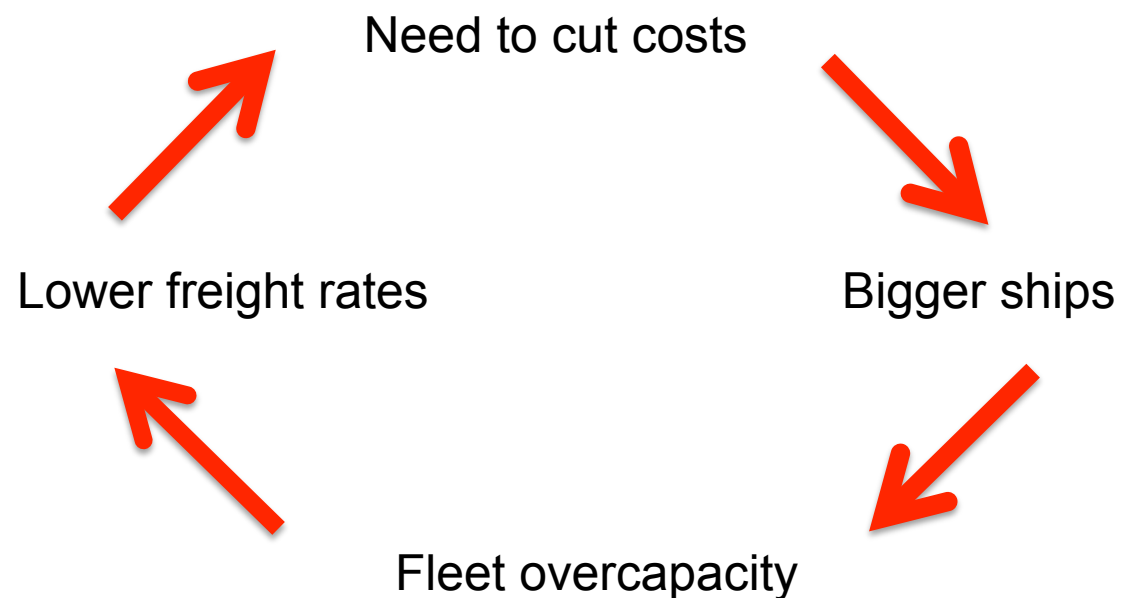
- The creation of Flags of Convenience by the US was motivated by lagging cost competitiveness vis-à-vis European flags. The reaction of Europe – after opposing FoCs in vain – was maritime subsidies, to address cost competitiveness vs. FoCs.
  - The revival of Atlantic trade strengthened the hand of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

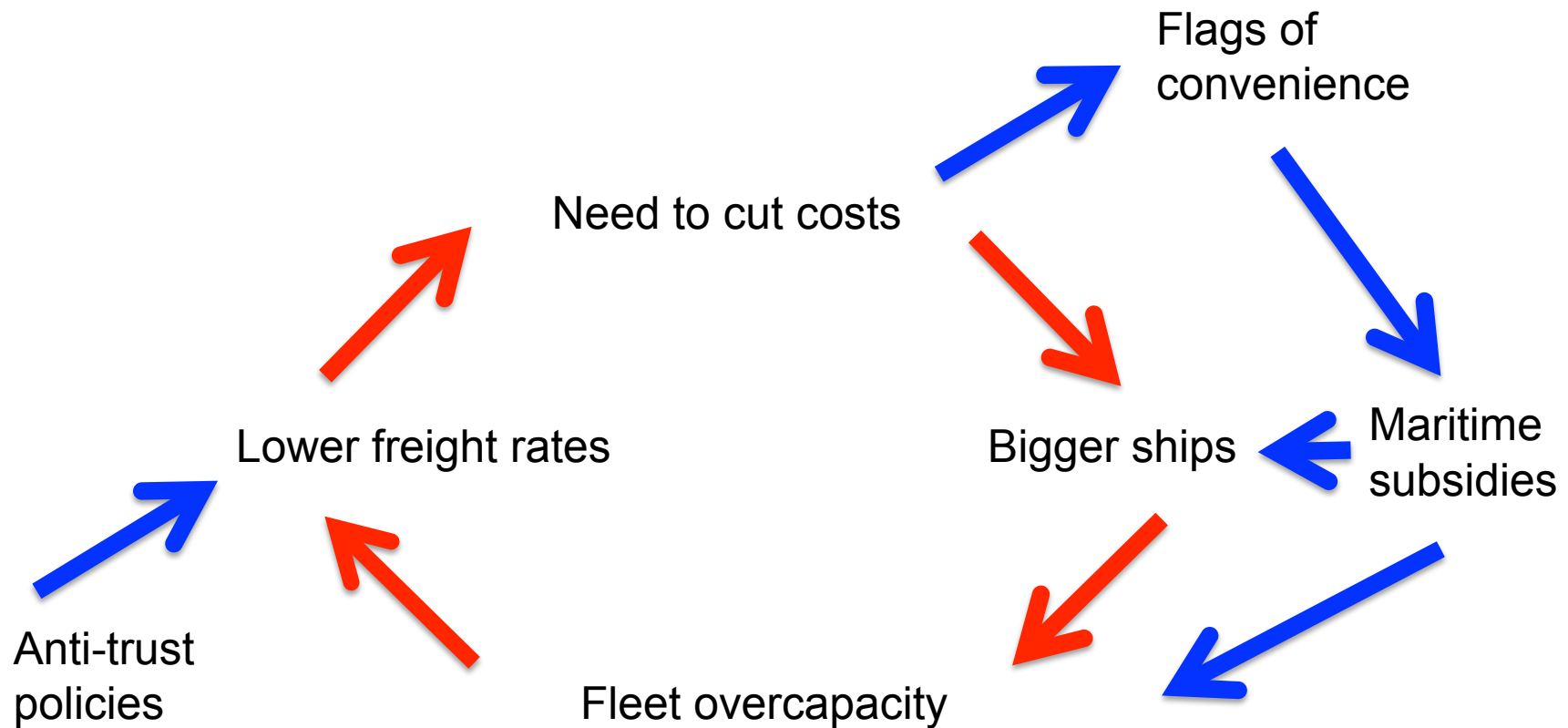
Results of the demise of the Atlantic compromise:

