

## Consortia rules boost carrier efficiency

*As it begins its deliberations on the future of the consortia block exemption regulation, the European Commission should consider the reasons to enable alliances rather than what alliances enable*

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by Trevor Heaver |

Cost savings passed to shippers from the formation of alliances should encourage Brussels to maintain consortia rules



BRUSSELS SHOULD LOOK AT THE BENEFITS THAT SHIPPERS RECEIVE FROM THE CONSORTIA BLOCK EXEMPTION REGULATION.

THE position the European Commission takes on the Consortia Block Exemption Regulation matters for EU businesses and for businesses and public policies elsewhere. The main driver to be considered in the policy options is trade.

In the executive summary of their submissions to the commission, the World Shipping Council and other shipowner associations cite several features of liner shipping that make vessel sharing or consortia necessary as “a tool for maximising efficiency in liner shipping”.

The features cited are challenges dealt with by many industries. Curiously, these features do not appear as arguments in the main body of the submission. Nor should they. They are features that make the provision of efficient services challenging in many businesses.

The distinctive economic feature of liner shipping is the propensity for excess shipping capacity, particularly in times of trade growth.

Since vessels provide capital and operating economies of scale, trade growth makes a new, larger ship the most efficient vessel, even if it uses the same technology as the previous generation of ships. This is recognised as a source of market instability.

The economies of scale in shipping give rise to excess capacity in liner shipping. Alliances have enabled the survival of more companies, benefiting competition. Today, as in previous periods, vessel-sharing agreements have not been the driver of increased vessel sizes.

The driver has been the cost saving available to lines in larger advanced ships to service increased trade.

Alliances have also enabled lines to meet the needs of shippers for more extended services while dealing with fewer, not more, service providers. Shippers demanded lines with extended networks. Thus, in 1995, when the formerly Pacific-focused carrier APL entered into a slot charter to serve Europe, it did so with the explicit statement that this was because of requests from shippers seeking to use fewer lines even as the reach of their trade extended.

Slot sharing agreements and alliances enabled lines to extend their networks and to add to the number of competitors on routes, without adding capacity and causing rate wars.

While the fundamental reasons for alliances are the economies of scale (lower rates) and the scope for networks (serving global logistics), the interests of shippers and policy makers include other matters.

Are the benefits derived from scale and scope realised sufficiently beyond just the carriers, and are they worth other costs? The reality is that there is no clear answer and judgment must be used.

Many costs are raised in the International Transport Forum's impact report, although some of the arguments about the negative effects of block exemption are as spurious as those in favour raised by the WSC.

Inevitably, however, increases in ship size and the space sharing among lines have their downside for aspects of liner service. The former cannot be ascribed to alliances. They include the long-term issues for ports and shippers associated with changes in vessel routing and the number of calls as vessel sizes have increased.

Transshipment ports, in particular, have always been vulnerable. That the vulnerability of ports may be aggravated by the uneconomic behaviour of some ports is not the fault of lines, even if encouraged by them.

Issues specific to alliances include the challenges of managing vessel service reliably when lines with different operating practices become interdependent. It takes time to engage effectively, especially in times of low but volatile demand, as happens under uncertain trading regulations. That sailing times tend to gravitate towards a norm is a reflection of competition in a market with limited effective demand for service segmentation.

Service differentiation is offered through premium inland connections and services but only where there is a sufficient market.

The Hanjin bankruptcy has led to the case for alliances to establish contingency plans that guarantee that all cargo on board an alliances vessels will be discharged in ports as planned. Ensuring that effective plans exist is, perhaps, an instance where investigatory action and response when warranted is appropriate, as is done in the US.

Alliances in shipping are creating problems for policy makers. They face conflicting self interest claims. But alliances remain an efficient solution for shipping lines dealing with economies of scale and the need for service networks. As such, it seems likely that the extension of block exemption regulation is appropriate.

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