

Harbours review

Shipping line consortia and vessel sharing

EUROPEAN PORT SECTOR FORUM

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featured article

Global shipping alliances

by **Chris Welsh**

Secretary-General of the Global Shippers' Forum



Chris Welsh was appointed Secretary General of the Global Shippers' Forum with effect from 1 July 2011.

From 1997-2002 Chris was Secretary General of the European Shippers' Council (ESC) where he played the prominent role in deregulating EU shipping and air cargo markets, spear-heading a series of successful maritime legal cases culminating in the repeal of anti-trust immunity for liner shipping conferences in trades to and from Europe in 2006.

Chris has held a variety of senior management roles for the UK Freight Transport Association, and is currently Director of Global and European Policy and is a member of FTA's Leadership Board. In 1992 he established FTA's Brussels operations and in 2010 set up FTA Ireland, a new independent multimodal logistics trade association for Irish shippers and logistics interests.

Chris holds a Master's Degree in Business Administration (MBA), is a Chartered Member of the Chartered Institute of Logistics and Transport (CIMLT) and a Member of the Chartered Management Institute (MCMI).

Shipping line consortia and vessels sharing agreements (VSA) have been a common feature of the maritime industry since the beginning of the container shipping era in the 1960s, and possibly even before that. Until relatively recently, they have largely been trade-specific and historically usually operated alongside and within the overall framework of liner conference agreements. The case of P3 has vividly brought about all the shades of such undertakings.

Liner conferences like consortia remained unregulated in Europe until the mid-1980s, but following a lengthy review, the European Commission (EC) adopted the consortia regulation in 1992. The new rules provided a limited exemption under EU competition rules for consortia and VSA agreements with market shares of up to 35% (now 30%) but significantly excluded price cooperation. That was an important signal to the shipping industry of the EC's intent to deal with price fixing. It also importantly recognised that consortia and VSAs potentially presented other competition problems, like the ability to influence prices by virtue of their market power.

Since the late 1990s the scale and scope of cooperation traditionally associated with consortia and VSAs has changed dramatically. The emergence of a new breed of global deals such as the Grand Alliance or the New World Alliance, and more recently the blocked worldwide P3 Alliance, have pointed to larger and more integrated forms of cooperation which are potentially game-changing for the liner shipping industry and its customers.

The new direction suggested by the doomed P3, and possibly by the G6 and CKYH agreements, appears to follow that of the main aviation alliances. No doubt many would argue that what's good for the airline industry is good for the container shipping sector. Supporters of such maritime and aviation alliances cite the benefits of code and vessel

sharing, reduced costs arising from joint operations, common investments and purchasing, cheaper fares and rates as well as a wider range of services for customers. Similarly, market dominance concerns are dismissed on the basis that there is no evidence of excessive profits or exorbitant prices. Another common factor appears to be a desire to co-operate rather than compete head-on for enhanced market shares through, for example, a merger and acquisition.

In the main these benefits are championed by the global alliances themselves and those that have sanctioned them. Customers are generally supportive of consortia and VSAs because they want to share in the potential benefits. However, they have to take these assertions wholly on trust (although to its credit the US Federal Maritime Commission did propose some quite stringent monitoring conditions for the P3).

Before the Chinese blocked the P3, the EC indicated that it did not consider there were any present grounds to intervene under EU competition law, effectively leaving the door open to taking action at a later date, if necessary. However, there appears to have been no serious intention to undertake a competition analysis of the P3's compatibility with EU competition rules or, indeed, respond to questions submitted by the Global Shippers' Forum (GSF) concerning some of the legal issues raised by the P3, particularly those



Photo: DSV

relating to market dominance and maintenance of effective competition.

Of most concern is that the Consortia Block Exemption Regulation (which did not apply to the P3 because of its high market shares on key EU-Asian trades) has been used tacitly by the Commission as an excuse for inaction. In particular, the EC appears to require customers of potential competition law infringers, such as the GSF, to launch a formal complaint before the EC will devote resources to a competition analysis and formal decision. The Commission, therefore, has failed to carry out a competition rules assessment of the P3 which would have provided future legal clarity for similar alliances, such as the 2M, just approved by the FMC, and the Ocean Three.