- 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?



## 2. Evolution of maritime strategies?





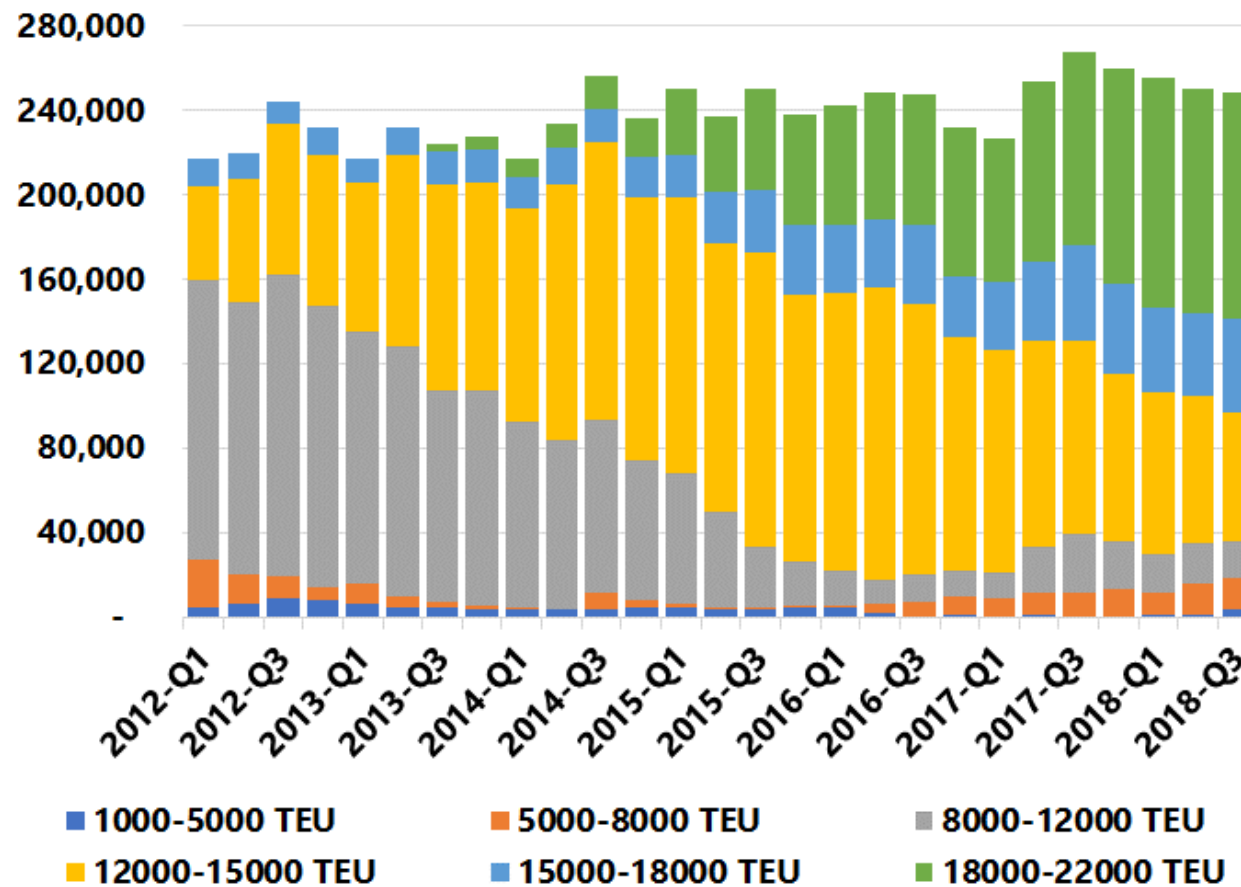
### **3. Where do we stand now?**

- 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?

