The main global challenges for the container ports system

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Main global challenge: container shipping

A “success story” made possible by:

1. Bigger ships
2. Industry concentration
3. Vertical integration

Is this model sustainable in the future?

If not, what can policy-makers do about it?
1. Bigger ships

1. Average container ship size in the Med

1. Ship size projections for 2020

1. The big ship conundrum

2. Horizontal integration: mergers

Consolidation wave is rolling again – 8 top 20 players disappeared in last 2 years

- Wave 1
- Wave 2
- Wave 3

Announced, not closed  top-5 market share  top-5 market share longhaul trades

45%  57%  53%  66%

Disclaimer: The proposed acquisition of Hamburg Süd is subject to regulatory approvals and due diligence.

Note: Long haul trades defined as non-intra-regional trades.

Source: Alphaline
2. Horizontal integration: concentration

The top 4 carriers had 23% market share in 2000, almost 50% in 2016

Source: ITF/OECD elaborations based on data from Alphaliner
2. Horizontal integration: alliances

Alliance shuffles are nothing new, but the most recent consolidation is the industry’s largest.
2. Horizontal integration: alliances

CONTAINER SHIPPING ALLIANCES ULTIMO 2016

- Acquisition subject to final agreement & regulatory approval
- Maersk Line, HAPAG-LINER & HMM enter strategic cooperation
- Merger into CHINA COSCO SHIPPING
- Proposed to be approved by regulators
- Merger Hapag-Lloyd & UASC conditionally approved by European Commission
2. Horizontal integration: oligopoly

Alliance market shares of East-West Container Capacity

- 2M: 34%
- Ocean Alliance: 32%
- THE Alliance: 29%
- Rest: 5%

Source: Drewry Advisory
3. Vertical integration

Carriers as container terminal operators

Source: ITF/OECD elaborations based on Drewry
3. Vertical integration: carrier-terminals

Alliances as terminal operators

Source: ITF/OECD elaborations based on Drewry
3. Vertical integration: other avenues

- Carriers-hinterland transport
- Carriers as freight forwarders

<table>
<thead>
<tr>
<th>All customers</th>
<th>Some customers</th>
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</thead>
<tbody>
<tr>
<td><strong>Flow of goods</strong></td>
<td><strong>Flow of information</strong></td>
</tr>
<tr>
<td>• Reliability</td>
<td>• Documentation</td>
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<tr>
<td>• Network coverage</td>
<td>• Visibility</td>
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<tr>
<td>• Financial stability</td>
<td>• Accessibility</td>
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</tbody>
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Will be transformed by **digitisation**

Traditionally served by carriers

Traditionally served by freight forwarders

To be served by Maersk
A sustainable model for the future?

- Bigger ships
- Less ports
- Consolidation
- More cargo peaks
- Vertical integration
- Ports without leverage

Source: ITF/OECD elaborations
Three alliances: less port-to-port connections

Unique direct port pairs per trade lane

Source: ITF/OECD elaborations based on SealIntel
More peaks: less weekly services

Weekly Asia-Europe services

Source: ITF/OECD elaborations based on SealIntel data
More peaks and troughs in terminals

Port dependence of ports on alliances: the Med

Some ports are almost fully dependent on one alliance, so very vulnerable


Source: ITF/OECD elaborations based on data from Dynamar 2015
A sustainable model for the future?

- Bigger ships
- Less ports
- Less return on investment

- Consolidation
- More cargo peaks
- Less choice

- Vertical integration
- Ports without leverage
- Less supply chain resilience

Source: ITF/OECD elaborations
What can policy-makers do?

**Port level**
- “Mega-ship ready”
- User-pays-principle
- Port cooperation
- Port alliances and mergers
- Choice for multi-user
- Stage director for hinterland

**Supra/national**
- Weight & dimensions
- Ports hierarchies
- State aid conditions
- Consortia regulation
- Merger guidelines
- Competition regulation

Source: ITF/OECD elaborations
Port leverage; what can policy-makers do?

Merger/coordination of ports:
- Seattle/Tacoma
- Georgia/Virginia
- Italian port reform
- France: regional port cooperation

Terminal consolidation in ports:
- Miami
- Korea

Port networks:
- ChainPort
Level playing field for regulation of alliances?

EU consortia regulation allows: “joint operation or use of port terminals and related services”

US DoJ: “provisions permitting OCEAN Alliance members to jointly negotiate supply contracts should be removed”
Thank you!

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