What we now seem to have is a policy decision, but without an EU competition rules assessment having taken place, even though in the end it was for the P3 parties to decide on the basis of their own self-assessment of the

agreement whether to implement it. Unlike the EU competition authorities, their counterparts, e.g. the US Department of Justice, seem more sceptical of some of the benefits of global alliances, noting in relation to the main aviation alliances that the suggested benefits of inter-alliance competition had not been established.

Commenting earlier on the P3 and his hope that it would support rate stability, Seaspan's Chief Executive Gerry Wang said, "alliances will work more closely not only on vessel sharing but also on freight rate determination." While GSF is open-minded about alliances like the P3, 2M and Ocean Three, and generally supportive of the potential benefits of traditional consortia and VSAs that reduce costs and expand the range of services for shippers, for the reasons highlighted by Mr. Wang the GSF will continue to be vigilant and press for a more thorough competition analysis of mega alliances such as the P3. ■



Voices



Pilar Parra Serrano

Director of Melilla Port Authority

In an increasingly globalized world, where large multinational companies sell their products in a variety of countries and with progressive delocalisation of their production facilities to countries with lower labour costs, transportation – and within this maritime transport – has become one of the axes and main concerns of those trying to compete in the global economy.

Alliances involving shipping companies, such as the failed P3, are born with the aim of optimising operations and offering a better service, with more ports of scale, a greater number of

weekly rotations, as well as a reduction in service interruptions due to the cancellation of outputs. Each shipping company operates independently and has its own marketing, and of course, a joint pricing policy is excluded. However, the risks that these forms of cooperation imply for ports and terminal operators cannot be ignored. Especially in times of uncertainty, like nowadays, when the shipping operators' activity is still recovering from the recently suffered drastic fall in traffic.

Particularly serious is the case of Spain, with overcapacity in the terminal's offer and a level of utilisation at around 40%, which can last for the next

“A natural selection of ports exists, and those that do not adapt their infrastructures, operating conditions or costs, will be left out.”

few years. Extraordinary investments took place during the years preceding the crisis, and today these facilities don't meet expected plans. Clearly, many of the terminals will probably not be able to cope with this situation. That is why the Spanish government recently approved a law to allow the extension of the current concession in Spain up to 50 years from its current 35 years.

Owing to this transition in the direction of customers' concentration, many terminals will be seriously affected. Stronger competition

“This situation may result in strengthening of the cooperation between ports and terminals of one area.”

between ports and terminal operators will induce greater efforts in safeguarding the highest quality of offered services. A natural selection of ports exists, and those that do not adapt their infrastructures, operating conditions or costs, will be left out. In particular, the escalating tendency of the increasing size of vessels has resulted in more than 18,000 TEU ship capacity in reality.

Photo: APW Terminals Algeciras



Photo: Port of Mella

Another direction of this situation's development may be finalized in different forms of cooperation with shipping companies, included as shareholders in seaport terminals. Perhaps not necessarily in a strictly financial sense, but in a fundamentally strategic one, derived from the need to ensure traffic generation. On the other hand, this may result in strengthening of

the cooperation between ports and terminals of one area, like the Seaport Alliance (the ports of Seattle and Tacoma). Transferring these initiatives onto the European field is in line with the huge interest in the final outcome of the Trans-European Transport Network objective, financed through the Connecting Europe Facility instrument. This network will allow to implement partnership agreements between ports, capable of interconnection, fulfilling at the same time the transnational incentive.

Finally, as Drewry highlights in its latest annual report, the risk of congestion of the main European terminals should be carefully considered. In the next five years ports like Rotterdam or Hamburg could be badly gridlocked. Such a situation could be a real game changer and result as well in new forms of co-operation between shipping companies.

In conclusion, alliances between shipping companies will change the business environment and encourage inter-port competition. But only those ports that are willing to carry out new strategic actions to quickly adapt to the new situation can succeed and be favoured by the new scenarios. ■



Hrvoje Kulušić

The Port of Dubrovnik's Head of Technical Development and Maintenance

Although the Port of Dubrovnik is chiefly a passenger port, some similarities can be found between alliances taking place in the freight sector and those which function in the cruise industry. In both cases, from my point of view, alliances are

something positive in general, since – as mentioned in the featured article by Chris Welsh – they can add to the market's stability as well as widen the scope of customer services. All this is true, provided such agreements are regulated and controlled to make

them steer clear of turning into monopolies which could distort the market by fraudulent actions.