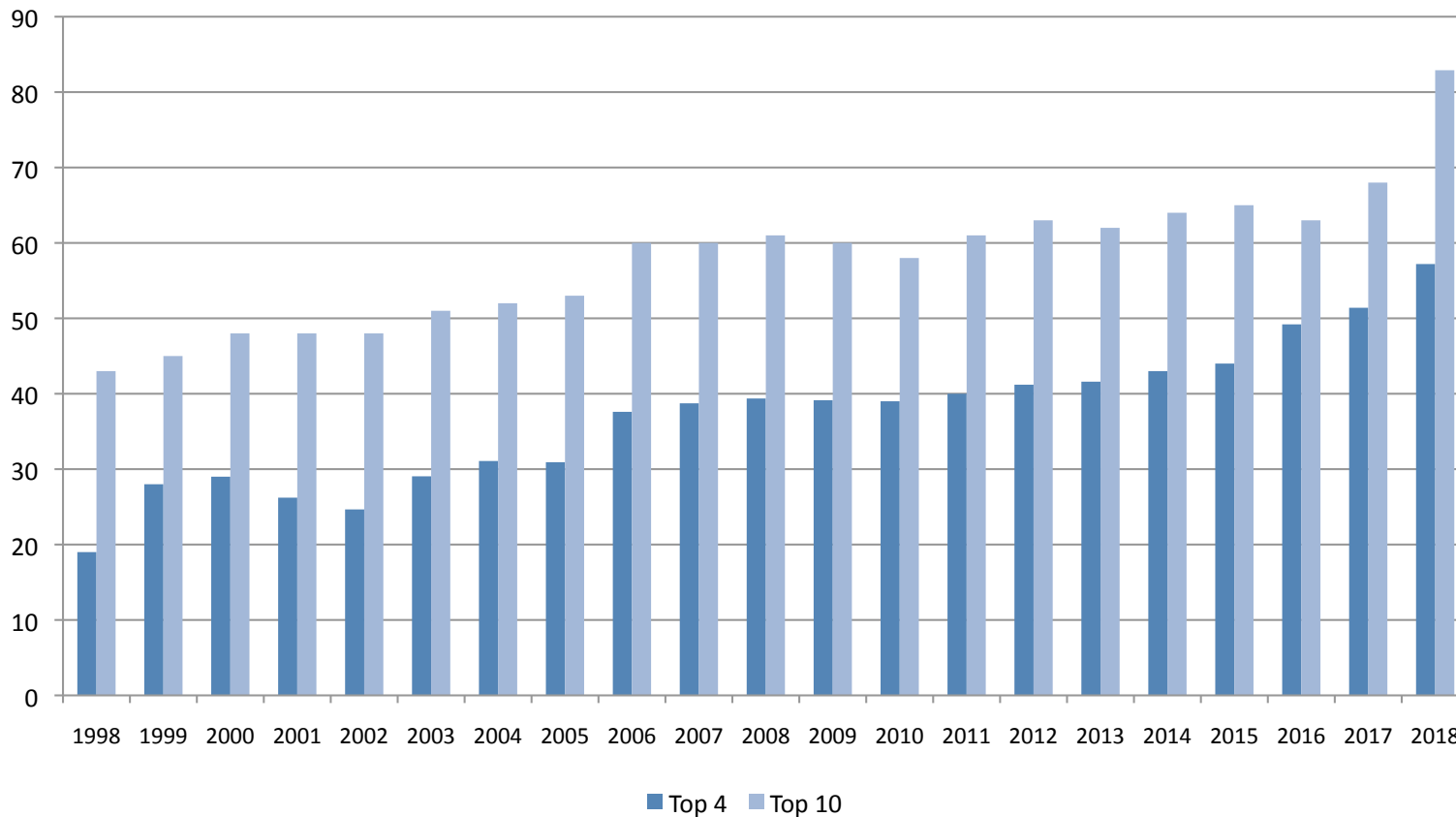
#### a) Ever bigger ships



Source: Sea Intelligence

### 3. Where do we stand now?

#### b) Industry consolidation

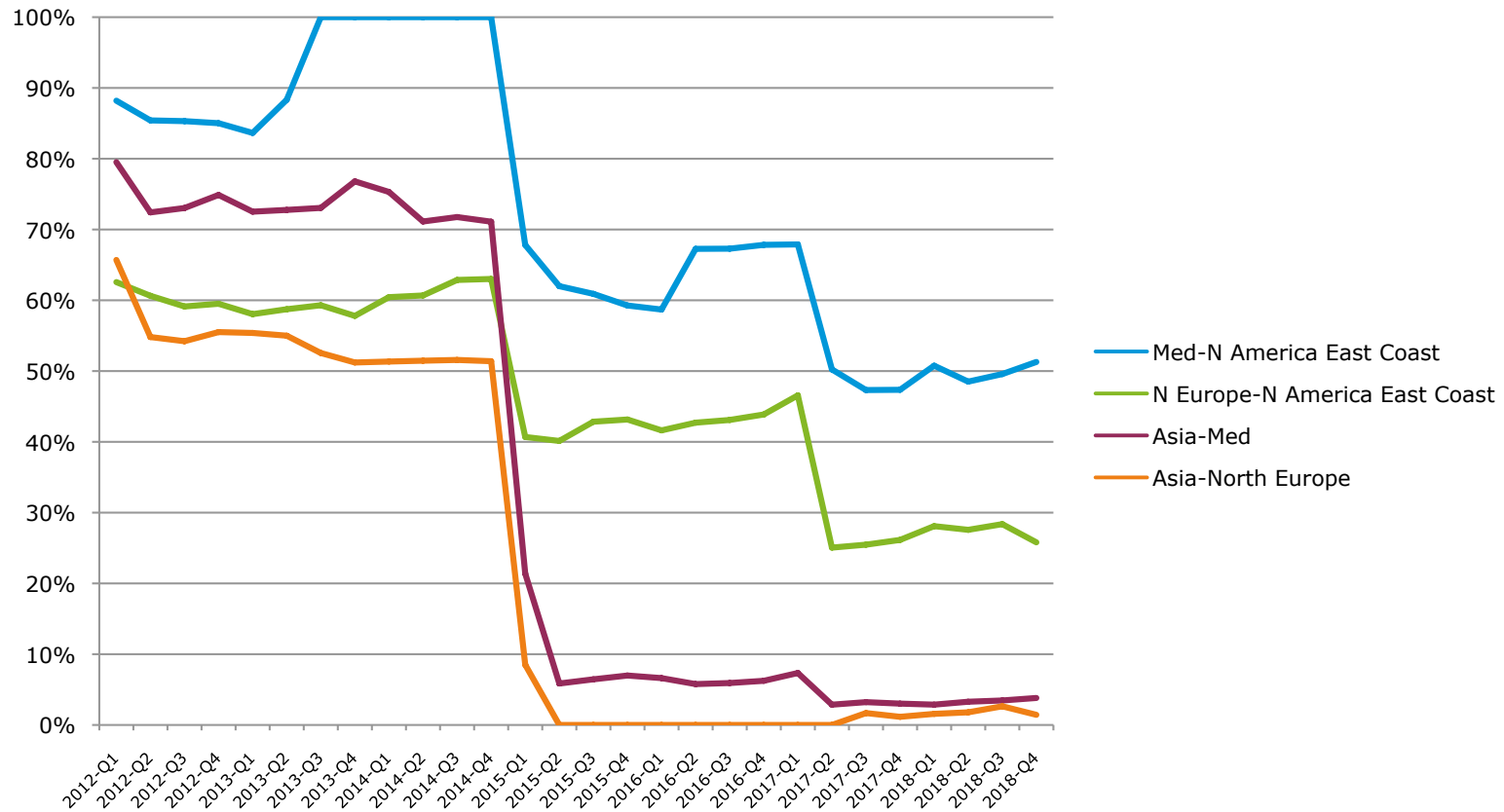


Capacity market shares global carriers (1998-2018)

Source: Alphaliner

### 3. Where do we stand now?

#### b) Industry consolidation

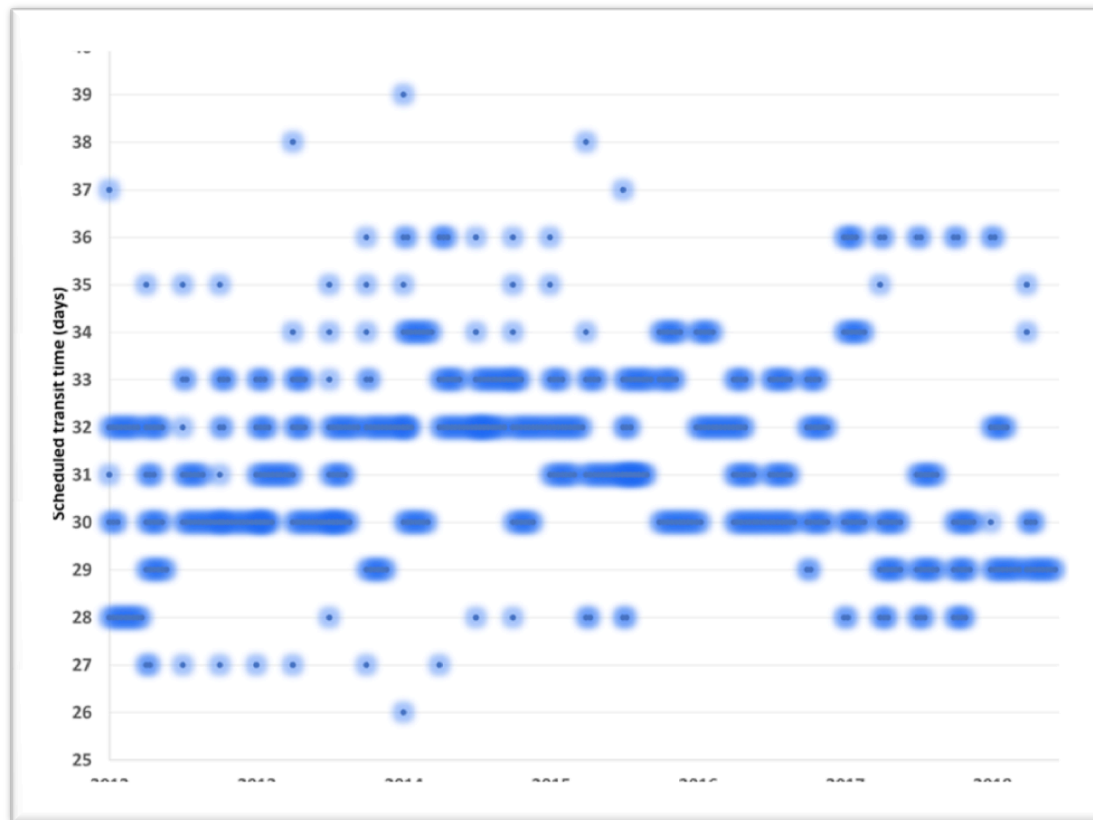


Share non-alliances in East-West trades (2012-2018)