In the cruise industry we have major companies (e.g. Royal Caribbean Corporation or Carnival Corporation) owning or having control over smaller cruise shipping companies, which in practice operate across various fields as alliances. As a consequence, corporations are reorganizing and dividing the market by regions and types of cruise-target populations (families, seniors, couples, etc.) within corporations/alliances.

“Alliances are something positive, provided such agreements are regulated and controlled to make them steer clear of turning into monopolies which could distort the market by fraudulent actions.”

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European ro-ro and ferry atlas

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Giuliano Gallanti
President
of Livorno Port Authority

We can now be certain: the shipping industry is slowly recovering from the P3 shockwave. The combination of faster traffic growth and positive profit levels is adding to the definition of new alliances between

shipping lines: 2M, C3, and Ocean Three. What I can clearly see is that nowadays over half of the world's 20 largest container lines

have been engaged in alliance expansion and are increasing the average vessel size of their fleets. Obviously, the purpose of these agreements is to drive down the cost of shipping, but what about ports?

Ever larger ships deployed by ever more powerful alliances are cutting off many ports, especially

those which do not have the financial muscles to deepen their waterways and to invest in handling ultra large vessels. Furthermore,

“It's clear that the legal tools offered by the jurisdictions of the European Commission, Federal Maritime Commission and China's Ministry of Commerce are too limited in their geographical scope to challenge new phenomena of globalization.”



Photos: Port of Livorno

not always fair global competition is bringing out the necessity to formulate a new set of internationally recognized rules or guidelines, as it's clear that the legal tools offered by the jurisdictions of the European Commission, Federal Maritime Commission and China's Ministry of Commerce are too limited in their geographical scope to challenge new phenomena of globalization.

As regards our less-prepared Mediterranean ports, I can say that they risk dying if they do not begin to mitigate their traditional rivalry and switch to co-operation in order to hinder the growing bargaining power of liner alliances. This affects port authorities in a particular way – the Italian ones must take a closer look at the international market scene and aim towards a new model of governance that points to corporatization rather than to privatization.

Here in Italy, the absence of overt central control set up in order to determine which port should undergo expansion projects has created a vast potential for disputes. Change, however, is being felt in the air. Our government has just supported a new national plan, taking logistics and ports at the heart of Italy's economic revival, whose aim it is to prioritize a few port infrastructure projects – those marked highly urgent and necessary for the development of the whole integrated port system. This is, finally, some good news.

“As regards less-prepared Mediterranean ports, I can say that they risk dying if they do not begin to mitigate their traditional rivalry and switch to co-operation in order to hinder the growing bargaining power of liner alliances.”





Krzysztof Gromadowski

Director of International Cooperation & Public Relations, Port of Gdynia Authority S.A.

After learning from Mr. Chris Welsh about the current situation of global Vessel Sharing Agreements (VSA), my first reflection as a port authority manager was: unlike shipping lines, which decide on their ports of call, seaports can't

change their location. Following the growth in the world's production and expansion of consumers' power worldwide, there is an ascending number of destinations served by international shipping lines. Therefore, the ever-expanding challenge is to coordinate the vessels with suitable equipment as well as to manage the costs of the whole logistics chain. Vessel Sharing Agreements comprise important tools to recuperate the costs of new tonnage ordered and continuously expensive bunker.

From a port's perspective, VSA can bring more, larger vessels, which are sometimes awkward to accommodate without heavy infrastructure investments. The following questions may arise: what is the stability of particular VSAs and the certainty to secure the return on the

necessary port investments? How about agreements between the shipping lines' consortia and port authorities, covering the long term use of the modernized infrastructure?

It seems that we can soon face growing intra-VSAs competition, which in turn will perhaps bring bad news for the 'outsiders'. It looks like a further concentration in the container shipping industry has no alternative, on the other hand, how to mitigate the economic and political differences in the global sea transport environment?

Anyway, many ports take the risk of big investments in response to the challenges globalization brings. In the EU transport core network every port is important for our economic growth and competitiveness of the logistics market – there is no place for winners or losers. Let's hope that the growing shipping alliances won't disturb this.