Source: Sea Intelligence

### 3. Where do we stand now?

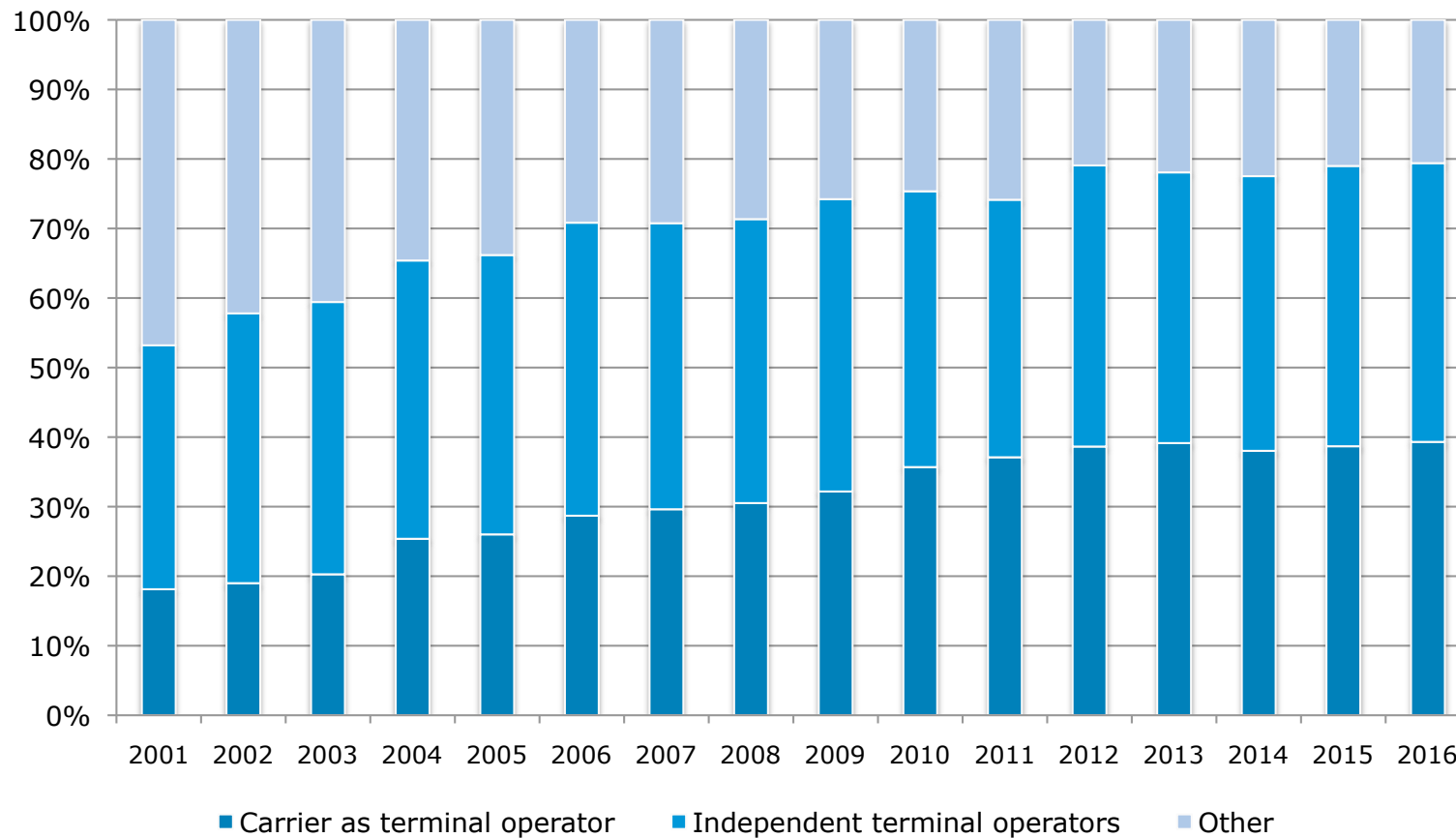
#### c) Commodification



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

### 3. Where do we stand now?

#### d) Vertical integration

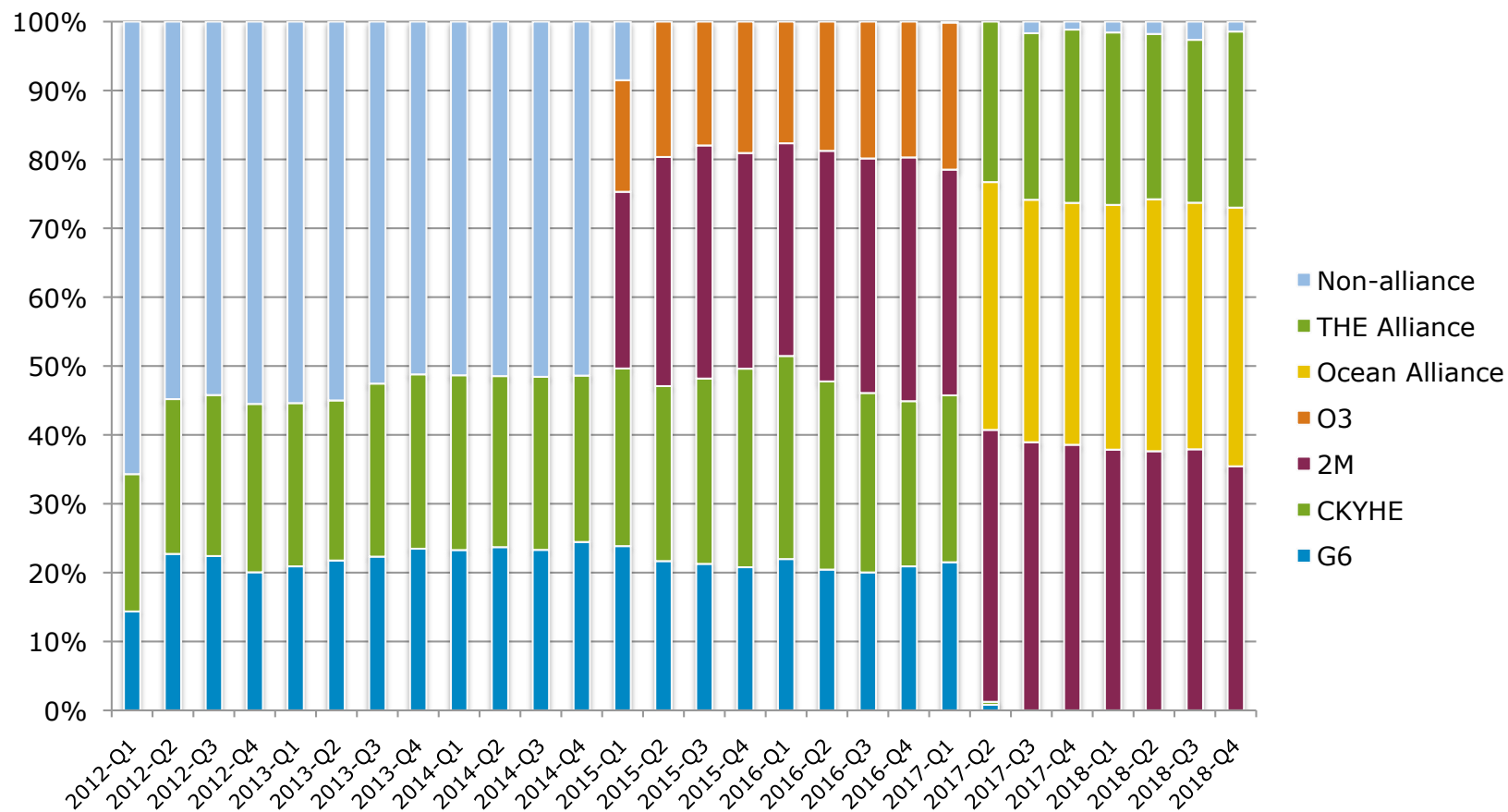


Types of terminal operators (2001-2016)