“What is the stability of particular VSAs and the certainty to secure the return on the necessary port investments? How about agreements between the shipping lines' consortia and port authorities, covering the long term use of the modernized infrastructure?”

Ingrid Uppelschoten-Snelderwaard

Managing Director East Central Europe, Maersk Line

The meaning of global alliances of shipping operators and the difference it makes to European harbours depends on how the alliances are going to deploy their vessels – which units (size-wise) on which strings. Certain ports in the Mediterranean, the Baltic and North Seas cannot take all of the vessels, because of the size of the facilities.

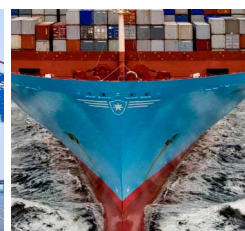
“If the ports can keep up with shipping lines' pace, perhaps there is no limit to the increase in vessels' size.”

there might be few ports that are not ready for this yet. On the other hand, the whole industry is not consolidating, it is a few big partners that are, and although I don't think we've seen the end of it yet, there will still be opportunities for ports, as the market continuously needs to be served. So even though the biggest vessels won't come to certain ports, feeder vessels will come on smaller strings, bringing the cargo from hub locations to the specific destinations.

Global trade is still growing and terminals should always be inventive and looking for new ways of dealing with their customers; we are also constantly looking for new ways in order to make sure that our product improves. And nowadays, certain ports are very innovative,

other have perhaps less capabilities for that, it all depends on where you are in the world. Some have a leading position to defend, as is in case of Rotterdam, which is coming up with the second Maasvlakte, creating an immediate competitive advantage, compared to Bremerhaven or Antwerp, for example. Not only is the container terminal innovative, there's also new software, applied to run the operations even more efficiently.

Terminals need to have a forward-looking attitude, because they need to adapt to what the shipping lines are doing. Let's take the increase in vessels' size, if you see what we are doing right now, maybe there is no limit to this trend – that is if the ports and terminals can keep up with our pace. On the other hand, we shouldn't underestimate the fact, that supply and demand is not balanced and we don't know if the 8% annual growth we experienced in the industry during the past 30 years will continue. A vessel is a very heavy asset from a financial point of view, therefore optimization is key. I do not think that all of a sudden we'll come with 22,000 TEU vessels to ports, let's make sure to first optimize what we are deploying currently, before taking the next step.



this issue's port

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The Port of Oostende

Having its origins in the 16th century, the Belgian Port of Oostende has become the main engine for the city's and the region's industrial expansion over the centuries. Today Oostende is a genuine universal and multimodal port under constant development to meet the present and future challenges.



A new and independent port enterprise was set up in 1997 and since then traffic at the harbour has tripled. Most recently the ro-ro infrastructure in the so-called outer port was greatly upgraded. Berths 105 and 201 now enable simultaneous two-deck loading. A new pontoon (whose sides can be independently ballasted) was set up at the Zeewezendok, together with three new ro-ro berths (501, 502, 404) close to the port's entrance, making it possible to handle three ships there at one time. Altogether, thanks to Oostende's ro-ro offer, approx. 300,000 cargo units can be handled annually across the harbour. Talking about general cargo, the port is also Europe-wide connected via short sea and feeder services as well as intra-Europe linked thanks to swift barge traffic.

The Port of Oostende is also an important dry & liquid bulk, break-bulk and project cargo harbour. Therefore, a PPP has been set up to build a heavy-load quay, able to store 20 tn/m², unique in the Southern North Sea. A rich variety of these goods is transhipped in Oostende – from sea dredged aggregates, ferrosilicon, building materials, timber, fertilisers, to gravel, scrap metal, coal, pellets, ores and chemicals. Both the 380 m long Deepwater and the 320 m long Cockerill outer port rail-connected quays were recently renovated to serve the increasing demand. In the inner port, bulk operations are carried out along the Gent-Oostende canal, where two inland terminals (coal and chemicals) are situated on the left bank, whereas the right bank has a 300 m quay and a multipurpose dockside ready for use.

Oostende's logistics offer encompasses not only modern and efficient roads (the A10-E40 motorway), rail (regular intermodal shuttles to/from Italy), inland waterways (Gent-Oostende canal) and air (International Airport Oostende) hinterland connections, but also a logistics park which combines in one place Oostende's road-rail-barge multimodal services. This, coupled with distribution centres and value-added logistics, makes Oostende a viable alternative to other and often congested nearby ports.

In order to stay competitive, the seaport invests in new infrastructure and takes part in many initiatives. Currently, a new port entrance is being developed to receive larger vessels. Moreover, a lot of investments at the Port of Oostende have been made in order to enable the building and the maintenance of the offshore windparks; the Zeewezendok has become the heart of the Belgian Blue Energy (wave/wind/tidal), involving more than 50 enterprises. Pontoons, warehouses, storage facilities and a training-center for offshore operations have been built too. In the inner port, the 90 ha Plassendale 1 business park is being developed as well, with space already occupied by a logistics complex and a science park. At the same time the Port Authority together with Ghent University have set up the Greenbridge Innovation and Incubation Centre to further strengthen eco-friendly projects carried out across the harbour as Oostende has become the port of choice for offshore wind energy business as

General cargo,
dry bulk and
liquids; sea, rail,
road and river;
logistics, science
and blue energy –
they all choose the
Port of Oostende
as their optimal
meeting place.

well as housing several renewable energy plants (a biowaste-fuelled and a biogas fermentation power plant to name just two). The Port of Oostende also contributed to such projects as LO-PINOD, Connect2Compete, Beppo, Impacte as well as PATCH.

Oostende's technical parameters & statistics

Technical parameters

Total port area	658 ha
Land area	457 ha
Of which rentable sites	450 ha
Water depth	8 m (LOA) with a tidal range of 5 m
No of quays	60
Total quay length	8.2 km

Statistics (2013)

Liquids	55,768 tn
Dry bulk	1,247,213 tn
Break-bulk	73,793 tn
Ro-ro	17,183 units
Pax	27,709 pax
TOTAL	1,818,512 tn
Ship calls	4,358 calls



More information, including terminals, stevedores, networks and investment possibilities at
www.harboursreview.com

about the project

dear readers,

as some of you might come across this publication for the first time, the *Harbours Review. European port sector forum* e-zine forms a part of Baltic Press' newest project aimed at creating a platform for dialogue on key sectorial issues as well as an infobase of European seaports (www.harboursreview.com).

The e-zines are designed to cover the most significant port problems and trends noticeable within the European seaport industry; they are also designed to broaden the readers'

knowledge about the industry itself and individual ports within it, as well as on the events happening around the port sector. The expert's column as well as the various voices in the debate of people knowing the industry inside and out provide a possibility of looking at a given problem from many different perspectives, in order to grasp a holistic view of a given issue. We hope it will give an impulse to stimulate plenty of fruitful, constructive debates, for the benefit of the European port sector. Please let us know if you wish to take part in this project.

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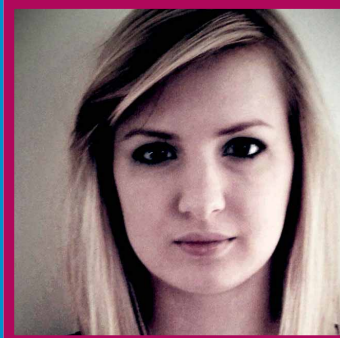
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upcoming issues

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partnership events



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5-6 November 2014
NL/Rotterdam



PAC2 – Regional Ports and Connectivity – Final Conference
6 November 2014
BE/Bruges



Energy Efficiency in Shipping 2014
11-12 November 2014
UK/London



Intermodal Europe 2014
11-13 November 2014
NL/Rotterdam



Future Fuels for Shipping Seminar
17-18 November 2014
UK/London



5th Gas Fuelled Ships Conference
25-27 November 2014
NO/Stavanger



TRANSLOG Connect Congress 2014
25-26 November 2014
HU/Budapest



3rd Annual Mediterranean Bunker Fuel Conference
1-2 December 2014
ES/Barcelona



LNG Conference
2-4 December 2014
SE/Stockholm

We invite you to cooperate with us!
If you wish to comment on any key port issue, share your feedback or have information for us, do not hesitate to contact us at:
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previous edition

HR#1

**EU SEAPORT INFRASTRUCTURE
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