Source: ITF 2018

### 3. Where do we stand now?

#### e) Oligopoly



Market shares Asia-North Europe trade, per quarter (2012-2018)

Source: Sea Intelligence

### 3. Where do we stand now?

#### e) Oligopoly: less choice



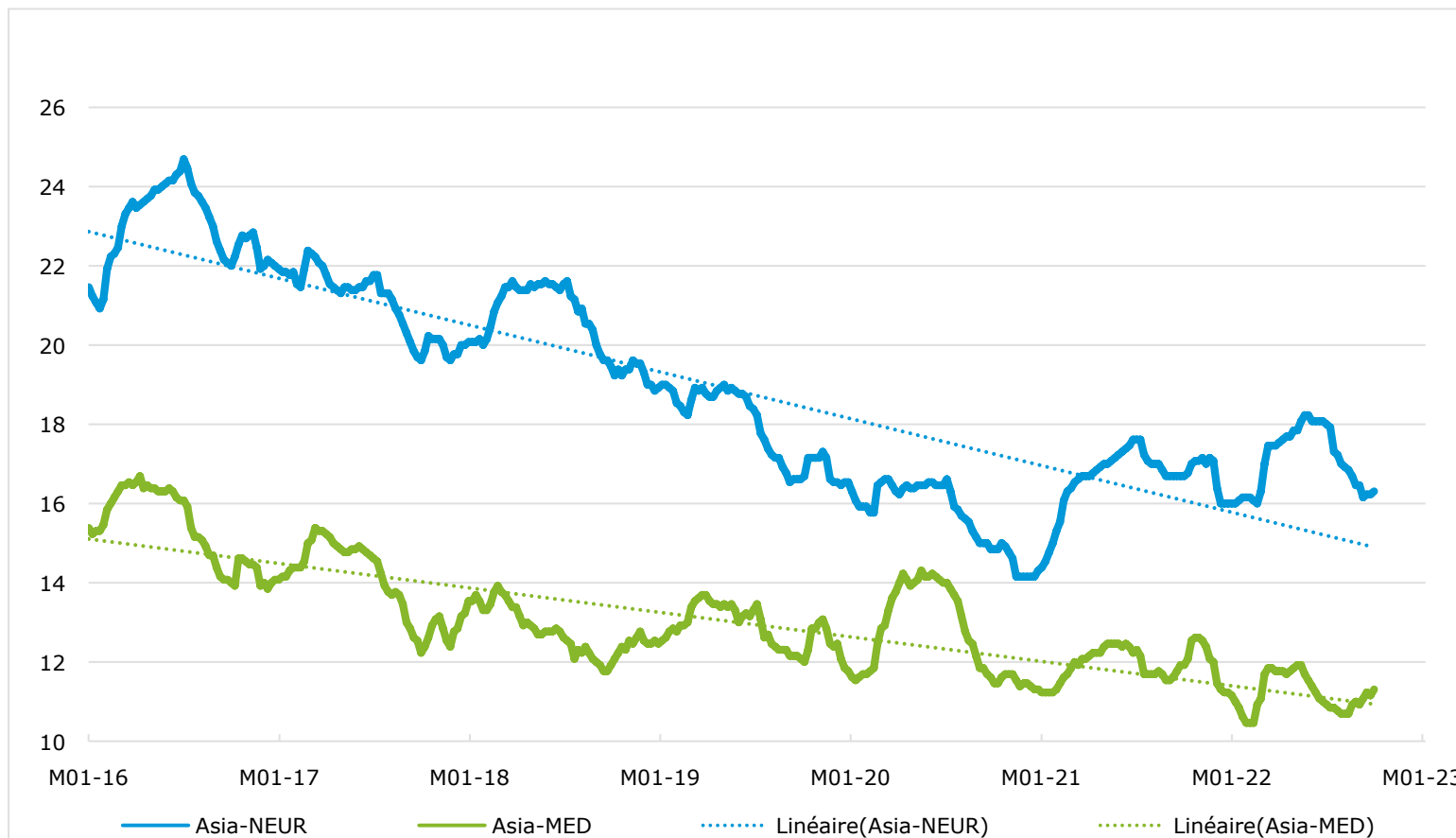
Distinct port pairs on Asia-North Europe services 2012-2018

Source: Sea Intelligence



### 3. Where do we stand now?

#### e) Oligopoly: less choice

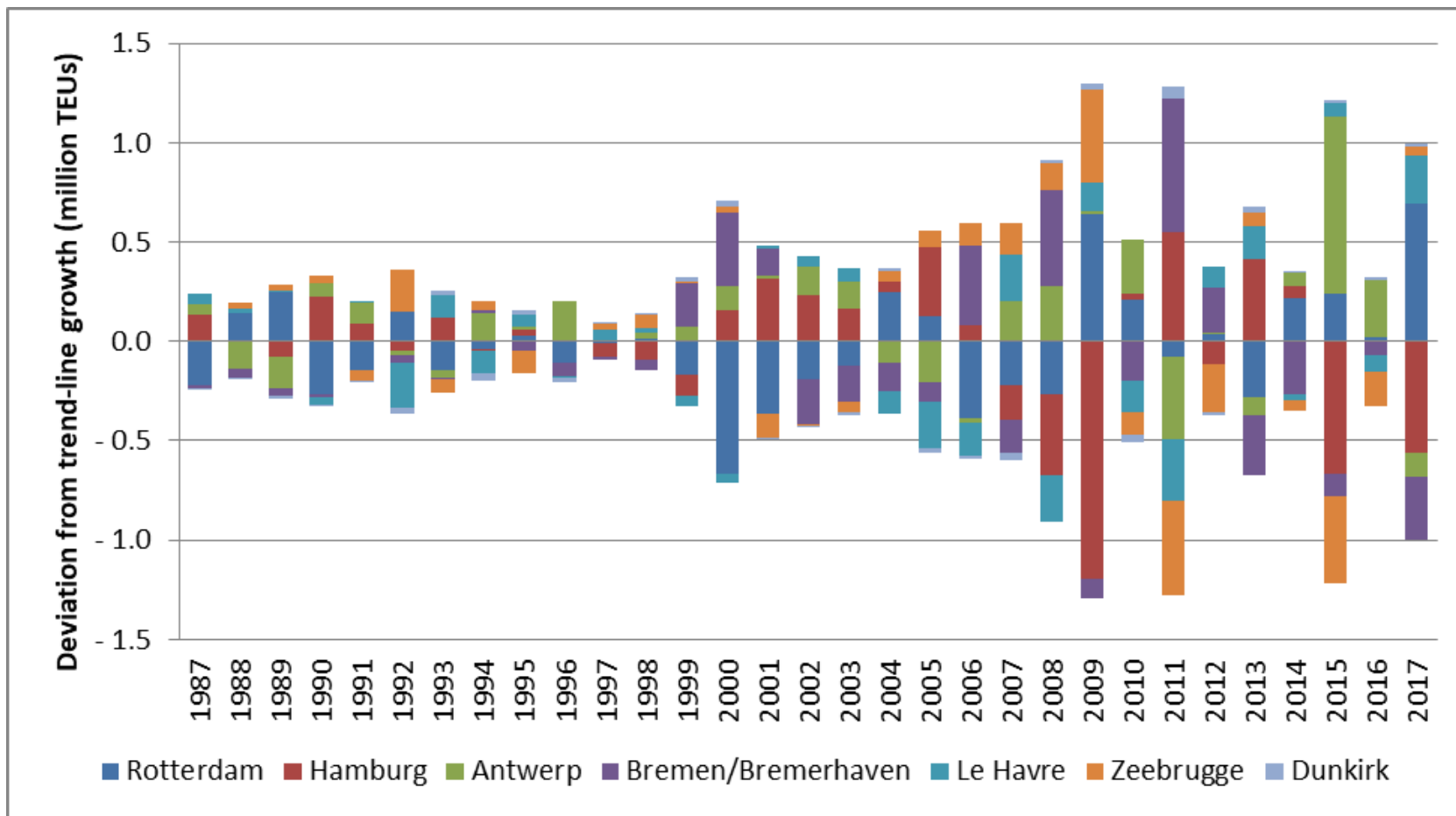


Weekly service frequency on Asia-Europe trade lanes 2012-2018

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

	<b>US</b>	<b>EU</b>	<b>China</b>
Flags	FoCs	Hybrid	National flag
Subsidies	Fleet availability	Fiscal benefits	SOEs
Competition	Anti-trust	Competitiveness	Champions
Main beneficiary	Shipper	Shipping	Maritime cluster

### 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 or inland transport
- “Locked-in” transport chains

### Technological disruption:

- Duplication of infrastructures to power ships. Trade effects depending on internalisation of costs
- Optimisation 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](mailto:olaf.merk@itf-oecd.org)

Twitter: [@o\\_merk](https://twitter.com/o_merk)